

**CRITICAL SUCCESS FACTORS IN THE PHARMACEUTICAL INDUSTRY:  
A SURVEY OF MULTI-NATIONAL PHARMACEUTICAL COMPANIES IN  
KENYA**

**By**

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OF NAIROBI**

**OCTOBER, 2010**

## DECLARATION

This research project is my original work and has not been submitted for a degree course in this, or any other University.

Signed.....



Date.....

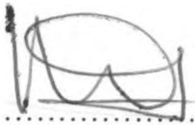
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This research project has been submitted for examination with my approval as the University Supervisor.

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## DEDICATION

To my late dad VITALIS OWUOTH ASERE whose wisdom, value and sacrifices for education has inspired me. Rest in peace.

## ACKNOWLEDGEMENT

My successful completion of the MBA program has been the result of support and encouragement from many quarters. I am indeed indebted not only to people who gave me inspiration to take up this program but also to those who gave me guidance and assistance on what I have reported here. My heartfelt gratitude and appreciation go to my supervisor, Dr. Kitiabi, for her tireless assistance and support on the project supervision, experience and initiatives, which guided me throughout the entire research. Her unwavering focus on details through countless pages of ideas is unparalleled. I am convinced that without her support, this study would not have been a success. My heartfelt gratitude is also to all members of the School of Business studies of the University of Nairobi for the support and advice given in one way or another.

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Last but not least, I thank Almighty God.

## ABSTRACT

The Kenyan pharmaceutical industry is characterized by intense competition and increased customer awareness of their healthcare needs. This study was carried out in Nairobi, Kenya between June and July, 2010 with an objective to determine the critical success factors in the multinational pharmaceutical companies in Kenya. With an understanding of the critical success factors a firm can gain competitive advantage by devoting their resources in the desired direction, and effectively developing an edge that will ensure a route to above-average profits in the industry and therefore, the multinational pharmaceutical firms shall be able to use the research findings and recommendations to develop better strategic management practices.

The survey study covered the entire population of 28 multinational pharmaceutical companies based in Kenya out of which 24 responded, representing a response rate of 85%. Data were collected using semi-structured and open-ended questionnaires which were administered to the respondents by the researcher using personal interviews and in some cases drop and pick later approach. The data were summarized in an Excel Spreadsheet and analyzed using descriptive statistics and content analysis. Findings were presented in tables, charts, graphs for discussion and interpretation.

The findings revealed that multinational pharmaceutical companies do employ marketing strategies as well as strategic management practices that are relevant to the industry in order to succeed in the sector. It confirmed that in deed financial strategy, employee morale and performance are considered as critical success factors for the multi-national pharmaceutical companies in Kenya. The other critical success factors that the multinational companies consider as being of very high importance included: a robust research and development capability, key opinion leader development, well trained and highly effective sales force (medical representatives), good staff attraction and retention, product quality and efficacy, sponsorships, appropriate market segmentation and building sustainable relationships with customers.

The respondents were managers in the multinational pharmaceutical firms who exhibited a very high knowledge of the industry, customers and a great awareness of what every other firm sells and their activities. The researcher recommends that the pharmaceutical companies endeavor to ensure that their core competencies are centered around the identified critical success factors for them to remain relevant and successful in the market which is constantly changing. The study also indicated that with the liberalization of the industry, the multinational pharmaceutical companies have experienced challenges which include counterfeits, illegal trade in pharmaceuticals and cheap generics. The researcher had difficulties in getting adequate responses from all the targeted managers as they cited tight work schedules and fear of giving too much information and hence could not give in depth interviews, which proved to be a limitation of the study.

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## ABBREVIATIONS

CEO.....	Chief executive officer
CSF.....	Critical success factors
EAC.....	East African community
KAPI.....	Kenya association of pharmaceutical industry
OTC.....	Over the counter medicine
PPB.....	Pharmacy and poisons board
R&D.....	Research and Development
R &C.....	Resources and Capabilities
RBV.....	Research -Based View
ROA.....	Return on Assets
SIF.....	Strategic Industry Factors
HMOs.....	Health Management Organizations
CME.....	Continuous Medical Education
DDW.....	Digestive Diseases Week
ESC.....	European Society For Cardiology
COMESA.....	Common Market for East and Southern Africa
SWOT.....	Strengths ,Weakness ,Opportunities and Threats

# CHAPTER ONE: INTRODUCTION

## 1.1 Background

The external environment is composed of those trends, events and forces that are beyond the direct control of the management of the firm. Changes in the global and local environment affect different industries and businesses in different ways. Firms are social entities that are goal directed, deliberately structured activity systems with identifiable boundaries (Bedeian 1980). A firm itself as a system is inescapably found in a variety of inter-relationships to the larger systems that comprise the external environment. Boseman (1989) describes an organization to be “open” to its environment in the sense that the internal functioning of the firm affects and in turn affected by the external environment.

Major escalation of the environmental turbulence means a change from a familiar world of marketing and production to the unfamiliar world of new competitors, new consumer attitudes, new dimension of social control and above all an unprecedented question of the firm’s role in the society (Ansoff and Mc Donnel, 1990). In order to survive in this very dynamic environment, organizations need strategies to focus on their customers and deal with emerging environmental challenges.

The Kenyan business environment has been undergoing drastic changes for sometime now. Some of these changes include the accelerated implementation of economic reforms, the liberalization of the economy, discontinuation of price controls, privatization and commercialization of public sector and increased competition. In this changing environment, organizations have to constantly adapt their activities and internal

configuration to reflect on the external realities. Failure to do this may put the success of the organization in jeopardy (Aosa. 1998).

The multinational pharmaceutical companies operating in Kenya have not been spared by the environmental turbulence and increased competition since liberalization of the industry in 1991. The pharmaceutical firms have put in place strategies that guarantee them a desirable level of growth and profitability in their therapeutic segments in a changing environment .

Critical success factors are seen as the basic business strategy for competing wisely in any industry and are crucial for the organization's success. Once identified, an organization can inject a concentration of resources into a particular area where it sees an opportunity to gain significant advantage over its competitors . This places critical success factors, CSFs at the heart of strategy where strategy is seen from both the 'fit' and 'stretch' perspectives . Strategic fit is the matching of an organizations or businesses resources and activities to the environment to which it operates (Johnson and Scholes, 2002). Identifying opportunities in the business environment and adopting business resources and competencies so as to take advantage of the same develops an organization strategic fit. Through strategic fit, the organization is positioned in the segments in which it competes best . Strategic 'stretch' is the leverage of the resources and competencies of an organization to provide both competitive advantage or yield new opportunities (Johnson and Scholes, 2002).

Kotler (2001) has indicated the necessity for organizations to develop competitive advantage to succeed. Poor firms ignore their competitors; average firms copy their

competitors while winning firms lead their competitors. Achieving the critical success factors, CSFs, in a competitive environment therefore by implication calls upon managers to know the reasons for success and then address the key competencies and resources that places an organization on competitive advantage.

The critical success factors draw their importance from the desire for business to flourish and create competitive advantage in the market place through strategic capability. Strategic capability has been defined as the ability to perform at the level required for success. Organization resources and core competencies underpins its strategic capacity (Johnson and Scholes, 2002).The core competencies provide the competitive advantage. Developing the core competencies dictates that critical success factors are understood. CSFs are the product features that are particularly valued by a group of customers and are therefore where organizations must excel to outperform competition .To address critical success factors; the organization must meet the core competences that underpin the organization's ability to outperform competition (Johnson and Scholes, 2002).

### **1.1.1 The Pharmaceutical Industry**

Pharmaceutical companies are concerned with researching, designing, developing and marketing efficacious, safe and high quality medicines to cure human and even animal and plant diseases. In doing so, they not only improve the quality of life and alleviate suffering, but also create employment, grow economies and return desirable profits to their shareholders (Frank, 2006). According to Batilazo and Holland (2000), organized pharmaceutical industry emerged in the late 19<sup>th</sup> century when dyestuffs were found to have antiseptic properties. Many of the early firms were however, family owned

enterprises and never emphasized research and development until after the discovery of penicillin in the 1950s. With the post war economic expansion of the 1960's the industry boomed and issuance of patent rights to ensure companies research and development molecules from imitation began. However, in the 1970's generic industry emerged (Batilazo and Holland, 2000).

The Pharmaceutical industry is differentiated from other industries by the peculiar consumer agent relationship characterized by healthcare demand and the huge resources devoted to research and development. Prescribed drugs are selected by physicians on behalf of their patients whose role in product selection is passive. Indeed, multinational companies like Astrazeneca, GlaxoSmithKline, which have strict ethical standards prohibit their medical representatives from interacting directly with the patients. Four parties are involved in the consumption decision; physician, patient, pharmacists and increasingly the insurer (Schweitzer, 1997). With the increasing shift towards managed healthcare, prescribing power no longer remains exclusively in the hands of physicians. The physicians have to prescribe drugs available in the formulary; therefore marketers are increasingly focusing their efforts on pharmacy managers (Schweitzer, 1997). Other differentiating factors of this industry are mainly large expenditures devoted to promoting the diffusion of new products. The industry is also characterized by considerable complexity. Part of this complexity is intrinsic in the industry relating to the large number of similar products that are available but are differentiated by brand names .There are over 100,000 brand names in the pharmaceutical industry in the world (Chetley, 1993).

The pharmaceutical industry have experienced many challenges all over the world but has remained the most lucrative with the highest return on assets, ROA and had a global



turnover of USD 430 billion by the end of 2003 (Ogolla 2007). The highest paid CEO in the world is from Pfizer pharmaceuticals – the world's number one pharmaceutical firm (source: fortune magazine, 2006). They have had to continuously adapt to the changing environment by changing their strategy to match the environment and also to transform or redesign their internal capacity to match this strategy. Since drug discovery is a high cost and risky undertaking, patents on blockbuster drugs expiring with rising pressure and regulatory conservatism, many firms in the industry are finding need to merge to realize cost reduction, improve their global reach as well as their product pipeline (Cole, 1999).

Examples of such firms are Hoechst Marion Roussel and Rhone Poulenc to form Aventis (1990), GlaxoSmithKline (2001), Pfizer Warner Lambert (2002), Astrazeneca (2002) and most recently Sanofi Aventis (2004), Bayer-Shering AG (2007). Another form of response has been the formation of alliances with several small R&D and biotechnology companies on the basis that by funding research in these small and innovative companies, chances of coming up with a new blockbuster product are increased (Muchelule, 2005). Other strategies have been to diversify or just stick to the knitting (Johnson and Scholes, 1997).

### **1.1.2 The Pharmaceutical Industry in Kenya**

The pharmaceutical industry in Kenya plays a crucial role in the provision of healthcare. Currently, the industry is comprised of local manufacturers, franchise importers who are involved in distribution, multinational companies, wholesalers and retailers of drugs (Aseto, 2002). The pharmaceutical review (2005) states that Kenya has 38 pharmaceutical manufacturers and 5262 drug distribution outlets and pharmacies.

The Kenyan pharmaceutical market is the largest within the EAC block and indeed the COMESA region with an estimated turnover of between USD 80 and 130 million (Kenya Pharmaceutical Review, 2005). The government of Kenya drug expenditure is between 20 to 30 million USD, implying therefore that the private sector has the highest expenditure in the industry. The sector is regulated and controlled by the Ministry of health, the pharmacy and poisons board (PPB) and the National Quality Control Laboratory which carries out quality tests on drugs prior to their approval and registration.

The Multinational companies in Kenya had an easy game until 1991 when the pharmaceutical industry was liberalized through an act of parliament. Since then, there has been a huge increase in the number of pharmaceutical companies in the Kenyan market mainly from the Indian sub-continent-through direct investment or franchisees (Ronoh, 2002).The liberalization of the industry has increased competitive rivalry and has led to a downward effect on the overall industry margins and industry attractiveness for other potential multi-national investors. Moreover, many drug companies which manufacture generic drugs increased significantly in the Kenya market surpassing the capacity of the pharmacy and poisons board for effective quality surveillance. The legislation of the property act in May 2001 which led to legalized parallel importation of Human immuno deficiency (HIV) drugs has been misinterpreted by some players in the industry to engage in illegal trade (Odunga, 2006).

The pharmaceutical industry in Kenya is specifically regulated in accordance with caption 244 (pharmacy and poisons act), laws of Kenya. This regulates the importation, manufacture, marketing, stocking and distribution of pharmaceutical products in Kenya.

The law prohibits direct marketing of prescription drugs directly to consumers and advertising of prescription drugs can only be on printed professional journals. The distribution of drugs is highly regulated by the government.

Drugs have been categorized into 3 distinct categories by the pharmacy and poisons board.

- i) Over the counter medicine (OTC), found in shops, supermarkets, pharmacies and kiosks.
- ii) Pharmacy only medicines - found only in pharmacies and dispensed with professional advice.
- iii) Prescription only medicine – found only in pharmacies and can only be issued upon production of a duly signed doctor prescription (Source: Pharmacy and Poisons Board).

Several views have been advanced as to how the Kenyan pharmaceutical industry can be classified and according to Muiva (2000), the pharmaceutical industry in Kenya can be divided into: multinational companies, generic companies and consumer's. Multinational companies are involved in the researching and developing original brands while generic companies on the other hand are involved in manufacturing and marketing of imitated brands. Consumers can be categorized as either direct or indirect. Direct consumers are individuals who buy drugs for their own use, while indirect consumers are either company such as hospitals, Health management organizations (HMOs) who buy the products for their clients. Mbau (2000), points out that the pharmaceutical firms in Kenya operates under three different forms namely: the manufacturers which account for 31.8% of the industry, distributors accounting for 59.1%, and those who do both accounting for

9.1%. Vinayak (2000), asserts that the industry can be divided into manufacturing companies, multinationals, Kenya agents, local traders and distributors.

According to the Kenya medical directory (2008), the pharmaceutical industry employs directly an estimated 60,000 people, who provide medical information, medicines, and diagnostics to enable healthcare providers better manage and treat disease. This number includes more than 600 medical representatives (registrar, pharmacy and poisons board) to personally market their products. There are currently over 7,000 registered pharmaceutical products presented in various formulations in the Kenyan market. Even though there is no accurate data about the actual size of this industry, since drug imports are tax exempt and the Ministry of health concerns itself with accessibility of drugs to the population, the Economic survey of 2003 estimated its value to be 10.375 billion per year based on export and import value.

Statistics at the pharmacy and poisons board show that between 2002 and 2005 there were 688,743, 750 and 850 new products registered yearly in the country representing an overall growth of 24.1% with the highest growth of 13.9 % being observed in 2005 and the lowest in 2004 (Drug Register, 2005). The traditional source of drugs for the Kenya market has been predominantly the European union marketing original product. However, with liberalization and current economic downturn, Asia and Latin America have become alternative sources particularly India (Ronoh, 2002). According to the pharmacy and poisons board drug registry (2006), China and Asia accounted for 65.9%, Africa 17.9%, Europe 9.0%, Australia 3.0%, South America 2.4% and North America 1.8% of all the new product applications in the year 2005.

The other challenges facing the pharmaceutical industry in Kenya include: counterfeits and illegal trade in pharmaceuticals, reduced government expenditure on drugs, pressure on pricing from health management organizations, (HMOs), increased customer demands and awareness of alternative sources. A major challenge is that the majorities of counterfeits are products with no active ingredients and therefore offers no therapeutic value to those who need them. Counterfeit medicines can be life threatening and have caused deaths in Africa and Asia (Orwa, 2009). To this end, the multinational companies together with agents and the pharmaceutical society of Kenya formed, the Kenya Association of Pharmaceutical Industry (KAPI) in 1991 to tackle the challenges facing the industry. Its key mandate is to collate views from the member companies and present them together as a unified club to the various stakeholders. Through the KAPI initiative, the anti- counterfeit act 2008 was passed by parliament and received presidential assent on 24<sup>th</sup> December, 2008. However; neither the industrial property act 2001 nor the newly enacted anti-counterfeit act 2008 interferes in anyway with the normal trade in generic pharmaceutical products (Ngugi D., 2009).Counterfeit medicines tend to flourish in countries where there is an absence of or weak drug regulation, weak enforcement and penal sanctions, corruption and conflict of interest (Orwa, 2009).

The changes in the environment have put fundamental strategic issues on the managements' agenda especially for the multinational firms. To overcome these challenges, the firms have been adopting varied strategies to create superior customer value in order to gain desired market share and profitability. For instance, some firms differentiate their products through branding, reducing prices to enter formularies,

sponsoring continuous medical education sessions (CMEs) where doctors can gain continuous professional development points and improving the management of key opinion leader's relationship. (Kimani, 2003). Indeed, the multinational pharmaceutical companies devote enormous funds for sponsoring key opinion leaders in their specialist areas to world renowned conferences such as Digestive diseases week (DDW), European Respiratory Society (ERS) and European Society of Cardiology (ESC). As a country, Kenya still remains a preferred strategic entry point for the multinational pharmaceutical companies as it opens up a tax preferential COMESA and the EAC market with a population estimated in 2008 to be 370 million. (Population vital statistics, 2005). Indeed, pharmaceutical giant companies like Roche, Sanofi-Aventis, AstraZeneca, GlaxoSmithKline, and Schering plough operate from Nairobi as their regional hub.

### **1.1.3 Critical Success Factors**

According to Birnbaum (2000), Critical success factors are the factors that are most important to the success of an organization. Critical success factors are also referred to as Key success Factors, which, according to Rockart (1979), mean the limited number of areas in which results, if satisfactory, will ensure successful competitive performance for the organization. A key success factor can be a specific skill or talent; a competitive capability and something a firm must do to satisfy customer's .Key success factors emanate from the core competencies an organization nurtures over time. Kotler (2000) explains core competencies as the core resources and capabilities that make up the essence of a business. Core competencies have three characteristics, including being a source of competitive advantage since they make a significant contribution to perceived

customer value, have potential of breadth of application to a wide variety of markets and difficult for competitors to imitate.

Pearce and Robinson (1997) argue that critical success factors identify the performance areas that are of greatest importance in implementing the strategies of a company and therefore must receive continuous management attention. This viewpoint reinforces the fact that CSFs are strategic in nature. The critical success factors for an industry or sector include the particular strategy elements, product attributes, resources employed, core competencies and business outcomes that spell the difference between profits and loss. Pearce and Robinson (1997) contend that the key success factors for a service industry include: Product quality, customer service, employee morale, competition, cost control, product performance against specifications, marketing and expansion of a company's product line.

Thompson and Strickland (2007) are of the opinion that key success factors vary from industry to industry and even from time to time within the same industry, as driving forces and competitive conditions change. They point out that across industries, the most common types of industry key success factors have been observed to include; Technology related factors, manufacturing, distribution, marketing, skills and capability related factors. Other types of critical success factors include; patent protection, a strong balance sheet, access to financial capital, overall low costs and convenient locations.

The importance of critical success factors is that they are seen as the basic business strategy for competing wisely in any industry and are crucial for the organization success. Once identified, an organization can inject a concentration of resources in a particular

area where it sees an opportunity to gain competitive advantage over its competitors thus earning above average profits in the industry .Thompson and Strickland (2007) further emphasize that managers with a correct understanding of an industry critical success factors raises their chances of crafting a sound strategy .The goal of the company strategist should be to design a strategy aimed at stacking up well on all industry future critical success factors and trying to be distinctively better than rivals on one or possibly two of the critical success factors .

According to Leidecker and Bruno (1984), Identification of Critical success factors is an important element in the development of a firm's strategy, as well as being, an integral part of the strategic management process. Some of the techniques used in the identification of critical success factors include: environmental analysis, analysis of industry structure, industry/business experts, analysis of competition, analysis of the dominant firm in the industry, company assessment, temporal/intuitive factors, and PIMS results (Leidecker and Bruno,1984).

Environmental analysis includes approaches that identify the economic, political, and social forces that will be and are impacting an industry and /or firm's performance. Such analysis is macro in approach and the data obtained does not provide a direct linkage to the determination of the industry, let alone firm specific CSF but the information can be crucial to industries where survival is dependent on factors outside the industry. Porter's five forces model (1980) is quite popular in the analysis of the industry structure (suppliers, buyers, substitutes, new entrants and competition). The evaluation of each element and the interrelationships between them can provide important data in identifying and justifying industry CSFs.



The use of industry experts, though may be subjective, may obtain information not available or discernable using the more standard analytical techniques. The ‘conventional wisdom’, insight or intuitive feel’ of an industry insider often is an excellent source of CSFs (Muindi,2006).Temporal or intuitive factors are similar to relying on the industry experts except the difference here is that the focus is on individual(s) very similar to the firm. While this may be equally subjective, this approach often uncovers the subtleties that conventional and objective techniques overlook.

PIMS (profit impact on market strategy) project data indicates among other things, that relative market share, degree of vertical integration, new product development, capital intensity and ratios of Research and Development to sales play a major role in determining profitability (Schoeffler et al.1974).Profitability is one of a firm’s measure of success .If the PIMS results identify the key determinants of profitability, then these inputs provide a starting point for CSFs analysis. This approach has the advantage of having an empirical basis but has been criticized as having a very general nature of factors. They do not provide a method of analysis to indicate whether the data is directly applicable to a specific firm or industry and what its relative importance may be (Muindi, 2006).

In a liberalized economy, competition exists in any field that an organization serves. Critical success factors can spell the difference between profit or loss and between competitive success or failure. This competitive pressure in the pharmaceutical industry can come from other industry players, through counterfeits, unfair competition from parallel importers who take advantage of the industry attractiveness and by pass formal processes and generic drugs. Multi national pharmaceutical companies operating in

Kenya have come to appreciate that there are enormous challenges in the industry and have had to adapt to the new situation. Though competitive challenges and impact varies from industry to industry, it leads to reduced prices, impacts negatively on profits, reduces market share and can force weak companies to close .The Multi national pharmaceutical companies therefore need to know the Critical success factors in the industry so as to develop relevant core strengths and develop distinct capabilities that are unique to them, identify areas of weakness and address them so as to endear themselves to their customers.

## **1.2 Statement of the Problem**

Today, organizations in Kenya as well as elsewhere in the world operate under increasingly competitive and ever changing environment. In order to survive and deliver goods and services effectively, they require engaging in effective strategic management processes. All organizations must grapple with the challenges of changing environment in which they operate (Machuki, 2005). However, various organizations end up in developing and formulating their own strategies.

The Kenyan pharmaceutical industry is evolving fast and like any other business operating in a liberalized market, enormous challenges exit. These challenges include competition among the players in the industry, competition from generic drugs, counterfeits, and illegal trade in pharmaceuticals. However, the industry players need to grow and succeed in this changing environment. In light of these, there is a great need for each organization's top management to understand the industry's critical success factors that would lead to growth and profitability, enhance their areas of strength and address

areas of weaknesses and formulate and implement effective strategies to counter the challenges brought about by the ever changing business environment. It would therefore be important to identify the critical success factors of this industry.

Thompson and Strickland (2004) are of the opinion that determining the industry's critical success factors given the prevailing and anticipated industry and competitive condition, is a top priority analytical consideration that should be performed by managers. At its very best, managers need to understand the industry situation well enough to know what kind of resources are competitively valuable. Being distinctively better than rivals on one or more key success factors presents a significant opportunity to gaining a competitive advantage. Using the industry's critical success factors as a cornerstone for the company's strategy and trying to gain sustainable competitive advantage by excelling at one particular CSF is often a fruitful competitive strategy approach. However, misdiagnosing the industry factors critical to long-term competitive success greatly raises the risk of a misdirected strategy, (Muindi, 2006).

Locally, there have been several studies that have been carried out in the recent past on various aspects of the pharmaceutical industry. These previous research have mainly focused on marketing practices and strategic management issues in the industry. These include Munyiri (2000), Rono (2002), Sagwa (2002), Mitsumi (2003), Muchellule (2005), and Odunga (2006), who have studied the use of business process reengineering, direct marketing, strategic planning practices in the industry, perception of medical doctors towards medical representatives, adaptation to the challenges of parallel importation by multinational firms, and responses of pharmaceutical importers to the challenge of illegal trades in pharmaceuticals respectively. In Kenya, research studies on

the concept of critical success factors have been on other industries and sectors. These include Mbugua .(2005), Nzioki (2006), Maina (2006) and Nyaga (2006) who investigated critical success factors in petroleum products retailing in Nairobi, a survey of key success factors for heavy-duty construction equipment dealers in Kenya, key success factors in the banking industry and investigation of critical success factors for successful implementation of enterprise resource planning in Kenya respectively. The key success factors identified in these sectors however cannot be generalized hence permeating a significant knowledge gap. This study therefore aimed at closing the gap by answering the following research question: What are the critical success factors for the multinational pharmaceutical companies operating in Kenya?

### **1.3 Research Context**

The research design for the study was a survey approach aimed at determining the key success factors among the multinational pharmaceutical firms in Kenya. Its focus was to describe how the factors contributed to the performance of the identified multinationals in Kenya. All the multi-national Pharmaceutical firms in Kenya were investigated.

### **1.4 Scope of Study**

This study was limited to investigating the critical success factors for multi-national pharmaceutical firms operating in Kenya.

The other firms in the entire pharmaceutical industry including local manufacturers, distributors (wholesalers), local agents and other generic companies were not investigated.

## **1.5 Objective of the Study**

The objective of this study was to determine critical success factors for multi-national pharmaceutical firms in Kenya.

### **1.5.1 Specific Objectives**

- i. To determine whether financial strategy is considered as a critical success factor by Multi-national pharmaceutical companies in Kenya.
- ii. To determine whether Employee morale and performance are considered as critical success factors by Multi-national pharmaceutical companies in Kenya.

## **1.6 Importance of the Study**

The existing pharmaceutical firms shall be able to use the research findings and recommendations to develop better strategic management practices. Through adequate understanding and appreciation of critical success factors, managers in the pharmaceutical firms may inject resources in critical success factors to achieve competitive advantage in a changing environment characterized by stiff competition and an influx of new entrants. The companies could also examine their core competences and strengthen them as well as identify areas of weakness and change accordingly. The study also helped potential industry investors for example Franchise holders who need to understand the pharmaceutical industry in Kenya as this was to give them an insight on what elements are important for their success.

To academicians and researchers the studies provided a base for further studies and also give source of reference for related studies.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 The Concept of Critical Success Factors (CSF)

In literature, several definitions of CSF exist. Representing one of the most frequently cited definitions, Rockart (1979) uses ideas from Daniel (1961) and Anthony et al. (1972) in defining CSF as the limited number of areas in which results, if they are satisfactory, will ensure successful competitive performance for the organization. Consequently, Rockart (1979) stresses, that these particular areas of activity should be constantly and carefully managed by a company. In a similar fashion, Bruno and Leidecker (1984) define CSF as those characteristics, conditions or variables that, when properly sustained, maintained, or managed, can have a significant impact on the success of a firm competing in a particular industry, while Pinto and Slevin (1987) regard CSF as factors which, if addressed, significantly improve project implementation chances. According to Esteves (2004) however, both of these definitions fail to address the comprehensive concept proposed by Rockart (1979), which seeks to identify an ideal match between environmental conditions and business characteristics for a particular company.

Within the field of strategic management, the definition of Key Success Factors (KSF) is closely related to the CSF concept. In this context, Ellegard and Grunert (1993) define KSF as a qualification or resource that a company can invest in, which in turn, accounts for a significant part of the observable differences in perceived value and/or relative costs in the companies' relevant markets. In literature, the terms CSF and KSF are often alternately used.

### 2.1.1 Evolution

Research on CSF can be traced back to 1961, where Daniel (1961) first discussed success factors in management literature. In a broad approach, he focused on industry-related CSF which is relevant for any company in a particular industry. In 1972, Anthony et al. (1972) went a step further by emphasizing the need to tailor CSF to both a company's particular strategic objectives and its particular managers. Here, management planning and control systems are responsible for reporting those CSF that are perceived by the managers as relevant for a particular job and industry.

Combining the perspective of both Daniel (1961) and Anthony et al. (1972), Rockart (1979) described a study on three organizations in 1979 which confirmed that organizations in the same industry may exhibit different CSF. The reasons for such a constellation are differences in geographic location and strategies among other factors. Nevertheless, Rockart was also able to identify analogies between the CSF lists of the three examined organizations: "It is noticeable that the first four factors on the mature clinic's list also appear on the other two lists. These, it can be suggested, are the all-encompassing industry-based factors. The remaining considerations, which are particular to one or the other of the practices but not to all, are generated by differences in environmental situation, temporal factors, geographic location, or strategic situation (Rockart, 1979).

In line with his initial study, Rockart (1982) gathered data in regard to IS executives. This data indicated that executives share a limited number of CSF. Each executive lists some, but not all, of the CSF gathered from the sample as a whole (Zahedi, 1988). The

remaining differences were linked to organizational aspects as well as the time pressure facing the particular manager at the time the data was collected (Rockart, 1982).

Furthermore, Rockart (1979) stressed that his approach did not attempt to address information needs related to the field of strategic planning. Instead, his CSF approach concentrates on information needs for management control and seeks to identify data which can be used to monitor and improve existing areas of business. In this context, Rockart (1979) follows Anthony's (1965) categorization of management activities into operational control, management control and strategic planning. However, it must be emphasized that Rockart (1979) limited his approach to management control which was precisely defined by Anthony (1965) as the process of ensuring that resources are obtained and used effectively toward the attainment of corporate goals.

Today, Rockart's (1979) CSF approach is particularly relevant within the limits of project management and IS implementation and therefore often used by IS executives. This is confirmed in a study conducted by Ramaprasad and Williams (1998), in which the results from 263 responses indicate the major areas in which the CSF approach is utilized: project management (63.49%), IS implementation (49.21%), and requirements (47.62%).

### **2.1.2 Common Critical Success Factors for firms**

It is commonly understood that critical success factors are rooted to the nature of industry in which a firm is operating. However, there are generic critical success factors that are applicable to every organization. According to Rockart (1979), critical success factors common to every organization touch on financial image, technological reputation, market share, risk, profit, employee morale and performance. Pearce and Robinson (1997) on



their part argue that key success factors identify the performance areas of greatest importance in implementing the company's strategies and must therefore receive continuous management attention. They identified Key success factors focused on internal performance as; improved productivity , high employee morale, improved product service, increased earnings per share, growth in market share and completion of new infrastructures . Pearce and Robinson (1997) also emphasized that each key success factor must have measurable performance indicators and can succinctly communicate the critical elements for which operational managers are responsible thus creating a foundation for teamwork among managers in meeting the firms' strategic objectives .

Wheelen (1995) argues that the financial strategy goal is to provide the appropriate financial structure to fund and achieve the overall objectives. In addition, it examines the financial implications of corporate and business level strategic options and identifies the best financial course of action. It can provide competitive advantage through a lower cost of funds and a flexible ability to raise capital to support a business strategy.

Pearce and Robinson (1997), on their part emphasize that financial strategy usually attempt to maximize the financial value of the firm. They have observed that more companies in the 1990s are trying to reduce their gearing by scaling down on the amount of long term debt on their balance sheet. Thompson, Strickland and Gamble(1989) identified common types of industry key success factors as technology related, manufacturing, distribution, marketing, skills and capability and other types including patent protection and access to financial capital .While these factors are consistent with observations of other scholars, the inclusion of patent protection is of prime importance to the pharmaceutical industry where new innovative products are protected for many

years so that the innovating firm can recoup its funds invested in research and development. This creates an entry barrier and can be a route to above-average profits in the industry.

According to porter (1979), making a decision to become a technological leader or follower may be a way to achieve either a low cost or differentiation .He argues that creative technological adaptation can support the possibility for new product or for improvements in existing products, or in manufacturing and marketing techniques. A technological breakthrough can have a sudden and dramatic effect on a firm's environment. It can spawn sophisticated new markets and products or significantly shorten the anticipated life of a manufacturing facility .This applies to the pharmaceutical industry where technology is driving innovation and research is currently centered at the molecular level to come with up with new therapies for illnesses such as cancer, acid related disorders and metabolic illnesses. Technological forecasting is one method used by firms to protect and improve profitability in growing industries. It alerts managers to both impending challenges and promising opportunities. The key to beneficial forecasting of technological advancement lies in accurately predicting future technological capabilities and their impacts.

Market share in business is very critical to the firm's success. A firm may choose to maintain or increase the market share sometimes at the expense of greater profits if industry status or prestige is at stake (Rudelius et al, 1994). Market share is the ratio of sales revenue of the firm to the total sales revenue of all the firms in the industry. Wendy and Raman (2008), emphasize that to understand the importance of market share, one needs to understand the impact of the learning curve which suggests that the more often

we perform a certain activity the more efficient and we get at doing it for reasons of labour efficiency, work specialization, methods improvement and economies of scale. They further argue that in any one market, the greater the market share the lower the costs so that the company with the largest market share should have the lowest cost structure and hence an advantage over its competitors but the size of that advantage will be dependent on the difference in market share between the largest company and the one closest to it. Relative market share, that is, the ratio of a firm's market share to that of its largest competitor gives a more realistic measure of a firm's cost structure advantage and hopefully its profit advantage (Wendy and Raman, 2008).

Industry profitability is one of the critical success factors of a firm (Wheelen, 1995). Profitability is the maintaining goal of a business organization no matter how profit is measured or defined. Profit over the long term is the closest indication of a firm's ability to satisfy the principal aims and desire of employees and stock holders (Pearce and Robinson, 1997).

Human resources represent a valuable intangible asset. Latest study research indicates that human resources are progressively becoming the key success factor in organizations especially in strategy implementation. In the past, one of the main reasons why strategy implementation failed was that the human factor was conspicuously absent from strategic planning (Lorange, 1998). However, employees have to be motivated in order for them to work hard. The employee motivation comes in terms of rewards. Some employees are motivated through recognition which often may be through financial rewards (Champoux, 1996). Action plans and short term objectives that clarify personal and group roles in a firm's strategy that are also measurable, realistic and challenging can be

powerful motivators of managerial performance – particularly when objectives are linked to the firms reward structure (Pearce and Robinson, 1997). This is very important for the pharmaceutical industry where personal selling through medical representatives is the widely used promotional mix in reaching the target audience.

Risk attitude exerts considerable influence on the strategic choice made by an organization. Risk is brought about by uncertainty about the future. According to Pearce and Robinson (1997) where attitude favours risk, the range of strategic choice expands and high risk strategies are acceptable and desirable for an organization to succeed. Where management is risk averse the strategic choices are limited, risk alternatives are eliminated and management puts high return expectations on those alternatives. Past strategies exerts far more influence on strategic choice of risk averse managers.

Thompson and Strickland (1989), point out that critical success factors concern what every industry member must be competent at doing or concentrate on achieving in order to be competitive and financially successful .They advise that these factors should be limited to three or four that are key to an industry's success. Pearce and Robinson (1997), on the other hand highlight several factors as being key to the success of an industry. The same view of several critical success factors is supported by Johnson and Scholes (2005), who emphasizes that customers in any market segment will have threshold requirements on all product features or service but sound strategy incorporates efforts to be competent on all critical industry success factors and to excel on at least one or two such factors to outperform competition. In view of the foregoing statements, it is evident that there is no consensus on whether a few or several factors are key to success

in an industry and further research is needed across industries to verify the arguments and observations advanced in literature.

## **2.2 Theoretical Background**

### **2.2.1 Industrial Organization**

Industrial Organization (IO) theory as a model to analyze a company's strategy was developed by Edward Mason and Joe Bain, with a focus on industry based explanations, such as concentration and entry barriers (Powel, 1996). The idea behind this theory is that a "firm's performance in the market-place depended critically on the characteristics of the industry environment in which it competed" (Porter, 1983). IO follows the structure-conduct-performance model, where the structure is defined as environment that influences the rivalry among the buyers and the sellers (Caves, 1992). Conduct consists of the policies that a company adopts towards pricing, production, R&D, marketing and other variables (Porter, 1983). This middle phase, conduct, serves as a link between industry structure and the quality of the performance.

According to Caves (1992), market performance is our normative appraisal of the social quality of the allocation of resources that results from a market's conduct. In 1980 Porter started to apply the concept developed by IO economists and identified several unanswered questions. He used this concept to derive "a bridge between industrial organization and strategic planning" (Porter, 1983), later called Porter's Five Forces model. The core of the model is that in any industry there are five competitive forces whose collective strengths are important in order to evaluate the industry attractiveness

(Porter, 1983). Porter considers the industry environment as an area of intensive rivalry between buyers, suppliers and competitors driving industry competition.

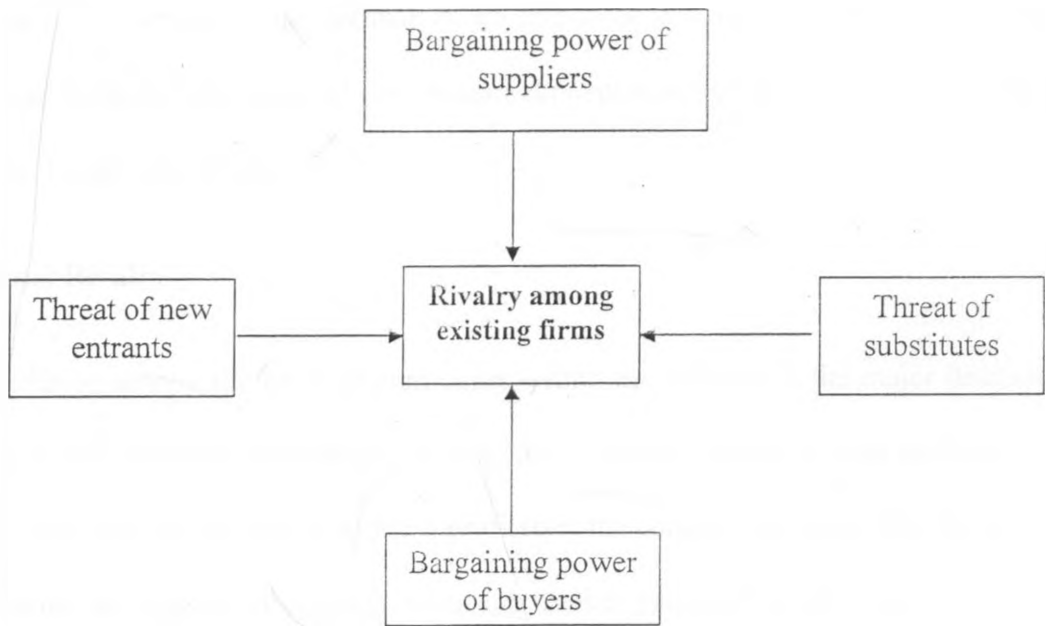
### **2.2.2 Five Forces of Competition.**

A company's business environment is constantly influenced by external and internal factors that shape daily decisions and the company's performance. According to Grant (2005), the heart of the business environment is created and influenced by customers, suppliers and competitors. In order to be profitable a company must make value for its customers. Value is created when the price the customer is willing to pay for a product exceeds the costs incurred by the firm (Grant, 2005). Companies must also understand and create relationships with their suppliers. At the same time, understanding competitors is of crucial importance since intensity of competition could influence value-creating activities. Porter's model *Five Forces of Competition* is commonly used in order to specify and analyze different factors that could affect the company's profitability and competitiveness. Therefore, first, the attractiveness of an industry, and, second, a company's position within the industry are analyzed. As Porter (1991) explains that is what strategy is all about – making choices about how you position your company in its competitive environment; no matter how attractive the game is, you will not do well if you do not hold a good position in it.

In any industry there are five competitive forces that collectively determine the attractiveness of the industry: Three sources of “horizontal” competition – threat of substitutes, rivalry among existing competitors and entry of new competitors and two

“vertical” sources of competition – bargaining power of buyers and bargaining power of suppliers (Grant, 2005).

**Figure 2.1: Five forces of Competition**



As Porter (1985) further explains, each company strives to capture a profitable and sustainable position within an industry in order to defend itself from the influence of the forces that determine the industry competition. Although the structure of the industry is defined by exogenous factors, every company can influence each of the five forces through the competitive strategy in its own favour (Porter, 1983). However, the strength of each individual force can vary across industries and change over time as an industry grows, and not all of the forces are equally important for different industries (Porter, 1985). Several authors have pointed out limitations of the model.

According to Besanko et al. (2007), the Five Forces approach ignores both changes over time in consumer income and preferences, and changes in companies' strategies in order

to reinforce demand. A few authors have also criticized Five Forces model because it does not account for the role of a government. Besanko et al. (2007), mention that the government as a regulator could affect profitability of an industry, and therefore it should be introduced as the sixth force. Furthermore, from the perspective of the Five Forces approach, it is assumed that companies are free to access the required assets in order to compete in the industry and the chosen market position which may not always be the case (Teece, Pisano and Shuen, 1997).

### **Internal Rivalry**

Competition among the existing companies within the industry is the major determinant of the overall industry profitability. If someone is always attacking your position, which makes industry less attractive and less profitable, the competition could take either of the two forms: an aggressive strategy when the market participants use price pressure or a more gentle strategy when the market participants focus more on new product innovation and advertising (Porter, 1991).

Basically, companies are jockeying for the market share in the industry (Besanko et al., 2007). There are several factors that influence internal rivalry. Rivalry is commonly measured by a seller concentration ratio, where the market dominated by a few large firms is characterized as a highly concentrated market. As a consequence, competitors recognize their dominance and mutual interdependence that often leads to price similarity. In such situations competing firms usually focus on image and new product development (Grant, 2005). In general, internal rivalry intensifies when industry is



characterized by high fixed costs, slow growth, excess capacity and lack of product differentiation (Ghemawat, 1999).

The second factor that determines the internal rivalry is the industry. In industries where the growth rate is relatively low, the companies must steal market shares from the competitors in order to expand, and that usually intensifies competition (Besanko et al., 2007). Exit barriers are costs incurred by a company in case of leaving a specific industry (Porter, 1985). These costs vary across different industries and generally, if there are high exit costs, companies will compete more aggressively and remain in the industry even when the business is not profitable (Ghemawat, 1999). Different national origins, costs, strategies and management styles are other factors that could influence price competition. A combination of those factors is often called as diversity of competitors (Grant, 2005). Furthermore, when there is no or weak product differentiation among competitors and the costs for switching from one brand to another are low, there will be increased incentives for companies to cut the prices in order to increase their market shares (Besanko et al., 2007; Grant, 2005).

### **Threat of Entry**

The profitability of an industry is influenced by existing and potential competitors. As a new entrant comes in the market, the existing product demand will have to be divided among more sellers which lead to a more intense rivalry (Porter, 1991). As Ghemawat (1999) explains, the key concept in analyzing the threat of entry is entry barriers, which act to prevent an influx of firms into an industry whenever profits, adjusted for the cost of capital, rise above zero. There are different types of entry barriers and most of them

require large capital investments in order to defend a company from competitors in the industry (Ghemawat, 1999). As a result, new entrants will not face the same market conditions as established companies in the industry (Grant, 2005). According to Porter (1979), new entrants must invest a lot to establish a strong reputation and create brand loyalty. It may take a long time to build brand awareness, irrespectively of how much money and time the company invests in advertising. In some industries brand loyalty is the highest entry barrier. Government actions can play a decisive role by affecting entry barriers through different laws that favour some companies over the others (Besanko et al., 2007). Grant (2005) mentions that barriers created by the government are the most efficient ones. Through different laws and norms the government could keep out potential competitors. Furthermore, new competitors without the industry-specific knowledge face higher costs than established companies within the market. Newcomers could face cost disadvantage as the accumulated experience of specific market gives lead to already established companies (Porter, 1997).

## **Substitutes**

Whatever your business does, customers nearly always have other ways of satisfying their needs Ghemawat (1999), mentions that all products which perform a similar function should be seen as substitutes. Threat of substitutes depends on the price-to-performance satisfaction ratio of a product or service. If a substitute exists in the market, competition in the industry will be intensified. The degree to which customers are willing to change one product for the other depends on the accessibility of information and involved costs. Nowadays the use of the Internet has facilitated the accessibility of

information on available substitutes. thus increasing the information transparency (Grant, 2005).

### **Bargaining Power of Buyers**

The bargaining power of buyers gives a customer ability to negotiate the price that could squeeze out a company's profit margins (Besanko et al., 2007). The bargaining power depends on several factors. As Ghemawat (1999) mentions, one of the most important determinants of the power of buyers is the size and concentration of buyers relative to suppliers. It is obvious that the power of the former is greater than the latter if there are a few buyers that purchase a large amount of products and basically act as a monopolist. However, there is also a need to distinguish between the power of buyers and their willingness to use this power (Ghemawat, 1999). The access to information about the sellers' prices and costs gives additional bargaining power to buyers. It should be noticed, however, that customers are more price sensitive if the product that they purchase is standard and undifferentiated, expensive and cover a significant proportion of their disposable income (Porter, 1997). The bargaining power of buyers increases with the IT development, e.g., introduction of an internet-based reservation system gives buyers a possibility to compare and choose the cheapest product/service.

### **Bargaining Power of Suppliers**

The number and size of suppliers are the factors that determine the bargaining power of suppliers. If there are many small suppliers within the industry, the firm has a possibility to choose among them. The preferred supplier will be the one with the lowest price and the best quality products. Hence, in this case the bargaining power of suppliers is

relatively low (Ghemawat, 1999). In contrast, Porter (1997) admits that powerful suppliers can squeeze profitability out of an industry. After having examined the external factors that can influence competitiveness of a company, a closer look at a company's internal environment will be made.

### **2.3 External Environment and the Organization**

A host of factors influence a firm's choice of direction and action, and ultimately its organizational structure and internal processes. These factors which constitute the external environment can be divided into three interrelated categories: factors in the remote environment, factors in the industry environment, and factors in the operating environment (Pearce and Robinson, 2002).

The remote environment comprise factors that originate beyond, and usually irrespective of, any single firms operating situation – economic, social, political, technological, and ecological factors. This remote environment presents firms with opportunities, threats and constraints but rarely does a single firm exert any meaningful reciprocal influence (Pearce and Robinson, 2002). The scholars also are of the opinion that factors that more directly influence a firm's prospect originate in the environment of its industry including; entry barriers, competitor rivalry, the availability of substitutes, and the bargaining power of buyers and suppliers. The operating environment comprises factors that influence a firm's immediate competitive situation- competitive position, customer profiles, supplier's creditors and the labour market.

Pharmaceutical firms like any other business operate like open systems. A system being a set of components which relate in the accomplishment of some objectives .The

components relate and interact within a boundary and can be closed or open. A closed system does not depend on its environment for survival. On the other hand, an open system crucially depends on its external environment for survival. It continuously consumes resources from the environment and releases resources to the environment (Ansoff, 1993).

**Figure 2. 2: The Firms External Environment**



**Source: Pearce and Robinson**

Lynch (1997) used the term ‘environment’ to describe everything and everyone outside the organization. This includes customers, competitor’s suppliers, distributors,

government and social institutions. General environment is the layer of the external environment that affects the organization indirectly. It includes social, demographic, and economic factors that influence all organizations equally. The task environment is closer to the organization and includes the sectors that conduct day-to-day transactions with the organization and directly influence its basic operations and performance which includes: competitors, supplier and customers (Wit and Meyer, 1998).

The external environment includes elements within the organization boundaries for example current employees' management and corporate culture which defines employee behavior in the internal environment and how well the organization will adopt to the external environment. Johnson and Scholes (2002) argue that as the elements of the environment change, the organization needs to adjust its corporate strategy accordingly.

The business environment is being subjected to rapid degree of change and managers typically feel the pace of technological change and speed of global communication mean faster change now than ever before. Ansoff and Mc Donnel (1990) on the other hand stresses that organizations need to undertake strategic diagnosis, a systematic approach to determining the changes that have to be made to a firm's strategy and its internal capabilities in order to assure the firms success in its future environment. The diagnostic procedure is derived from the strategic success formula. Pearce and Robinson (2002) are of the opinion that assessing the potential impact of changes in the environment offers a real advantage. It enables managers to narrow the range of available options and to eliminate options that are clearly inconsistent with the forecast opportunities.

Thompson et al (2007), emphasized that in a given industry the character mix and subtleties of the competitive forces operating in a company's industry are never the same. However, the forces model of competition by porter helps to identify and assess the sources of competition in an industry. The model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market mainly:- The threat of new entrants into market, the threat of substitutes, competitive rivalry, competitive pressure stemming from buyer bargaining power and power of supplies. Threat of entry will depend on the extent to which there are barriers to entry (Johnson and Scholes, 2002).

Andrews (1971) asserts that the determination of a suitable strategy for a company begins in identifying the opportunities and risks in its environment. The environment of a company in business like that of any other organic entity is the pattern of all external conditions and influences that affect its life and development (Andrews, 1971). These environmental influences are technological, economic, social and political in some kind. Change in the environment of a business necessitates continuous monitoring of a company's definition of its business to ensure its own survival.

The SWOT analysis is a tool used in business strategic planning to distil the analysis, summarizing the outcomes of the internal analysis into strengths and weaknesses, and the external analysis into opportunities and threats .It has the potential to be a powerful tool in communicating the organization's current position has implications for strategy development. It uncovers important issues for developing strategy in answering the following questions Firstly; does the company have any strong core competencies or a distinctive competence? Are the company's strengths and capabilities well matched to the

industry key success factors? Secondly, how serious are the company weakness and competitive deficiencies? Are some of the company weaknesses in areas that relate to industry's key success factors? Does the company have attractive market opportunities that are well suited to its resource strengths and competitive capabilities?

Finally, are the threats alarming or are they something the company appears to be able to deal? The SWOT analysis provides a logical framework, guiding systematic discussions of business situation, alternative strategies and ultimately the choice of strategy. Managers analyze the internal environment to identify the organization's strength and weaknesses. This means identifying what the organization does well, where it might do better and whether it has the necessary skills and resources to deliver the chosen strategy that are considered more than usually essential to outperforming the competition constitute critical success factors (Boddy, 1998).

## **2.4 Strategic Diagnosis**

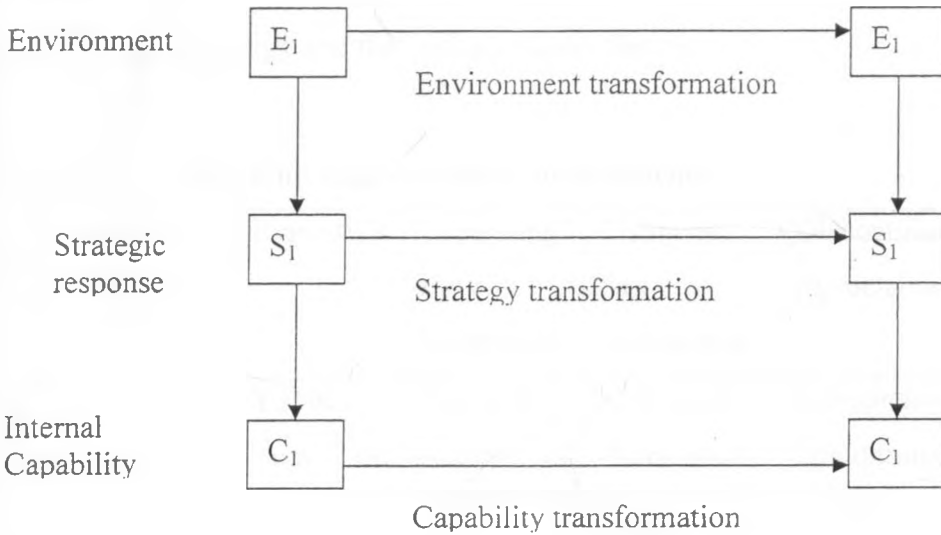
Ansoff and Mc Donell (1990) assert that the first step in strategic management is to perform a strategic diagnosis. Strategic diagnosis is a systematic approach to determining the changes that have to be made to a firm's strategy and its internal capability in order to assure the firms success in its future environment (Ansoff and McDonnell, 1990). This diagnostic procedure is derived from the strategic success hypothesis; which has been validated by empirical research. Strategic diagnosis therefore identifies whether a firm needs to change its strategic behavior to assure success in the future environment.

The strategic success hypothesis states that a firm's performance potential is optimum when the following three conditions are met. Firstly, aggressiveness of the firm's



strategic behavior matches the turbulence of its environment. Secondly the responsiveness of the firm's capability matches the aggressiveness of its strategy and finally the components of the firm's capability must be supportive of one another.

**Figure 2. 3: Managing the firms' adaptation to the environment**



**Key**

- G: Current Environment
- S<sub>1</sub>: Current Strategy
- C<sub>1</sub>: Current Capability
- E<sub>2</sub>: Future Environment
- S<sub>2</sub>: Future Strategy
- C<sub>2</sub>: Future Internal Capability

(Source: Ansoff and Mc Donnel (1990))

As shown in figure 2.3 above, when there is an environmental shift form E<sub>1</sub> to E<sub>2</sub>. The organizations strategy has to be changed from S<sub>1</sub> to S<sub>2</sub> in order to adapt to the changed environmental conditions; unless this is done, there will be a strategy gap. However, this is only possible when the organization capability is changed from C<sub>1</sub> to C<sub>2</sub>. Environmental turbulence is a combined measure of the changeability and predictability of the firm's environment; it can be described by the difference between present and future critical success factors within a strategic business area.

Strategic aggressiveness is described by two characteristics that is the degree of discontinuity from the past of the firm's new products/services ,competitive environments and marketing strategies as well as the timeliness of the introduction of the firm's new products/services relative to products which have appeared on the market. Timeliness ranges from reactive to anticipatory, to innovative, to creative. The strategic aggressiveness is measured by the match between the characteristics of the firm's competitive strategy and the critical success factors.

**Table 2.1: Matching Aggressiveness to turbulence**

Environmental turbulence	Repetitive	Expanding slow incremental	Changing Fast incremental	Discontinuous predictable	Surprising Discontinuous Unpredictable
Strategic aggressiveness	Stable based on precedents	Reactive incremental based on experience	Anticipatory incremental based on extrapolation	Entrepreneurial Discontinues based on expected futures	Creative discontinuous based on creativity.

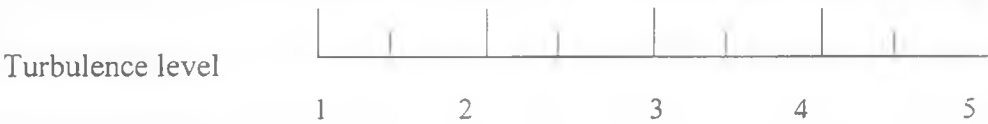


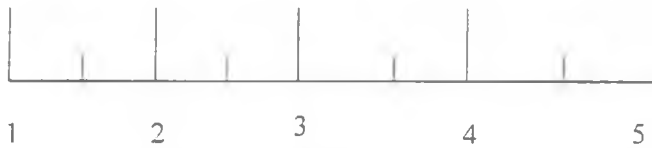
Figure 2.4 describes the appropriate strategic aggressiveness which, according to the strategic success hypothesis is necessary for success at each turbulence level.

In addition to strategic aggressiveness, the responsiveness of the firm's organization capability must also be matched to the environmental turbulence. The responsiveness appropriate to different turbulence levels is shown in figure 4. On level 1, where environment is repetitive and the optimal strategic behavior is change-rejecting, the optimal organization suppresses strategic change.

**Table 2.2: Matching responsiveness to turbulence**

Environmental turbulence	Repetitive	Expanding slow incremental	Changing fast incremental	Discontinuous predictable	Unforeseen discount unpredictable
Responsiveness of capability	Custodial Precedent driven	Production market-driven	Marketing market-driven	Strategic environment -driven	Flexible seeks to create the environment
	Suppress change	Adopt to change	Seek familiar change	Seeks new change	Seeks novel change

Turbulent level:



The responsiveness criterion is measured by the matches between the critical capability success factors and the capability profile of the firm. Responsiveness can be described by three capability attributes which include; Climate, competence and capacity. Climate setting involves the mentality and power positions of managers. This determines the organizational culture. Competence involves the skills, talents and knowledge of management and determines organizational structures, systems, styles, staffing. Capacity involves the personal and organizational capability to accommodate the various management challenges as may arise from time to time.

According to Johnson and Scholes (2002) analyzing strategic capability of an organization is important in terms of understanding whether the resources and competences fits the environment in which the organization is operating, and the

opportunity and threat which exists. They posit that the strategic capability can be related to three main factors; the resources available to the organization, the competence with which the activities of the organization are undertaken. and the balance of resources, activities and business units in the organization. They further argue that the organization's capability may be the lead-edge of strategic developments, in the sense that new opportunities may exist by "stretching" and exploiting the organizations unique resources and competences in ways which competitors find difficult to match and/or in genuinely new directions. .Strategic capability, the ability to perform at the level required for success is underpinned by the resources and competences of the organization.

There is now a growing cognizance that no single strategy process or single strategic capability will lead to a sustainable competitive advantage. Organizations increasingly have to adjust dynamically their characteristics to the requirements of the environment by constantly changing their strategies and strategic capabilities. Recent research has shown that organizations achieve superior results if they select a wide range of strategic capabilities rather than concentrating on a single capability or process (Fuerer and Chaharbaghi, 1997).

The firms' internal resources are further classified by (Barney, 1996) into physical, human and other organizational entities. A firms' competitive advantage is however derived from its capabilities/ competencies. Capabilities have various definitions, some authors refer to it as core skills and distinctive. However, a set of threshold resources and competences are needed to exist as a provider to any market segment. But this threshold tends to rise with time so there is a need continuously to improve the resource base just to

stay in business. Unique resources and core competences provides the basis to outperform competitors or demonstratably provide better value for money.

Typically resources can be grouped into physical resources, human resources, financial resources and intangibles. Equally core competences are activities or processes that critically underpin an organizations competitive advantage. They create and sustain the ability to meet the critical success factors of particular customer group better than other providers in ways that are difficult to imitate (Johnson and Scholes, 1997).

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.0 Introduction**

This chapter outlines the various steps that were used to execute the study in a bid to satisfy the study objective. It details the Research design that was adopted and the methods to be used for data collection and analysis.

### **3.1 Research Design**

The study design used was a cross –sectional study design of multinational pharmaceutical firms in Kenya. Many studies in the past have utilized this design in wide surveys to derive their evidence on various strategic management issues affecting the pharmaceutical industry. For example, Muchelule (2005) surveyed on Multinational firm's adaptation to the challenge of parallel importation of drugs in Kenya. This study was therefore set to determine the critical success factors for the multi national pharmaceutical firms with registered marketing offices in Kenya as well as those with franchise agreements with distributors. The design is therefore suitable for the study because the aim is to identify critical success factors in the pharmaceutical industry.

### **3.2 Population**

The population of this study consisted of the 28 Kenyan based Multi National Pharmaceutical firms from the Pharmaceutical industry.

### **3.3 Data Collection Method**

In this study, emphasis was given to primary data .Primary data is data that is collected for the first time for a specific research topic .It is not published data, but rather a

problem specific data that is collected by the researcher for the first time. (Mugenda & Mugenda, 1999).

The primary data was collected by the use of questionnaires. The questionnaire had both closed and open-ended questions. The questionnaire was administered through personal interviews with respondents where possible and where not possible was delivered to the respondent's office or sent via electronic mail for filling and a collection date agreed upon.

The respondents were at least one member of senior management team (various heads of department in charge of operations, sales and marketing, finance, human resources, general manager, the Chief executive officer). These respondents were considered for the interview because of their position and the crucial role they play in the strategy formulation process.

### **3.4 Data Analysis**

Data collected was edited for completeness, consistency, accuracy and uniformity before processing it. The responses were coded into labeled categories and keyed into the SPSS program for analysis using descriptive statistics techniques. To meet the objective of the study, the data collected went through content analysis using descriptive statistics tools like frequencies, mean and standard deviation. Content analysis is a systematic, replicable technique for compressing many words of text into fewer content categories based on explicit rules of coding (Berelson, 1952; Krippendorff, 1980 and Weber, 1990).

# CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

## 4.1 Introduction

This chapter discusses the analysis and findings of the research. The researcher investigated the critical success factors in multi-national pharmaceutical companies operating in Kenya and specifically whether financial strategy and employee morale are considered as critical success factors. The questionnaire was circulated to the entire population of 28-multi national pharmaceutical companies' managers of which 24 responded. The data was then analyzed on the basis of response rate of 85% which the researcher deemed adequate and sufficient for the study and presented as below.

The chapter is divided into three sections. The first section has the general profiles of the companies studied. The second section has an overview on the performance of these companies while the third section addresses the objective of the study, which is identification of the critical success factors and whether financial strategy and employee motivation are considered as critical success factors for the multinational pharmaceutical companies in Kenya.

## 4.2 General Information

### Pharmaceutical Companies

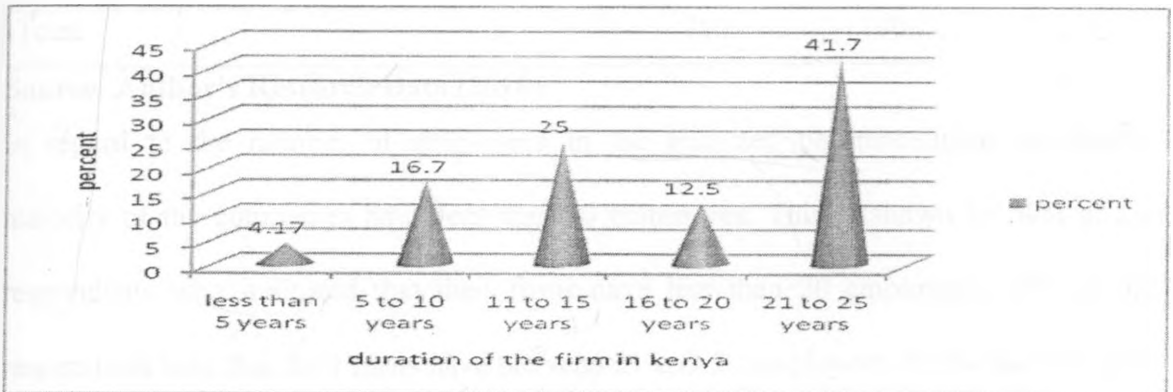
A total of twenty eight multinational pharmaceutical companies operating in Kenya were the population targeted for the study, but only twenty four responded .The organizations that responded included the following; Abbot, AstraZeneca, Boehringer Ingelheim, Servier Bayer healthcare, Hoffman la Roche, Johnson and Johnson, Schering plough, Pfizer laboratories, GlaxoSmithKline, Eli lilly international, Janssen cilag, Sanofi



Aventis, Alcon, Novo Nordisk ,Norvatis pharma, Merck sharp &Dohme, Teva.Wyeth Ayerst, UCB Pharma, Solvay, Menarini, Bristol Myers squibb, and Prodes Pharma. On the following questions, they responded as given below;

#### 4.2.1 When Companies started Business in Kenya

Figure 4.2: Duration of Firm's Operation in Kenya



Source: Author's Research Data (2010)

The response on the duration of time the respondents' pharmaceutical companies have been operating in the country was as follows; 4.17% of the companies have been operating in the country for less than 5 years, 16.7% have been operating in the country for between 5 and 10 years, 25% have been operating in the country for between 11 and 15 years, 12.5% have been operating in the country for between 16 and 20 years while 41.7% have been operating in the country for between 21 and 25 years. This clearly indicates that most of the Multi-national Pharmaceutical companies started operating in Kenya before the industry liberalization in 1991. This created a strategic agenda in that managers in the companies have to devise strategies to adapt to the changing business environment so that they can compete with the inevitable business adversaries.

#### 4.2.2 Number of Employees in the Companies

**Table 4.1: Number of Employees in the Organizations**

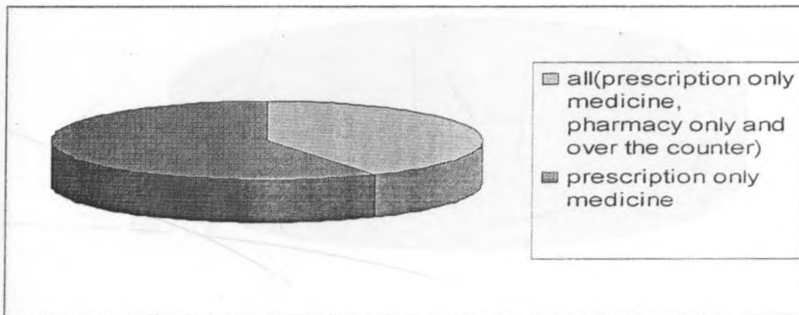
No of employees	Frequency	Percent
less than 20	12	50.0
between 21 to 50	6	25.0
between 101 to 200	2	8.3
more than 201	4	16.7
Total	24	100.0

**Source: Author's Research Data (2010)**

In regard to the number of employees in the analyzed pharmaceutical companies, majority of the companies have less than 20 employees. This is shown by 50% of the respondents who indicated that their firms have less than 20 employees. 25% of the respondents said that their firms have between 21 and 50 employees, 8.3% said that their firms have between 101 and 200 employees while 16.7% said that their firms have more than 201 employees. It can be interpreted that they are not large, however, they do contribute to the economic development in Kenya.

#### 4.2.3 Kind of Products Imported

**Figure 4.3: Kind of products imported**



**Source: Author's Research Data (2010)**

Figure 4.3 above shows that majority of the firms studied import prescription only medicines at 58.3% while the rest contribute 41.7%.

### 4.3 Performance Indicators

#### 4.3.1 Company's Monthly Turnover in Millions

Table 4.2: Company's monthly turnover in millions

Monthly turnover in millions	Frequency	Percent
15 to 19	5	20.8
20 to 24	3	12.5
25 to 29	1	4.2
30 to 34	1	4.2
over 35	14	58.3
Total	24	100.0

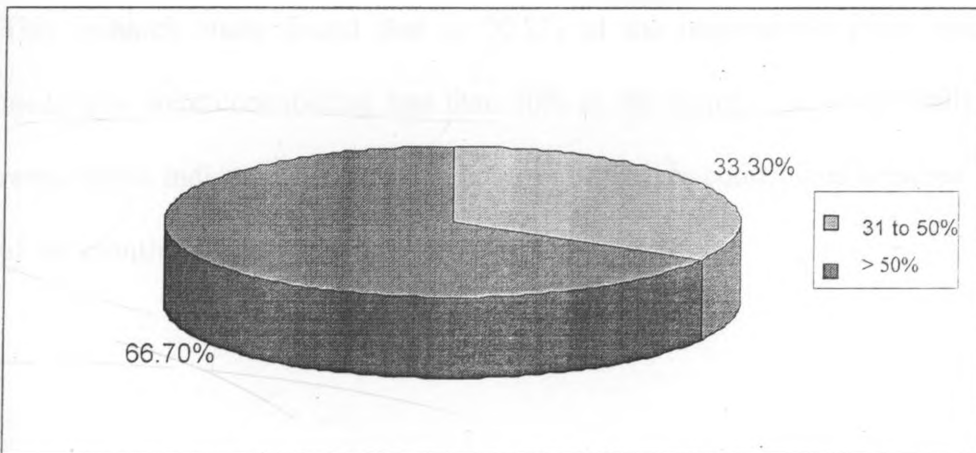
Source: Author's Research Data (2010)

Majority (58.3%) of the Multi-national Pharmaceutical companies operating in Kenya have monthly sales turnover of 35 million and above. (Table 4.2).

The contribution to monthly turnover sales by product category was found as follows;

#### Prescription only Medicines Turnover

Figure 4.4: Prescription only medicines turnover



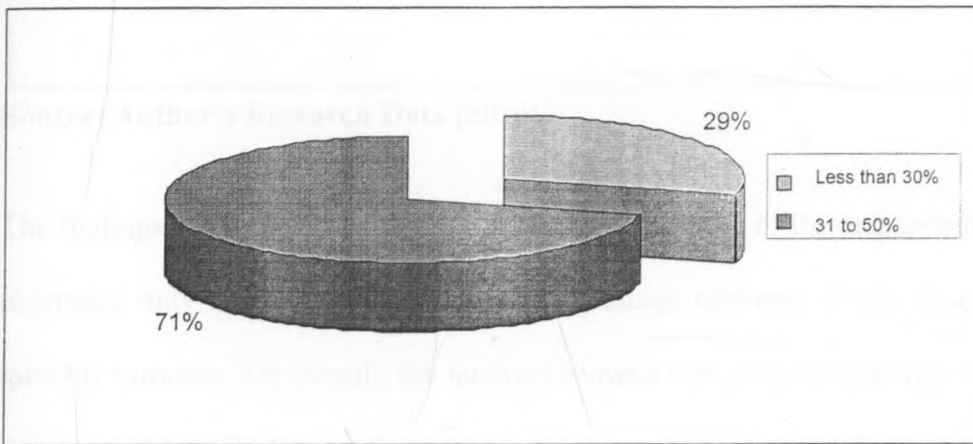
Source: Author's Research Data (2010)

The researcher requested the respondents to indicate the percentage turnover contributed by prescription only drugs in their firms' monthly turnover. The findings as presented by

figure 4.4 shows in majority of the respondents firms (66.7%) prescription only medicines contributed a percentage turnover of between 31% and 50% in their monthly turnover. 33.3% of the respondents said that prescription only medicines contributed a percentage greater than 50% in their firms monthly turnover.

### Over the Counter Medicines

Figure 4.5: Over the counter medicines

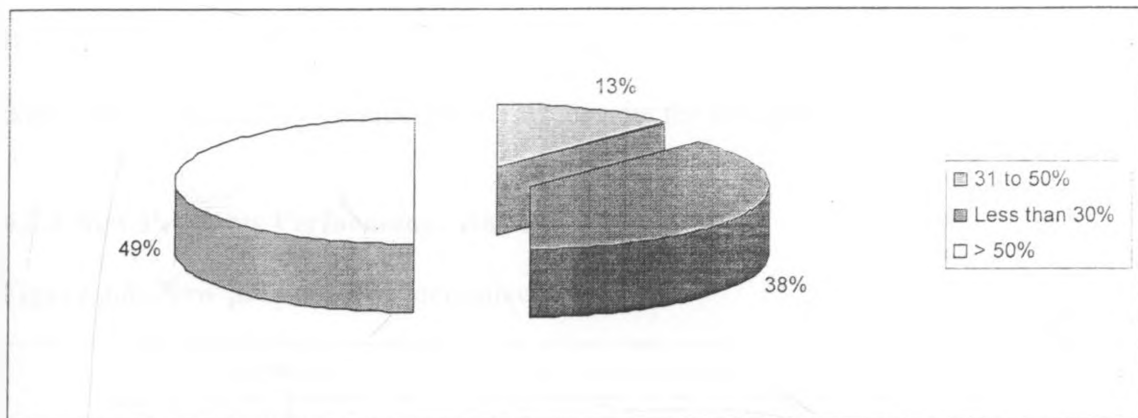


Source: Author's Research Data (2010)

This research study found that in 70.8% of the respondents firms over the counter medicines were contributing less than 30% in the monthly turnover while 29.1% of the respondents indicated that over the counter medicines contributed between 31% and 50% of the monthly turnover.

## Pharmacy only Medicines

Figure 4.6: Pharmacy only medicines

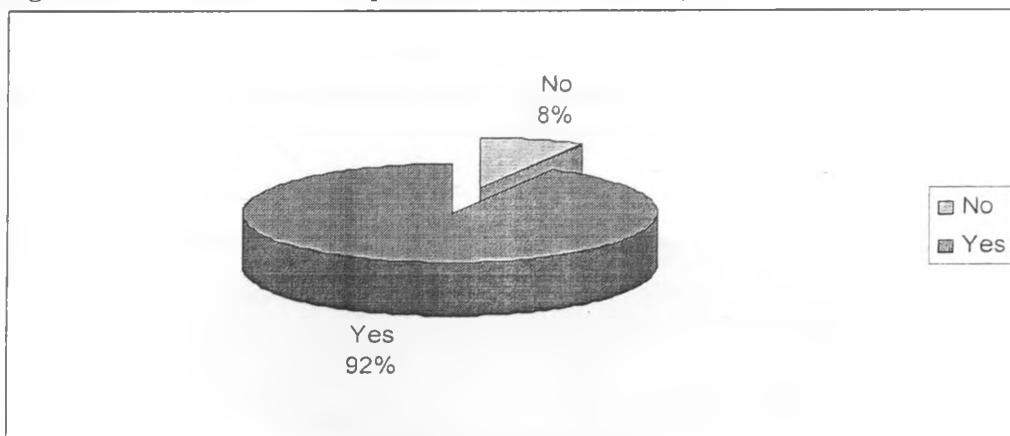


Source: Author's Research Data (2010)

The findings as presented by figure 4.6 shows in majority of the respondents firms (50%) pharmacy only medicines contributed a percentage turnover of less than 50% in their monthly turnover. On overall, the analysis showed that prescription only medicines have the greatest contribution to the monthly turnover of most of the firms followed by over the counter medicines and pharmacy only drugs.

### 4.3.2 Launch of New Products in the last 10 years.

Figure 4.7: Launch of new products in the last 10 years

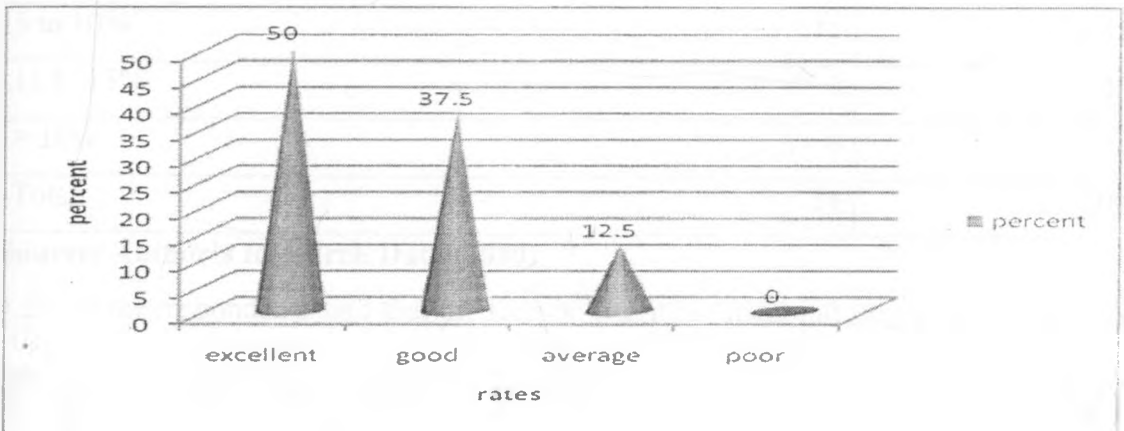


Source: Author's Research Data (2010)

The respondents indicated that 92% have launched new products in the last 10 years while 8% said that their companies have not launched new products in the last 10 years. It can be seen that since liberalization of the industry, the Multi-national companies have continued to launch new products in Kenya despite the changing business environment.

### 4.3.3 New Products Performance Rates

Figure 4.8: New products performance rates

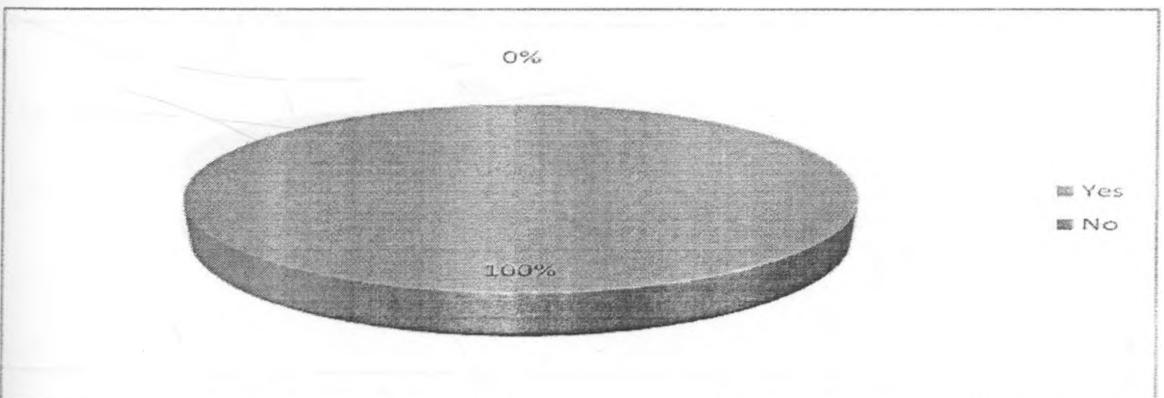


Source: Author's Research Data (2010)

Majority of the respondents (over 50%) indicated the performance of their new products as excellent.

### 4.3.4 Growth of Kenyan Pharmaceutical Industry

Figure 4.9: Growth of Kenyan pharmaceutical industry



Source: Author's Research Data (2010)

From figure 4.9 above all the respondents agreed that the Kenyan pharmaceutical industry have grown. The purpose was to ascertain from the respondents if the Kenyan pharmaceutical industry has been growing.

#### 4.3.4 Kenyan Pharmaceutical Industry Percentage Growth

**Table 4.3: Kenyan pharmaceutical industry percentage growth**

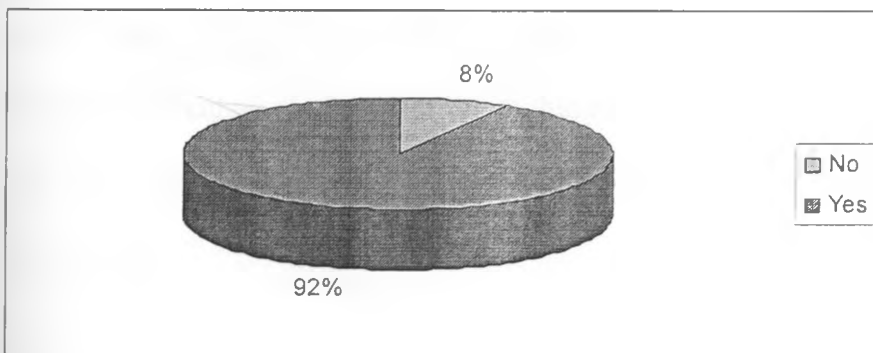
	Frequency	Percent
less than 5%	1	4.2
5 to 10%	11	45.8
11 to 15%	6	25.0
> 16%	6	25.0
Total	24	100.0

**Source: Author's Research Data (2010)**

4.2% of the respondents said that the Kenyan pharmaceutical industry grows by less than 5% annually, 45.8% said it grows by between 5 to 10 %, 25% said it grows by between 11 to15 %.Even though the extent growth differed from the respondents, a majority agreed that the industry has had a double digit growth. This may explain why there has been a huge influx of new entrants in the industry.

#### Increase in Market Share

**Figure 4.10: Increase in market share**

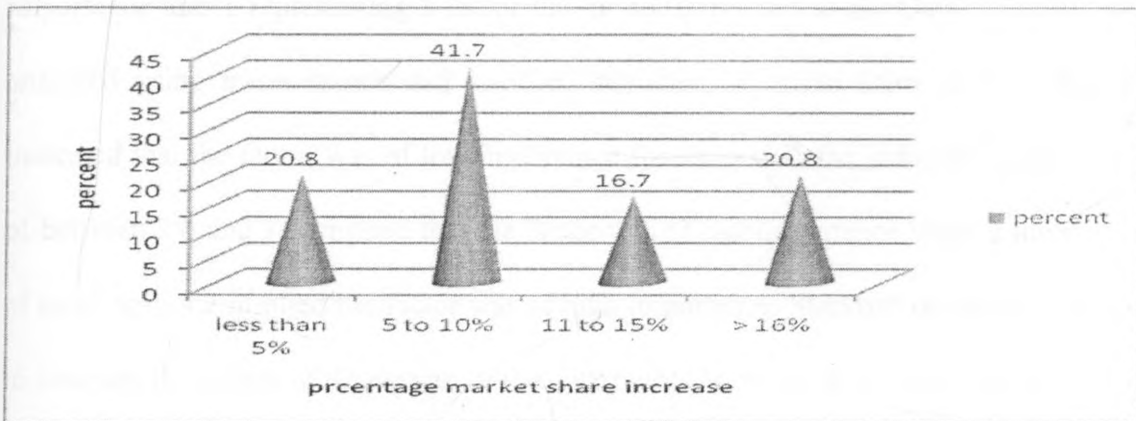


**Source: Author's Research Data (2010)**

In regard to whether the respondents' firm market shares have been increasing over the years, 91.7% of the respondents agreed that their market share has been increasing while only 8.3% viewed their share as stagnant or decreasing.

### Market Share Percentage Increase

Figure 4.11 Market share percentage increase



Source: Author's Research Data (2010)

From the respondents who had indicated that their company's market share was increasing the researcher wanted to know their percentage increase. 20.8% of the respondents indicated that their company's market share have been increasing by less than 5%, 41.7% said their company's market share have increased by between 5 to 10%, 16.7% said that their company's market share have increased by between 11 to 15 % while 20.8% indicated that their company's market share have increased by above 16%. These findings confirm that the multinational pharmaceutical companies in Kenya still command a dominant position in the industry despite the changing business environment.



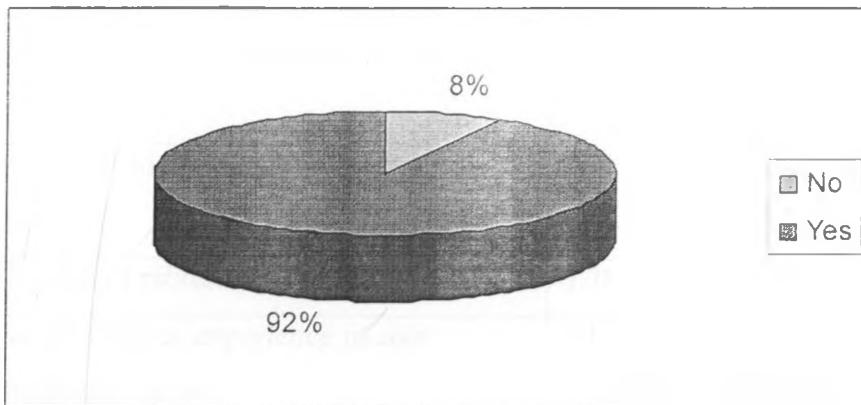
#### 4.4 Critical Success Factors

The final section of the research questionnaire required the respondents to indicate the extent to which selected critical success factors were considered important by the organization as well as to articulate other critical success factors not highlighted. Data was collected using the likert-5 point scale, where 5 represent a factor of very high importance and 1 representing a factor that is not important at all. Data collected were analyzed using mean scores and standard deviation. A mean score of less than 2.5 indicated that the factor was of low importance for success in the industry; a mean score of between 2.6 and 3.5 implied that the factor was of fair importance while a mean score of more than 4.2 implied the factor was of high importance. Standard deviation was used to measure the extent of dispersion of the data points, with a low standard deviation with values of less than 1 indicating that respondents were in a close agreement on the factor, whereas values greater than 1 indicated low levels of agreement. The factors considered were core competencies of the company, marketing strategies, company resources and product attributes. It also addressed the second objective of the study, to find out whether financial strategy and employee motivation are considered as critical success factors for the multi-national pharmaceutical companies.

In this section also, the respondents were asked if their respective firms had faced any major challenges since the liberalization of the industry. The findings are represented as below;

#### 4.4.1 Whether the Respondents Firms were faced with Challenges

Figure 4.12: Whether the respondents firms were faced with Challenges



Source: Author's Research Data (2010)

On whether the multinational pharmaceutical companies had been faced with challenges since the liberalization of the industry, a majority 91.7% of the respondents said their firms have been faced with challenges while only 8.3% said their firms have not been faced with challenges. The main challenges identified were; pharmacy and poisons board regulation requirements, increased competition, cheaper generic products, demand for lower prices from hospitals, counterfeit products, parallel imports of drugs, commercial doctors who do not respect ethics, illegal trade in pharmaceuticals, ethical marketing issues and influx of cheap sub standard generics.

#### 4.4.2 Core Competencies

Core competences are the bases upon which an organization achieves strategic advantage in terms of activities, skills or know-how which distinguish it from competitors and provide value to customers or clients. Johnson and Scholes (2002) argue that resources and competences of the organization make up its strategic capability and they may change with time. Table 4.40 gives a presentation of the findings from the respondents.

**Table 4.4 Relative Importance of Core Competencies**

Core competencies	Mean score	Standard Deviation
Unique Capabilities as a company	4.38	1.304
Research and Development of Innovative Products	4.50	0.837
Well trained and highly effective sales force	4.21	0.901
Breadth of product range	3.78	1.214
No. of years of experience in core therapeutic areas.	4.10	1.248
Average mean/std deviation	4.194	1.1008

**Source: Author's Research Data (2010)**

From the maximum possible score of 5 on the likert scale, the average score for the various aspects that constitute core competences had a mean score of 4.194 and a standard deviation of 1.1008. Out of the various aspects, Research and Development of products, unique capabilities as a company, well trained and highly effective sales force and number of years of experience in a given therapeutic area have the highest mean scores of 4.50, 4.38, 4.21 and 4.10 respectively. The standard deviations were 0.837, 1.304, 0.901 and 1.248 respectively.

A majority of the respondents interviewed indicated that R&D was a sure way to replenish their pipeline by producing new 'blockbusters 'and also they have to develop a robust training program to produce more aggressive sales force or recruit experienced sales force altogether in order to achieve a competitive advantage.

#### 4.4.3 Relative Importance of Marketing Strategies/Effectiveness

The researcher also inquired from the respondents the extent to which they perceived the practiced marketing strategies like key opinion leader development, sales planning, advertising of medical products in medical journals, regular training of field force and patent protection for company's innovative products. The findings are as given in the table below:

**Table 4.5 Marketing Effectiveness / Strategies**

Marketing Strategies	Mean Score	Standard Deviation
Key opinion leader development	4.97	0.164
Appropriate sales planning at the beginning of the year	4.14	0.713
Advertising of products and services in medical journals and other publications	2.35	1.160
Sponsorship to local and international medical conferences	4.92	0.36.3
Appropriate market segmentation	4.50	0.740
Conduct market/industry analysis to scrutinize and better understand competition activities	3.95	1.053
Regular training of field forces/ Medical representative	4.51	0.812
Patent protection for company's innovative products	2.43	1.015
Average mean / standard deviation	3.971	0.747

**Source: Author's Research Data (2010)**

From the results above, the respondents indicated that Key opinion leader development, appropriate sales planning at the beginning of the year, sponsorship to local and international scientific conferences, proper market segmentation and regular training of medical representatives are critical ingredients of marketing strategy for multi-national pharmaceutical firms in Kenya. All these have a mean score of 4.41 or more and a standard deviation of less than one. Surprisingly the respondents did not consider patent rights and advertising in medical journals as important.

#### **4.4.4 Relative Importance of Resources**

Given the nature of competitive rivalry and competitive forces prevailing in the pharmaceutical industry in Kenya; the researcher requested the respondents to indicate the resources/skills their company's had put in place in order to remain ahead of competition. The respondents indicated that companies need well trained and retention of staff, ability to serve customers well and a perception as the market leader with mean scores of 4.57, 4.14, and 4.20 respectively. All have standard deviations of less than one. Ability to attract and retain well trained staff in the pharmaceutical industry is important since it is a relatively technical area and most of the business is done through personal selling by medical representatives who call on doctors and explain the salient features of their drugs. They also have to develop relationships with customers' overtime.

**Table 4.6 Relative Importance of Resources**

<b>Company</b>	<b>Mean Score</b>	<b>Standard Deviation</b>
Good staff attraction and retention	4.57	0.662
Ability to serve customers well	4.14	0.743
Perception as the market leader in therapeutic area	4.20	0.900
Market share position as an advantage over competition	3.46	1.282
Focusing on niche by meets	3.85	0.822
Average mean / standard deviation	4.044	0.882

**Source: Author's Research Data (2010)**

#### **4.4.5 Relative Importance of Product Attributes**

Thompson, Strickland and Gamble (2007) argue that this is one of the questions that should be answered by industry experts in an attempt to identify an industry's critical success factors. The researcher asked respondents the following aspects of product attributes and the findings were as presented below:

**Table 4.7 Relative Importance of product Attributes**

<b>Product attributes</b>	<b>Mean score</b>	<b>Standard Deviation</b>
Product quality and efficacy	4.97	0.164
Availability of clinical data supporting the promotional claim	4.92	0.363
Frequent visitation by company medical reps (field force)	3.95	1.052
Good corporate image	4.14	0.713
Price of the product	3.32	1.029
Average mean / standard deviation	4.26	0.664

**Source: Author's Research Data (2010)**

Out of the maximum score of 5 on the likert scale, the mean score for the various aspects that constitute the product attributes have a mean of 4.26 and a very low standard deviation of 0.664 clearly showing that certain aspects are critical for success. Product quality and efficacy is the most critical aspect of the product with a mean score of 4.97 and a low standard deviation of 0.164. This is closely followed by availability of clinical data supporting the promotional claim, and good corporate brand with mean scores of 4.92 and 4.14 respectively. All have standard deviations of less than one. Surprisingly though, pricing of the product did not achieve a high score, a mean of 3.32 with a standard deviation of 1.029.

#### **4.4.6 Financial Strategy and Employee Motivation**

This section addresses the second and specific objective which sought to determine whether financial strategy and employee motivation are considered as critical success factors. The respondents were asked to tick appropriately from the responses given. Mean score and standard deviation were used to analyze the data. The higher the mean the greater the significance of the factor. According to results in table 4.8, most of the respondents (mean score 4.29 , and 4.63 ) for company being perceived as financially stable and field force personnel getting recognition awards respectively, as the most important aspects of financial strategy and employee motivation. These two factors are considered as critical success factors for multinational pharmaceutical firms in Kenya.

Finance usually attempts to maximize the value of the firm (Robinson, 1997). Further, the firm's objectives and strategies cannot be met without adequate funds .The perception of the firm as financially stable among stakeholders in the industry makes them to do more business with the company. It can also provide competitive advantage through a lower

cost of funds and flexible ability to raise capital to support a business strategy and extend credit to major customers. Equally it could help a firm secure major business contracts with government institutions and other health service providers. This seems important in pharmaceutical industry in Kenya where credit is extended for between thirty to sixty days.

**Table 4.8 Financial Strategy and Employee Motivation**

<b>Financial strategy</b>	<b>Mean</b>	<b>Standard Deviation</b>
Company perceived as financially stable	4.29	1.20
Company has access to credit facilities	3.45	1.25
Company able to extend credit to major Customers	3.63	1.37
<b>Employee morale/ motivation</b>		
Field force personnel get recognition awards	4.63	0.77
Financial rewards (bonuses) are linked to Performance	4.46	1.41

**Source: Author's Research Data (2010)**

#### **4.4.7 What shortcomings are certain to put a Company at a Significant Competitive Disadvantage?**

Thompson, Strickland and Gamble (2007) are of the opinion that the answers to this question can help to identify an industry's critical success factors. The respondents were asked the same and they answered as follows:

Firstly, a majority of the respondents pointed out that lack of a research and development capability, (R&D), could put the company at a significant competitive disadvantage.



Expertise in a particular technology and scientific research that can bring innovative molecules to the market are key to the success of the organizations. They identified that companies with a rich product pipeline are poised to do well in the Kenyan market since through research and development they are able to bring revolutionary innovative drugs that are able to treat diseases more effectively. The researcher found out that the multinational pharmaceutical companies in Kenya do not have their R&D departments locally but abroad. They have devoted enormous funds to this capability.

Secondly, they pointed out that lack of a talented field force that is effective in communicating the benefits of their drugs to the users in the disease area can put a company at a competitive disadvantage. The sales representatives must be able to tackle medical related questions and have to be adequately motivated to achieve the company objectives. They emphasized on the need for continuous training for the field force that detail to the users of their products.

Thirdly, most of the respondents emphasized that lack of product quality would certainly put a company at a disadvantage since the users are interested in getting an efficacious product that can treat the ailments it is intended for. Lack of product quality would deter repeat usage as the doctor will go for alternative therapies. Fourthly, many of the companies pointed out that lack of brand equity could put a company at a disadvantage. A well-known and respected brand name capture on the relationships and reputation of both a firm's corporate as well as its product reputation to command a premium price from its customers over the equivalent generic offerings. Building brand equity through marketing activities potentially creates a differential positioning in the market as it can lead to greater recall of a brand in a particular product class.

Finally, the respondents pointed out that lack of clinical/research data to authenticate the promotional claims of drugs could jeopardize a company's marketing efforts. These data are used to justify the approved indications and show significant benefits of using the product in question over competition. Most of these clinical data are generated by the company's research and development while others are done by a third party whose mandate and competence is to carry out clinical research.

#### **4.4.8 Other Factors considered to be important apart from the ones captured in the Questionnaire**

The respondents were also asked to specify any other factors that could have been considered as critical to their success and had not been highlighted in the questionnaire. Even though most of the respondents agreed with the factors as earlier identified, they also gave additional factors such as; a strong network of distributors/dealers so that product availability is guaranteed in various parts of the country. They pointed out that without a strong distribution network, the product could easily be substituted with competition.

Leadership also came out strongly among the respondents. They pointed out leadership as one of the most important elements affecting organizational performance as it can provide vision, initiative, motivation and inspiration. As much as possible, the leadership of these pharmaceutical companies should fill relevant positions with qualified people committed to change efforts given that the industry is very dynamic.

## **4.5 Conclusion**

The survey brought out the critical success factors for the multi national pharmaceutical companies in Kenya. The respondents revealed a high level of knowledge of their market and customers, a great awareness of what every other company sells, their activities and awareness about trends in the market.

# CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This chapter discusses the findings of the study and interprets the results in line with the research objectives and research problem. The salient conclusions arising from the study are detailed and recommendations given. Finally, the limitations that the study faced and areas of further research are discussed ending with policy and practical implications of the findings of the study.

## 5.2 Summary of Findings

The critical success factors identified by a majority of the respondents include: a robust Research and Development capability, well trained and highly effective sales force, good staff attraction and retention, key opinion leader development, Sponsorship to local and international conferences, appropriate market segmentation, product quality and the availability of clinical data to support promotional claims. All these factors had a high mean score of more than 4.2. Other critical success factors that came out strongly among the respondents that were not captured in the questionnaire were good leadership, branding and a strong distribution network. Following the research study and the presentation of the findings in chapter four, a discussion of the results is as follows;

## 5.3 Discussion

The research study revealed that multi-national pharmaceutical companies in Kenya need to apply marketing strategies that are relevant to the industry in order to succeed in the

industry. However, marketing strategies used in the in the fast moving consumer goods may not work in this sector .A lot of investment and focus is on personal selling, which requires sales field force commonly referred to as “detail men” or medical representatives to be highly trained and knowledgeable on the products. In addition to sponsorship, pharmaceutical companies spend considerable amount of money on key opinion leader programmes .Doctors are invited to attend scientific conferences where innovators (medical opinion leaders) present scientific data from studies on the relevant pharmaceutical product . This forms the basis of claims that the company will use in its sales promotional material when the product is eventually launched. This allows the company to build relationships with the innovators and early adopters prior to launch, to secure effective competitive positioning at launch and subsequent marketing roll out to the target audience.

The study also showed that some multi-national pharmaceutical companies who focus on certain therapeutic segments of the industry have developed core competences and unique capabilities in those sub sectors, which have endeared them to target their customer’s. As a result, such dealers have become market leaders in those sub-segments. The perceptions as a market leader in the segment have made customers (doctors) to make strong associations with the company for certain product classes. For example, Astrazeneca is strongly associated with excellence in gastroenterology, Roche Pharmaceuticals with oncology and Novo Nordisk with diabetology.

It is interesting to note that as part of the marketing strategy. Pricing was not identified as very important to success. According to majority of the respondents, the doctors who

choose the product to be given to their patients make their decisions on the basis of efficacy of the product and ability to achieve favourable clinical outcomes. There was a high standard deviation on this factor implying that there was no agreement. This can be explained by the fact that once the doctor has selected the product and issued a prescription, the patient can easily substitute the product at the pharmacy outlet with a generic equivalent. This implies that as competition intensifies in the industry with more entrants from Asian subcontinent, competitive pricing will play a role in the success of multi-national pharmaceutical companies in Kenya.

The most prominent factors among the success factors tested in the research study were Research and Development capability, product quality and efficacy, Key Opinion leader development, highly qualified and trained sales force (med representatives) and Sponsorships to conferences. These factors had the highest mean scores. These findings confirm Thompson and Strickland's (2008) argument that critical success factors consist of three to four really major determinants of financial and competitive success in a particular industry. Likewise the findings also concur with Rockart (1979), who argues that critical success factors refer to the limited number of areas in which results, if satisfactory will ensure competitive performance of the organization.

The second and specific objective of the study was to determine whether financial strategy, employee morale and performance are considered as critical success factors by multi-national pharmaceutical companies in Kenya. Respondents perceived these as critical success factors. However, an aspect of financial strategy that the respondents indicated as very important was the perception of the company as financially stable with

a mean score of 4.29 and a standard deviation of 1.22. In comparison with financial strategy, employee morale and performance seemed to be perceived as more important as both aspects of the latter had a mean score of more than 4.63 and a relatively low standard deviation.

The findings of this study are also in agreement with observations in academic literature that critical success factors vary from industry to industry. Maina (2006) did a similar study whose objective was to identify critical success factors in the banking industry in Kenya. The CSFs identified in this study were; good service delivery, low cost of services, robust human resource management, offering a wide product range, use of modern technology and good corporate governance. Nzioki (2006) identified critical success factors for heavy-duty construction equipment dealers in Nairobi as selecting and supplying products that exhibit attributes such as durability, high quality, reliability, reparability and company resources in terms of skilled staff. Mbugua (2005) on the other hand revealed that for petroleum product dealers retailing in Nairobi some of the critical success factors included appropriate location, consistent product quality offering and good customer service.

According to Ansoff (1987), the operating environment is constantly changing and so it makes it imperative for organizations to constantly adapt their activities in order to succeed. The study revealed that indeed the multi-national companies have not been static but have been adapting their activities with the changes in the environment, by introducing new products. The identification of industry critical success factors is

considered important by pharmaceutical companies as this can help them in gaining competitive advantage. Sustainability of an organization's competitive advantage depends on how well the industry critical success factors have been applied in the strategic management of the firm. The critical success factors must be maintained for a significant amount of time even in the presence of competition. Sustaining the industry critical success factors needs to be at the core of strategic management. This ensures that a company is not only growing but also gets above-average profits in the industry and thus maximising shareholder value.

## **5.2 Conclusion**

The objective of this study was to determine critical success factors for the multinational pharmaceutical companies in Kenya and specifically to determine whether financial strategy, employee morale and performance are considered as CSFs by the companies. The findings of the study identified the critical success factors and confirmed that indeed financial strategy, employee morale and performance are considered as CSFs by multinational pharmaceutical firms in Kenya. However, a caveat that needs to be observed is that the respondents to the questionnaire survey were all drawn from the supply side perspective (managers in the pharmaceutical industry). It would be wise to repeat this survey with customers (doctors, health management organizations, etc) as the target respondents as this would facilitate a comparative analysis of the factors identified from both supply and demand side.

It can be concluded that a multi national pharmaceutical company with perceptive understanding of industry critical success factors can gain sustainable competitive



advantage by devoting its energies to being distinctively better than its rivals at succeeding on these factors. The critical success factors identified for the multi-national pharmaceutical companies in Kenya are: a robust research and development capability, high product quality and efficacy, key opinion leader development, sponsorships, building relationships with customers, appropriate market segmentation and highly qualified and trained sales force (medical representatives).

### **5.3 Limitations of the Study**

Given that the study considered one or two people in each of the multi-national pharmaceutical company; it cannot give a 100% picture of the pharmaceutical industry in Kenya. Again, some of the respondents from the industry were not willing to give information freely thinking it could be used against them while others simply told the researcher to come back at another time or would call when the questionnaire was ready. On further follow up, the researcher could clearly see the unwillingness to participate.

### **5.4 Recommendations for Policy and Practice**

The researcher recommends that Multinational pharmaceutical companies in Kenya should focus more on improving and acquiring competencies on the identified critical success factors as this will enable them to improve on their competitive position. However, given that the industry is dynamic, market research should continuously be conducted regularly with the intent of establishing what factors would influence success in business in order to give them focused attention.

According to Thompson and Strickland (2007), correctly diagnosing an industry's critical success factors raises a company's chances of crafting a sound strategy. The senior

management of the pharmaceutical companies must continuously assess their critical success factors so as to respond to the changes in the operating environment and clearly understand which ones have emerged as a result of this and address them as necessary. The goal should be to design a strategy aimed at stacking up well on all of the industry's future CSFs and be distinctively better than competition on one (or possibly more) of the critical success factors. This can be a route to have above average profits in the industry.

### **5.5 Recommendation for Further Study**

This study focused on the identification of the critical success factors for multinational pharmaceutical companies in Kenya. Further studies can be extended to other players in the pharmaceutical industry (local manufacturers, retailers and generic companies) in an effort to confirm if the same CSFs are applicable to them. Also, further studies can be done to establish whether multinational pharmaceutical firms operating in Kenya leverage their strategy on the identified critical success factors. However, the identified critical success factors for the multinational pharmaceutical firms in Kenya are bound to change with time depending on the operating environment. Given the strategic importance of CSFs, the findings of the research can be used as a source of reference for research in the wider healthcare sector such as hospitals, medical equipments and even in other industries in the economy such as in fast moving consumer goods, beer and beverages industry.

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# APPENDICES

## APPENDIX I: Letter of Introduction



### UNIVERSITY OF NAIROBI SCHOOL OF BUSINESS MBA PROGRAM - LOWER KABETE CAMPUS

Telephone 101-299992  
Telegrams "Varsity" Nairobi  
Telex 22095 Varint

P.O. Box 30197  
Nairobi, Kenya

DATE..... 24.06.2010 .....

#### TO WHOM IT MAY CONCERN

The bearer of this letter ..... RICHARD O ONDOTH .....


Registration No: ..... D61/8364/06 .....

is a Master of Business Administration (MBA) student of the University of Nairobi.

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 if you assist him/her by allowing him/her to collect data in your organization for the research.

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

  
UNIVERSITY OF NAIROBI  
SCHOOL OF BUSINESS  
MBA OFFICE  
DR. W.N. IRAKI  
CO-ORDINATOR, MBA PROGRAM



## APPENDIX 11: Research Questionnaire

The questionnaire below has been set in relation to the objectives of the study. All questions are in relation to Critical success factors .Please answer all the questions. In case any clarification is required, kindly get in touch with the researcher (Owuoth Richard) on telephone 0721 268 300 or email: awuothr:@yahoo.com

### Section A: General information / Company profile.

- (a) Name of the organization.....
- (b) Position of the respondent in the organization .....
- (c) How long has your firm been operating in Kenya?  
Less than 5 years ( )      5-10 years ( )  
11-15 years ( )      16-20 years ( )  
21-25 years ( )
- (d) How many employees are there in your organization? Please tick one category.  
Less than 20 ( )      Between 21-50 ( )  
Between 51-100 ( )      Between 101-200 ( )  
More than 201 ( )
- (e) What kind of products do you import to Kenya?  
Prescription only Medicines ( )      Pharmacy only ( )  
Over the counter only ( )      All the above ( )

### Section B: Performance indicators

- (a) What is your company's monthly turnover in millions?  
15-19 ( )    20-24 ( )    35-44 ( )    25-29 ( )    30-34 ( )    over 35 ( )
- (b) Please indicate what percentage of your turnover is contributed by
- Prescription only medicines.....Less than 30% ( ) 31-50 % ( ) > 50% ( )
  - Over the counter medicines.....Less than 30% ( ) 31-50 % ( ) > 50% ( )
  - Pharmacy only medicines.....Less than 30%( ) 31-50% ( ) > 50% ( )
- (c) Have your company launched a new product in the Kenyan market in the last ten years? Yes ( )      No ( )  
If yes, how would you rate its performance?  
Excellent ( )      Good ( )      Average ( )      Poor ( )
- (d) Has the Kenyan pharmaceutical industry been growing?  
Yes ( )      No ( )  
If yes, by what percentage points annually?  
Less than 5% ( )    5-10 % ( )    11- 15 % ( ) > 16 % ( )
- (e) Has your market share been increasing over the years? Yes ( )    No ( )  
If yes, by what percentage points?  
Less than 5% ( )    5- 10 ( )    11- 15 ( )    More than 16 % ( )

## Section C: Critical Success Factors

### Specific Information.

Critical success factors are the few areas where things must go right for the business to prosper. These elements determine company's strategic success or failure and emphasize its distinctive competence to ensure competitive advantage. It can be a skill, capability or something a firm must do to satisfy customers.

1. Have your company faced any challenge(s) since the liberalization of the pharmaceutical industry in Kenya?

Yes ( ) No ( )

If yes, what main challenges have you experienced since the liberalization of the industry?.....

.....

2. On a scale of 1-5, indicate the extent to which the following factors influence the success of your organization where; 5) To a very large extent, 4) To a large extent, 3) To some extent, 2) To a very small extent 1) No extent

CRITICAL SUCCESS FACTORS	5	4	3	2	1
<b>Core Competencies</b>					
1. Unique capabilities as a company					
2. Research and Development of Innovative products					
3. Well trained and highly effective sales force (med reps)					
4. Breadth of product range					
5. Number of years of experience in core therapeutic segments					
<b>Marketing Strategies</b>					
5. Appropriate sales planning at the beginning of the year					
6. Key opinion leader development					
7. Advertising of products and services in medical journals and other publications					
8. Participation in medical conferences (CMEs) and professional medical associations					
9. Sponsorship to local and international medical conferences					
10. Appropriate market segmentation					
11. Conduct market / industry analysis to scrutinize and better understand competitors activities					
12. Regular training of field force (med representatives)					
13. Patent protection for company's innovative products					
<b>Company Resources</b>					
14. Good staff attraction and retention					
15. Ability to serve customers well					
16. Perception as the Market leader in a given therapeutic area					
17. Market share position as an advantage over competitors.					
18. Focusing on Key / (niche) markets					

3. Please indicate the extent to which the following factors are considered important or done by your organization to some extent and contributes to your organization's success, on a scale of 1-5; where;

5 is - Very/ Highly important.

4 is - Important

3 is - Fairly Important

2 is - Of little importance

1 is - Not Important at all

(a) <b>Financial strategy</b>	1	2	3	4	5
Company perceived as financially stable	( )	( )	( )	( )	( )
Company has access to credit facilities	( )	( )	( )	( )	( )
Company able to extend credit to major Customers	( )	( )	( )	( )	( )

(b) <b>Employee Morale/Motivation</b>	1	2	3	4	5
Field force personnel get recognition awards	( )	( )	( )	( )	( )
Financial rewards (bonuses) are linked to Performance	( )	( )	( )	( )	( )
How would you rate your employee turnover rate in the last one year?					
Less than 5% ( )	( )	( )	( )	( )	( )
5-10% ( )					
11-15 % ( )					
More than 15% ( )					

4. In your opinion, on what basis do Prescribes of pharmaceutical products (medical doctors) choose between competing brands of other companies? Please indicate the extent to which you agree to the following ;

Product quality and efficacy	( )	( )	( )	( )
Availability of clinical research data supporting the promotional claim	( )	( )	( )	( )
Frequent visitation by the company's medical representatives	( )	( )	( )	( )
Good corporate image	( )	( )	( )	( )
Price of the product	( )	( )	( )	( )

5. In the pharmaceutical industry, what shortcomings are almost certain to put a company at a significant competitive disadvantage?

.....

.....

.....

6. Please indicate any other factors you consider to be most important and key to your success in the pharmaceutical industry in Kenya which has not been captured above

.....

.....

.....

.....

.....

.....

*Thank you very much for your cooperation.*

### APPENDIX III: List of Pharmaceutical Firms Interviewed

<b>Name</b>	<b>Home country</b>
GlaxoSmithKline	UK
Roche	Switzerland
SanofiAventis	France
Astrazeneca	UK/ Sweden
MerckSharp & Dome	USA
Boehringer Ingelheim	Germany
Pfizer laboratories ltd	USA
Eli Lilly	USA
Bayer-Shering AG	Germany
Novo Nordisk	Denmark
Solvay	Belgium
Norvatis Pharma	Switzerland
Abbot laboratories	USA
Schering Plough	USA
Wyeth Ayerst ltd	USA
Bristol Myers Squibb	USA
UCB pharmaceuticals	Belgium
Menarini	Italy
ProdesPharma	Spain
Servier Pharmaceuticals	France
Jansen-Cilag	Switzerland
Dafra	Belgium
Johnson & Johnson	USA
Reckitt Benckiser	UK
3M	USA
Teva	Israel
Glenmark	India
Ranbaxy Laboratories	India

## APPENDIX IV: Work Plan

Year	Calendar year 2009 - 2010													
	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June	July
Problem identification														
Topic selection														
Topic approval by SOB and assignment of supervisor														
Proposal writing and discussion with supervisor														
Literature review														
Questionnaire or interview guide design and refining														
Oral presentation to SOB committee														
Fieldwork / Data collection														
Data organization and analysis														
Discussion and report writing														
Presentation of final report														

Source: Author, 2009