MULTINATIONAL PHARMACEUTICAL FIRMS ADAPTATION TO THE CHALLENGE OF PARALLEL IMPORTATION OF DRUGS IN KENYA

BY

MUCHELULE, S. E

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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 3/11/05 ....

MUCHELULE, S. E

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

Signed .... Date 7th/11/05 ....

DR. M. OGUTU

Supervisor, Faculty of Commerce

University of Nairobi.

DEDICATION

To my beloved Dad Muchelule and my Mum Dinah who jump started my life and showed me the importance of studying in order to achieve great heights.

To my beloved wife Damaris and our children Denning and Jwesley for their inspiration, moral support and enduring my absence even as I struggled to get this work completed.

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ABSTRACT

The study aimed at highlighting how multinational pharmaceutical firms are adapting to the challenge of parallel importation of drugs in Kenya.

The pharmaceutical firms shall be able to use the research findings and recommendations to develop better strategic management practices. Scholars, academicians and researchers will find the study useful starting point for further research in various aspects of strategic management. The regulatory bodies, ministry of Health, Pharmacy and Poisons Board and Pharmaceutical Society of Kenya shall find this outcome useful in controlling or better management of pharmaceutical industry in Kenya.

In order to meet these objectives, the pertinent primary and secondary data was collected. Primary data was obtained from personal interviews with the respondents. The same research interviewees have also been overseeing the implementation of these responses. Secondary data was collected from various sources. The data was then analyzed qualitatively.

The study indicates that most respondents were confident that pharmaceutical companies do possess the necessary capability to adapt strategies that can enable it effectively match the changes in the environment in which it operates. The study also indicates that with liberalization of the pharmaceutical industry, the companies were able to source for cheaper drugs of good quality from various manufacturers who never had access to

the Kenyan market before. This has seen the volume of business grow year after year. There was need by the government to provide quality and affordable healthcare to the population. This was in line with the strategic intent. This enabled pharmaceutical firms supply drugs at an affordable price through government tenders. Due to influx of pharmaceutical firms after liberalisation, competition increased substantially.

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CHAPTER ONE: INTRODUCTION

1.1 BACKGROUND

1.1.1 Adaptation to Environmental Challenges

Organizations must manage environmental uncertainty to be effective. The reason is that the environment creates uncertainty for organization managers and they must respond by designing the organization to adapt to environment, Daft (2002). Uncertainty means that managers do not have sufficient information about environmental factors to understand and predict environmental needs and changes. Some of the environmental challenges include extended economic slump, increased competition, and changes in government fiscal policy, government legislation, litigation, and demand from various pressure groups and changes in the global expectations of the work environment.

Businesses are being subjected to the pressure of increasingly competitive national and global markets through globalisation and liberalisation of economies, combined with demands from investors and consumers for increased productivity, efficiency, innovation and quality of products and services, (Johnson & Scholes, 1997). In addition, pressures are mounting for businesses to be more responsible and accountable to their wider stakeholders; workforce, suppliers, communities, governments and the general public. When external factors change rapidly, the organization experiences very high uncertainty, Grant (2000): examples are telecommunication and aerospace firms, computer and electronic companies, pharmaceutical firms and e-commerce organizations.

If an organization deals with only a few external factors and these factors are relatively stable, managers experience low uncertainty and can devote less attention to external issues. If an organization faces increased uncertainty with respect to competition, customers, suppliers or government regulation, managers can use several strategies to adapt to these changes, including mergers or joint ventures, boundary-spanning roles and inter organizational partnerships. Environmental characteristics that influence uncertainty are the number of factors that affect the organization and the extent to which those factors change.

1.1.2 Parallel Importation

Parallel trade refers to trade in genuine products outside official channels of distribution. It should not be confused with trade in counterfeit goods, which refers to trade in products that infringe on an intellectual property rights. If unrestricted, parallel-trading activities can generally take two forms, Fink and Maskus (2005). The most common form is parallel passive imports, whereby arbitrageurs buy goods in a foreign country and sell them in a domestic market. Active parallel imports occur when a foreign licensee (or distributor) of the intellectual property rights holder enters the domestic market to compete with intellectual property rights holder or his or her official domestic licensee. Regardless of the form that parallel imports take, they are subject to the same border measures as regular imports are, including tariffs, quantitative restrictions, and technical standards.

The potential size of the market that could be subject to parallel trading activities, if unrestricted, is undoubtedly significant, because most tradable goods (besides commodities) and services are protected by at least one form of intellectual property rights (for example, trademarks). Virtually no statistics are available on this so – called gray market segment of international trade, Fink and Maskus (2005). If intellectual property owners and their licensees respond to the threat of parallel imports by pricing more uniformly across national markets – thereby eroding international arbitrage opportunities – trade statistics would give an insufficient indication of the economic effect of parallel imports policies. Territorial restraints in licensing agreements and restrictive purchasing contracts can limit active and passive parallel imports. Parallel imports therefore refer to the actual goods that have been bought and then resold in a different jurisdiction other than where the original product was sold or exhausted. Parallel importers are those that purchase an item that has exhausted its intellectual property rights in one jurisdiction and then sell that item in another jurisdiction, usually for a better price.

1.1.3 The Pharmaceutical Industry

The origins of the pharmaceutical industry are primarily post war and during that time it has been driven greatly by technological innovation.

Pharmaceutical firms the world over, are faced with well-trained customers- the clinicians- who are able to decide on what brands to use. Globally the pharmaceutical industry is beginning to experience the effects of a new model of healthcare: empowered patients and healthcare workers that are driving up the costs by increasing market segmentation, patent expiries and declining R&D productivity (Cole, 1999). The empowered patient has become better able to source for information on specific therapies, self-diagnosis and managing both disease and health environment. The industry response has been to develop products for specific patient groups.

Since drug discovery is a high cost and risky undertaking, patents on blockbuster drugs expiring with rising generic pressure and new 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 Marrion Roussel (HMR) and Rhone Poulenc to form Aventis (1999), GlaxoSmithKline (2001), Pfizer Warner Lambert (2002), and AstraZeneca (2002) and most recently Sanofi Aventis (2004), among others. Another 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. Other strategies have been to diversify or just stick to the knitting (Johnson & Scholes, 1997)

The Kenyan industry is also rather dynamic. There is a high degree of rivalry among players, bargaining power of buyers and the threat of substitute products are also key determinants of industry dynamics. Political decisions by government have largely affected the dynamics in the industry in matters relating to production, marketing and distribution. Strategic decisions therefore undertaken by these firms must adhere to laid out regulations

Image Dynamics (1999), an authoritative pharmaceutical raw material and finished products import data provider, estimated the Kenyan pharmaceutical industry using total imports of finished goods and raw materials by some 92 organizations. The total worth then was approximately Kshs63 billion. Of this amount Kshs34b were imports from 24 leading multinational firms marketing finished products in Kenya. The size of the pharmaceutical market in Kenya has not been well studied and documented. It is merely based on the amount of drugs imported by the companies and their Import Declaration Forms (Ides) with the registrar of the Pharmacy and Poisons Board. However according to the National Health Accounts (NHA) data, the total expenditure on drugs was K.Shs 31 billion. Of this, individuals spent K.Shshs 20.3b, the Ministry of Health (MoH) spent K.Shs 7.4b, the National Hospital Insurance Fund (NHIF) spent K.Shs 1.3b and other insurance companies spent K.Shs 1.3b. The pharmaceutical industry in Kenya consists largely of brand manufacturers, generic manufacturers and distributors and retailers. All these players are largely privately owned. There are currently 137 pharmaceutical companies in Kenya (Kenya Medical Directory, 2003). This comprises all the firms in the industry. These companies employ directly an estimated 60,000 people, provides medical information, medicines and diagnostics to enable healthcare providers better manage and treat diseases. This number includes in excess of

600 medical representatives (Registrar, Pharmacy and Poisons Board) to personally market their products. There are currently over 7000 registered pharmaceutical products presented in various formulations in the Kenyan market.

The pharmaceuticals industry in Kenya was liberalized in 1991 through an Act of Parliament (Pharmacy and Poisons Board). The period saw an influx of many pharmaceutical companies into the market (especially generic companies) either by directly investing or through franchise holders that is local trading partners (importing wholesales). With the declaration of HIV/AIDS as a national disaster by the former president, His Excellency Daniel Triptych Aral Moil in 1999, many unscrupulous business people entered the industry, and the situation is getting worse, day-by-day, especially with the briefcase importers. As a result of this, there are many illegal importations of these drugs into the country without the legal license from the manufacturers as required by law and also cases of importing the drugs, which are not legally registered by the Ministry of Health (Pharmacy and Poisons Board).

This has resulted in misuse of drugs which is life threatening, leading to litigation to the manufacturer by victims, government, and civil society especially the human rights activists which in the long run affect the firms profitability, products image and consumption. Parallel imports also eat into market share of the firm hence lowering the profitability and yet they have already spent money (sunken) costs in marketing activities. Against this background, it is a challenge for the management of pharmaceutical firms to adapt to these strategically and proactively in order to remain profitable and maximize on their shareholders value for their investments and posterity of pharmaceutical firms in Kenya.

1.2 Statement of the Problem

Parallel imports are one of the biggest challenges facing multinational pharmaceutical firms in Kenya. There are several factors, which have led to this influx of parallel imports. These include: liberalization of the pharmaceutical industry in 1991, weak or poor control of importation of drugs within Kenya due to possibility of non political / administrative goodwill to endorse controls, few government drug inspectors, poor legislation to deter parallel imports, lucrative profit margins for the culprits for there are no price controls, and the administration condoning the malpractice due to corruption. Other factors contributing to this include: involvement of non-pharmacists in running the pharmaceutical business, suppliers colluding with non-professionals to import drugs, and economic pressure on pharmacists and patients to get cheaper sources of drugs, hence by-passing laid down procedure for importation to get the drugs in at a cheaper price.

There are several consequences of parallel imports of pharmaceutical drugs. These include risk of drugs endangering lives of patients and enhancing disorder in the pharmaceutical industry leading to price wars thus erosion of profit margins of genuine importers who also undertake marketing activities.

This can lead to closure of these firms hence loss of employment. Most traders handling parallel imports engage in corruption deals thus negating the spirit of collective responsibility. They do not follow the legislation of importation of medicines hence making the process illegal.

In view of the above consequences, adaptation of the pharmaceutical firms to the environment will be very important for their survival. This greatly impacts on the posterity of the firms. There are several studies that have been done on firm adaptation. These studies mainly deal with economic reforms leading to market liberalization. The findings indicate that majority of firms changed their mission components mainly products/services, culture and technologies due to environmental effects (Kombo, 1997; Abdullahi, 2000; Chepkwony, 2001; Isaboke, 2001; & Kandie, 2001).

In general, pharmaceutical firms have been extensively studied but very little done on adaptation to parallel importation. Some of the studies done revealed that product differentiation and stringent credit controls are a key (Githendu, 2005). A study has been recommended on impact and strategic response to parallel imports in pharmaceutical industry (Ng'ang'a, 2005).Therefore, it can be seen that there is still a knowledge gap, hence the current study seeks to unveil strategies that pharmaceutical firms can effectively use to adapt to environmental challenge of parallel imports in Kenya.

1.3 Research Objective

To determine how multinational pharmaceutical firms are adapting to the challenge of parallel importation of drugs in Kenya.

1.4 Importance of the Study

The pharmaceutical firms shall be able to use the research findings and recommendations to develop better strategic management practices. Scholars, academicians and researchers will find the study useful starting point for further research in various aspects of strategic management. The regulatory bodies, ministry of Health, Pharmacy and Poisons Board and Pharmaceutical Society of Kenya shall find this outcome useful in controlling or better management of pharmaceutical industry in Kenya.

CHAPTER TWO: LITERATURE REVIEW

2.1 Operating Environment

Environmental challenges can wreck havoc on an organization's reputation, sales and profits. In high-tech industries, environmental conditions are even more volatile. The environment surprises many companies. Government actions and red-tape can also affect an organisations environment and form a crisis, Daft (2002). Events that have greatest impact typically originate in the external environment. The external environment includes all elements existing outside the boundary of the organization that have the potential to affect the organization. The environment includes competitors, resources, technology and economic conditions that influence the organization. The organizations external environment has two layers; general and task environment.

General environment is the layer of the external environment that affects the organizations indirectly. It includes social, demographic and economic factors that influence all organizations about equally e.g. increase in inflation rates. 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. It includes competitors, suppliers and customers Wit & Meyer (1998). The internal environment includes elements within the organizations boundaries e.g. current employers, management and corporate culture, which defines employers behaviour in the internal environment and how well the organization will adopt to the external environment.

International dimension is the portion of external environment that represents events originating in foreign countries. It provides new competitors, customers and suppliers and shapes social, technological and economic trends as well. Today, every company has to compete on a global basis. Changes in the international domain can abruptly turn the domestic environment upside down. Technological dimensions include scientific and technological advancements in the industry and society at large e.g. use of computers has tremendously increased, Porter (1980). Social cultural dimensions represents the demographic characteristics, norms, customs and values of the population of within which the organizations operates. Today's demographic profiles are the foundation of tomorrow's workforce and consumers. The economic dimension represents the general economic health of the country or region in which the organization operates. Consumer purchasing power, the unemployment rate, and interest rates are part of an organization's economic environment. Because of globalization, the economic dimension has become exceedingly complex and creates even more uncertainty for managers, Johnson and Scholes (1997). One significant frequent trend in economic environment is the frequency of mergers and acquisitions e.g. Citibank and Travelers merged to form Citigroup, GlaxoWellcome bought out SmithKline Beecham.

The legal-political dimension includes federal state, and local government regulations and political activities designed to influence company behaviour. Government Laws do specify rules of the game. The federal government influences organizations through the Occupational Safety and Health Administrators, Environmental Protection Agency, fair trade practices, libel statutes allowing lawsuits against business, consumer protection legislation, product safety requirements, import and export restrictions and information and labelling requirements. Litigation and regulation can cause big problems for companies Daft (2002).

Managers must recognize a variety of pressure groups that work within the legal-political framework to influence companies to behave in a socially responsible ways. Tobacco companies today are certainly feeling the far-reaching power of anti-smoking groups. Environmental and human rights protestors have disrupted World Trade Organizations meetings and meetings of the World Bank and the International Monetary Fund to protest a system of worldwide integration that has food, goods, people and capital freely moving across borders.

Customers are key to any organizations, Johnson and Scholes (1997). These include people and organizations in the environment who acquire goods or services from the organization. They are important because they determine the success of the organization e.g clothing companies have to stay constantly in touch with shifting customers tastes. The Internet has given increased power to customers and enabled them to directly impact the organisation.

Other organisations in the same industry or type of business that provides goods or services to the same set of customers are called competitors.

Wise strategists will adopt the firm to the industry environment. Two diametrically opposed points of view can be identified, Wit & Meyer (1998). Some argue that industry development is an autonomous process, to which firms must adjust or risk being selected out; - industry evolution perspective. Many strategists believe that the industry context can be moulded in an infinite variety of ways by innovative firms hence industry creation perspective. In Industry evolution perspective, the best a firm can do is to score slightly above the industry average by adapting better and anticipating changes better than competitors. In industry creation perspective, it is argued that certain economic, technological, social and political factors have to be accepted as hardly influence able. But the remaining environmental factors that can be manipulated leave strategists with an enormous scope for moulding the industry of the future. According to Johnson and Scholes (1997), it is up to the strategist to identify, which rules of the game must be respected and which can be ignored in the search for the new strategic options. The strategist must recognize both the limits on the possible and the limitless possibilities. The question for the field of strategic management is therefore whether the future of industries evolves or can be created. Strategists must come up to terms with the paradox of compliance and choice.

If an organization deals with only a few external factors and these factors are relatively stable, managers experience low uncertainty and can devote less attention to external issues. For any organisation to remain successful, it has to address environmental challenges adequately, (Ansoff and McDonnell, 1990). Enough resources have to be made available to ensure the strategy is aggressively implemented. The greater the environmental challenges the more aggressive the strategy should be and the more resources will be required. Adequate response to environmental challenges thus requires that managers define their response to the challenges and then allocate resources to carry out the strategy (Aosa, 1997). It is imperative that a company achieves a fit with its environment for it to succeed. According to Johnson and Scholes (1997), understanding the environment is made difficult by its many diverse influences and the element of uncertainty.

Environmental turbulence is a combined measure of change-ability and predictability of the firm's environment. Change-ability of the firm is seen by the complexity of the firm's environment and the relative novelty of successive changes, which the firm encounters in the environment. On the other hand the predictability is the rapidity of change, which is the ratio of the speed with which challenges evolve in the environment to the speed of the firm's response. Predictability can also be seen in terms of the firm's vision, which assesses the adequacy and timeliness of information about the future (Ansoff and McDonnell, 1990). This is why successful companies define their vision and mission well in advance in order to give them direction when the environmental turbulence threatens to distort their forward match.

Pharmaceutical firms like any other business firms operate like open systems. A system is a set of components that relate in the accomplishment of some objective. The components relate and interact within a boundary. The system may be closed or open. A closed system does not depend on the external environment for its survival. It can be sealed off from the outside world. An open system depends on its external environment for survival. It continuously consumes resources from the environment and releases resources back to the environment.

Ansoff and McDonnell (1990) further observe that firms utilise certain inputs, which include money, people, physical assets, raw materials, etc from the environment. These inputs are utilised synergistically in the firms various departments of finance, marketing, production, distribution, etc, to produce physical products, services and by products. These products and services are released to the external environment which has customers, consumers, competitors and government which is the regulator.

Organisations today are operating in dynamic changing environments. This environmental dynamism is throwing up new opportunities and challenges. Future survival of the organisations is no longer guaranteed. Managers face difficulties in trying to understand the environment. Environmental scanning, also referred to as competitive intelligence, is the rigorous approach to collecting, analysing and communicating information about the competitors' activities, market changes that are occurring, changes related to supply of raw materials and other issues that could affect strategic direction. This operating environment consists of competitors, creditors, customers, labour force and suppliers. Depending on their size and influence, organisations will face such factors as barriers to entry into an industry, the bargaining power of suppliers and buyers, availability of substitute products and certainly the intensity of competitive rivalry.

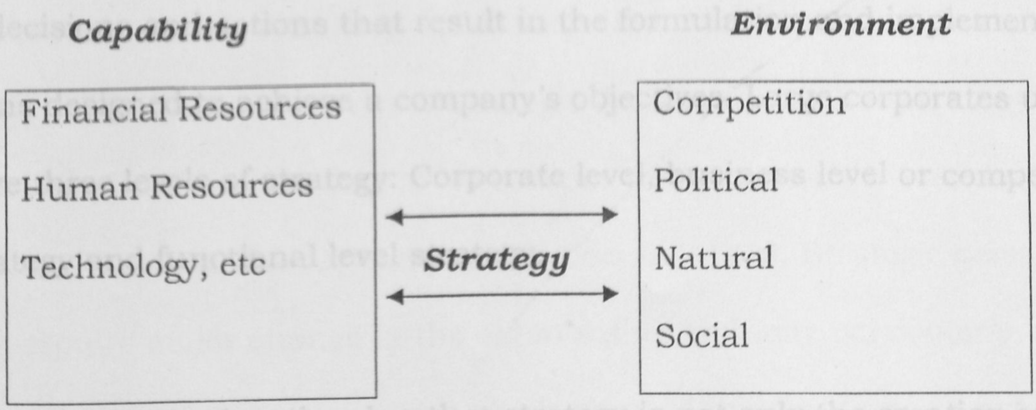
2.2 Strategic Management in a Changing Environment

Strategy stems from the Greek word 'Strategos', which means the art of the general or commander in chief. The concept of strategy entered business vocabulary in the 1950s and 60s, when response to environmental discontinuities became important. Chandler (1962) and Ansoff (1965) observe that the literature on corporate strategy that emerged is vast and continues to grow at an astonishing rate.

Strategy is a multidimensional concept and has been defined in different ways by various authors. Strategy has been defined as the match between an organisations resources and skills and the environments opportunities and risks and the purposes it wishes to accomplish (Schendel and Hofer, 1979). It is meant to provide guidance and direction for the activities of the organisation. The purpose of strategy is to provide directional cues to the organisation that permits it to achieve its objectives while responding to the opportunities and threats in the environment.

According to Ansoff (1990), strategy is the framework that links an organisation's capability to its environment.

Figure 1. Strategy Capability Environment Link



Source: Ansoff and McDonnell 1990

Porter (1996) states that "The essence of strategy is choosing to perform activities differently than rivals do". He also outlined the basis of competitive advantage. It is based on the principle that organisations achieve competitive advantage by providing their customers with what they want, or need, better or more effectively than competitors and in ways that their competitors find difficult to imitate. Porter's (1980) analytic five-force approach to industry analysis made strategy more externally focused. It had a very strong influence in the 80s and remains quite influential today. Emphasis has been placed on the need for speed and flexibility in order to respond to the increased pace of change and its effect on competition.

Pearce and Robinson(1997) defines strategy as the company's 'game plan' which results in future oriented plans interacting with the competitive environment to achieve the company's objectives. This definition of strategy is important for this study because it reflects competitiveness in the environment and the game plan aspect which organisations put into place to be able to compete effectively. Strategic management is defined here as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives. Large corporates usually have three levels of strategy: Corporate level, business level or competitive strategy and functional level strategy.

D'Aveni (1994) takes the view that strategy is not only the creation of advantage but also the creative destruction of opponents' advantage. Mintzberg and Quinn (1991) perceive strategy as a pattern or a plan that integrates organisations major goals, policies and action sequences into a cohesive whole. A well formulated strategy helps to marshal and allocate an organisations resources into a unique and viable posture based upon its relative internal competencies and shortcomings, anticipated environmental changes and contingent moves by intelligent opponents.

Johnson and Scholes (1997, pg 10) define strategy as the direction and scope of an organisation over the long term, which achieves advantage for the organisation through its configuration of the resources within a changing environment, to meet the needs of markets and fulfil stakeholder expectations. Its main purpose is to enable the firm to gain as efficiently as possible a sustainable edge over its competition. Corporate strategy therefore strives to alter a company's strength relative to that of its competitors in the most efficient way.

Strategic decisions are therefore complex in nature. This is especially so in organisations with wide geographic scope like multinational firms or wide ranges of products or services. Strategic decisions may involve a high degree of uncertainty because they involve taking decisions on views of the future, which it is impossible for managers to be sure about. Strategic decisions may also require major change in the organisation and may particularly be difficult to implement if the organisation has been used to operating in ways, perhaps developed over the years, which are not in line with future strategy. Strategic management provides a framework within which such proactive actions are undertaken. Strategy therefore helps managers think about the future while still carrying out present operations (Aosa, 1992), respond to external changes on a timely basis and build the much needed internal capacity going forward.

Strategy is not an abstraction. It requires conscious effort to achieve it. It does not just happen but it is caused. One can say strategy defines an organisation in terms of its future nature and direction (Johnson and Scholes, 1999). Thus corporate strategy would then be seen to be concerned with the purpose and scope of an organisation as a whole. Today strategy development and planning utilises several tools which may include but are not limited to environmental scanning or competitive intelligence, scenario planning and forecasting, capital planning and budgeting, portfolio analysis, road mapping (plan new product development) and stakeholder analysis and engagement (Mintzberg et al.,1998)

2.3 Strategies and Adaptation

Survival and success for an organisation occurs when an organisation creates and maintains a match between its strategy and environment and also between its internal capability and the strategy, Grant (2000). Adaptation requires organisations to change their strategy to match the environment and also to transform or redesign their internal capability to match this strategy.

This means that organisations need to harness both its tangible and intangible assets to maintain a strategic fit between its strategy and environment. If this fit is not realized then a strategic gap exists. Also if its internal capabilities are not matched with the strategy then a capability gap arises.

Mwanthi (2003) showed that it is important for organisations to remain relevant to their consumers and that sustaining shareholder/stakeholder value is of prime importance. This can only be achieved by setting strategic priorities that will ensure that it meets its long-term objectives. Her study revealed that three main business principles should be maintained when setting out strategic priorities. These are the principles of mutual benefit, responsibility and good corporate conduct.

Strategic planning is therefore key for every manager due to the high degree of competition and unpredictability prevailing in many industries.

Environmental scanning is paramount and both managers and employees must be involved in the planning process in order to achieve holistic implementation. Mwaura (2001) recommends that it is important for firms to develop methods of collecting competitor intelligence by undertaking serious market analysis to be able to formulate appropriate and effective strategies. Furthermore, strategic plans should be flexible and should involve the whole organisation. He therefore recommends that managers must have futuristic orientation in their thinking and actions. This can enable them to anticipate possible environmental changes and develop a proactive stance in adaptation.

There are several strategies that firms use to adapt to environment when faced with increased uncertainty with respect to competition, customers, suppliers or government regulations. These include, mergers or joint ventures, boundary spanning roles and inter organizational partnerships, Daft (2002).

Boundary-spanning roles are roles assumed by people and / or departments that link and co-ordinate the organization with key elements in the external environment. Boundary spanners detect and process information about changes in the environment, and they represent the organization's interest to the environment. People in marketing and purchasing span the boundary to work with customers and supplies, both face to face and through market research. Competitive intelligence is key in boundary spanning. Competitive intelligence specialists use websites, commercial data bases, financial reports, market activity, news clipping, trade publications, personal contacts etc to scan an organization's environment and spot potential threats or opportunities.

An increasingly popular strategy for adapting to the environment is by reducing boundaries and increasing collaboration with other organizations hence inter-organizational partnerships. Companies are joining together to become more effective and to share scarce resources. Managers are shifting from adversarial orientation to partnership orientation. The new paradigm is based on trust and the ability of partners to work out equitable solutions to conflict so that everyone profits from the relationship. Managers work to reduce costs and add value to both sides. There is need to have a high level of information sharing, a lot of person-to-person interaction to provide corrective feedback and solve problems.

A step beyond strategic partnerships is for companies to become involved in mergers or joint ventures to reduce environmental uncertainties. A merger occurs when two or more organizations combine to become one. A joint venture involves strategic alliance or programme by two or more organizations. This would occur when a project is too complex, expensive or uncertainty for one firm to handle alone. Environmental uncertainties can lead to erosion of company's profits leading to closure

Many firms are bound to adapt to environment differently. For instance multinational pharmaceutical manufacturers may adapt by re-locating their entire operations to other more investment friendly countries, closing their manufacturing plants, franchising (transfer their sales and marketing operations to local partners or distributors), stop research and development, start manufacturing generic drugs and / or continue manufacturing brands.

On the other hand manufacturers of generics may adapt by starting to manufacture unpatented molecules, investing in R&D, by starting parallel importation or changing completely to distributorship (Wamalwa, 2002).

Some pharmaceutical distributors adapt to the environment by starting parallel importation, expanding their distributorship or entering into strategic alliances with local and foreign manufacturing companies. Howse McGeorge, a well established local pharmaceutical distributor and retailer combined forces with EuraPharma SA of France to form Howse McGeorge Laborex (HML) in 2002. The added capability resulting from the alliance enabled HML to expand its base business by acquiring additional agency for a number of multinational firms like Sanofi Aventis, Servier, Norvatis, Dafra, etc. In the same breathe, given its wide and excellent distribution network across the country, HML divested from the retail business across the country to focus primarily on distribution and wholesaling (Contact, 2003). Eurapharma SA has recently (2004) assumed total ownership of HML after buying out Howse McGeorge.

Ansoff and McDonnell (1990) noted that adaptation involve changes in firm's strategic behaviours to ensure success in the transforming future environment. The choice depends on the speed with which a particular threat or opportunity develops in the environment. One of the fundamental issues in developing an operations strategy is which activities should be performed internally and which should be left to others such as suppliers, customers or partners (Hayes et al, 1996)

A first changing environment may force the firms to change their positions depending on their competitiveness, Porter (1980). He asserts that a competitive position may be created around cost leadership, differentiating products and/or services or focused strategy. Firms may sometimes pursue more than one approach as its primary target. A long term or grand strategy must be based on a core idea about how a firm can best compete in the market place, Pearce and Robinson (1997). The popular term for this core idea is *generic strategy*.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

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

3.2 Research Design

This is a cross sectional study design of multinational pharmaceutical firms in Kenya. Many studies have utilised industry wide surveys to derive their evidence on various environmental aspects affecting the pharmaceutical industry. This study entailed to follow the adaptation to the challenge of parallel importation by key pharmaceutical companies (twenty four in number), based in Nairobi, for the purpose of providing in depth information on strategic management practices. These are multinational pharmaceutical firms with established marketing offices in Nairobi.

3.3 Data Collection

The researcher interviewed one member of senior management of the main multinational pharmaceutical firms by means of a questionnaire to obtain the primary data. A tape recorder was used to record information from in-depth interviews where possible.

Secondary data was obtained from these firms' data on file at the company's resource centre and periodic newsletters and magazines published and distributed by the Corporate Communications department of these companies, abroad and locally.

3.4 Data Analysis

The mode of analysis was by content analysis due to the qualitative nature of data obtained and the fact that the objective of the study is restrictive to the nature of information required. It is also an unobtrusive means of analysing interactions and for its ease of reference and interpretation by the beneficiaries of this study. It also guards against selective perception of the content and has provision for the rigorous application of reliability and validity criteria and is amenable to computerisation (Cooper & Emory, 1976). Further content analysis can be used to analyse written, audio or video data from secondary data studies. Cheluget (2003), Mwanthi (2003) and Thuo (2003) have successfully used content analysis as a descriptive analysis technique before in their case studies.

CHAPTER FOUR: DATA ANALYSIS

4.1 Introduction

This chapter documents the findings to determine how multinational pharmaceutical firms are adapting to the challenge of parallel importation of drugs in Kenya.

The chapter is going to analyze the following sections:

1. Company Profile
2. Environment Information
3. Stakeholder Information

4.1.1 Response Rate

It is clear from the table below that the response was good as 83.3% of the targeted respondents responded. This means that most of them are eager to adapt to the parallel importation of drugs in Kenya thus it has made the major pharmaceutical firms to know how to deal and respond to the changes in the business environment. The response rate was therefore good.

	Included Targeted)	Response	Percentage Of response
Senior management of twenty multinational companies in pharmaceutical industry	24	20	83.3%
Spoilt(Incomplete questionnaire)		1	
Total	**24**	**20**	**83.3**

How Multinational Pharmaceutical Firms Are Adapting To the Challenge of Parallel Importation in Kenya

4.2 Respondents Profiles

The companies included in the study comprised the following companies GlaxoSmithKline, Roche, Sanofi Aventis, Merck Sharp & Dohme, Boehringer Ingelheim Astra Zeneca, Pfizer Laboratories Ltd, Elli Lilly, Bayer, Novo Nordisk, Aventis Pasteur, Norvatis Pharma, Schering Plough Schering Plough, Abbot, Pharmacia Upjohn, Howse McGeorge Laborex, Wyeth Ayerst LTD, Assia Pharmaceuticals, Europa Healthcare, Bristol Myers Squib, Glenmark Pharmaceuticals, Jos. Hansen & Soehne Ltd, Lords Healthcare Ltd and Wockaine Ltd

On the following questions they responded as given below

4.2.1 When firms started Business in Kenya

On when did the pharmaceutical companies started business in Kenya, most of them (70%) started before 1990, thus before industry liberalization in Kenya, after 1990 there 10%, before 2000 there were10% and after 2000 there were 10%.It can be interpreted that there was an influx of generic pharmaceutical firms after liberalization hence increasing the number of players in importation of the pharmaceutical drugs in Kenya. This created a problem in that the major companies were to devise strategies to adapt to the changing business environment so that they compete with the inevitable business adversaries.

Table 4.2.1 Firms starting business in Kenya

Year	Frequency	Percentage
Before 1990	14	70
After 1990	2	10
Before 2000	2	10
After 2000	2	10
Total	20	100

4.2.2 The Principal Shareholders

On who are the principal shareholders, many of the major companies said that they are subsidiaries of parent companies abroad hence most of them are foreign owned multinationals 75%; subsidiaries only run 25% of these firms. It can be interpreted that these firms depend on research and development of new drugs from the parent companies. The countries which most of these companies come from is Europe and USA meaning that these are multinationals who have invested in Kenya.

Who are the principal shareholders?

	Frequency	**Percentage**
Multinational Headquarters	15	75
subsidiary	5	25
Total	20	100

4.2.3 Major Pharmaceutical Firms defining their Core Business

On these companies defining their core business, majority of them said that they fall under distribution (wholesale) and marketing50%, while 30% said manufacturing, marketing and distribution and marketing only 20%.It can be interpreted that these companies produce the drugs that are branded in large numbers so that they can distribute to small companies, hospitals, clinics and pharmacies and chemists this is because most of them have benefits from advantages of economies of scale.

Table 4.2.3 Major Pharmaceutical Firms defining their Core Business

Manufacturing, marketing distribution	6	30
Marketing only	4	20
Marketing and distribution	10	50
Total	20	

4.2.4 Number of Employees in these Companies

On number of employees in these companies majority of these companies have employees ranging from 0-200 as indicated by 65% of the respondents, those who said between 200-400 were 10% while those above 400 were 25%.It can be interpreted that they are large and majority of these employees are working in sales and marketing departments and sizeable number in the management indicating that they also contribute to the economic development in Kenya and they are affected when other companies parallel import their drugs, hence thus they have to devise strategies to deal with that.

Table 4.2.4 : Number of Employees there are in your Company

	Frequency	Percentage
Less than 0- 200	13	65
Between 200-400	2	10
Above 400	5	25
Total	20	100

4.2.5 The key drivers of change in Firms' Business

On the key drivers of change in their business most respondents indicated that patients needs and competition is a major driver in adapting to change as indicated by 45% respectively, while those who said other factors were a paltry 10%. This means that the needs of the patients change the companies have to proactively respond to satisfy those needs at the same time fight the competition which sometimes is so fierce that turns out to be survival for the fittest.

4.2.5 The key drivers of change in the Firms' Business

	Frequency	Percentage
Patients' needs	9	45
Competition	9	45
Other factors	2	10
Total	20	100

4.2.6 The Strategic Intent or Positioning the Firms

On what strategic intent or position that the companies intend to achieve in the Kenyan market, most of them said that it is to source for quality products as indicated by 90% of the respondents while 10% said it is better profits. Meaning that affordability is key to majority of Kenyans given the low purchasing power of the citizens and if the companies do not change then the companies involved in parallel importation of drugs will make a kill.

Table **4.2.6 the strategic intent or positioning the companies**

Source of quality products	18	90
Better profits	2	10
Total	20	100

4.2.7 How achieving this Strategic Intent in the Market

On how these firms performance has been in achieving this strategic intent or positioning in the market, majority of them said that previously the cost of drugs to the patients was beyond reach for the majority hence most of them used proactive strategies as indicated by 80% of the respondents while 20% said reactive strategies. With liberalization of the pharmaceutical industry, we were able to source for cheaper drugs of good quality from various manufacturers who never had access to the Kenyan market before. This has seen our volume of business grow year after year.

Table 4.2.7 How achieving this strategic intent in the market?

	Frequency	Percentage
Proactive strategies	16	80
Reactive strategies	4	20
Total	20	100

4.3 Environment Information

4.3.1 The Challenges facing the Pharmaceutical Companies

On the challenges facing the pharmaceutical companies majority pointed out Business/Operating environment as a major challenge as indicated by 45% of the respondents, those who said Technological environment and Macro Economic environment were 20% respectively while Political/ Legal environment and Social environment were 10% and 5% respectively. It can be interpreted that after liberalization of the pharmaceutical industry, many players came into the market thus increasing competition. Out of stocks situation create shortage of products in the market leading to an increase in parallel importation of drugs.

Table **4.3.1 The Challenges facing the Pharmaceutical Companies**

	Frequency	Percentage
Macro Economic environment	4	20
Political/ Legal environment	2	10
Social environment	1	5
Technological environment	4	20
Business/Operating environm	9	45
Total	20	100

4.3.1 What strategies have you employed to manage the challenges raised above

on managing the challenges, many of the companies pointed out that it has used strategic alliances as indicated by 35%, mergers 10%,franchising 25%,boundary spanning 10% and joint ventures 20%.It can be interpreted therefore that most of the to deal with the challenges head on they have to enter into strategic alliance to gain from the benefits of economies of scale as synergistic benefits are great.

Table **4.3.1 What strategies employed**

	Frequency	Percentage
Mergers	2	10
Strategic alliance	7	35
Franchising	5	25
Boundary spanning	2	10
Joint ventures	4	20
Total	20	100

4.4 Stakeholders Information

On ranking of the stakeholders in order of importance between 1 and 8, 1 being the most significant and 8 being the least significant to these organizations ranking was self evident 1. Doctor 25%, Government (MoH, PPB) 20%, Distributors 15%, Patients10%. Shareholders 10%,Employees10%,Suppliers 5% and Medical professional Organizations (KMA, PSK) 5%.It can be interpreted that doctors are very important in the industry without them the business will not be there therefore they play a major role as they prescribe the drugs but then secondly the government role is forceful as it came second meaning that when it comes to parallel importation they play a major role. This is important as they regulate the sector, distributors are also important in that they are the ones that ensure that the drugs reach where it is supposed to reach, patients are also important in that without them there is no business. Shareholders come in handy when it comes to financing and running the companies as without them finances are not there. . Employees, Suppliers and Medical professional Organizations (KMA, PSK) are also important as they contribute immensely to the success of the industry.

Table **4.4.1 Stakeholders Rankings**

	Frequency	Percentage
Shareholders	2	10
Doctors	5	25
Government (MoH, PPB)	4	20
Employees	2	10
Distributors	3	15
Suppliers	1	5
Patients	2	10
Medical Professional Organisations (KMA, PSK)	1	5
Total	**20**	**100**

4.4.2 Key Challenges Raised by the Stakeholders

On the key challenges are being faced by shareholders, 20%, employees and Medical Professional Organisations 15%, Distributors. Retailers, Suppliers and Patients were each 10%. Meaning that shareholders are facing the brunt of the challenges.

Stakeholder	Frequency	Percentage
Shareholders	4	20
Government	2	10
Employees	3	15
Distributors	2	10
Retailers	2	10
Suppliers	2	10
Patients	2	10
Medical Professional Organisations	3	15
Total	**20**	**100**

4.4.2 The anticipation of greatest challenges with stakeholders, going forward

Many of the respondents anticipate Fierce competition from parallel importers as se by 60% of the respondents, government policies15% and pricing 25%.It can be interpret that these companies have to learn to fight with competitors.

Table 4.4.2 The anticipation of greatest challenges with stakeholders

	Frequency	Percentage
Fierce competition from parallel importers	12	60
Pricing	5	25
Government policies	3	15
	20	**100**

4.4.3 Strategies used

On the strategies that the pharmaceutical companies have employed in adapting to the competition many gave proactive strategies 45%,market research 30% and restructuring 25%.it can be interpreted that there has been stiff competition as regards pricing and quality products, due to influx of counterfeits and parallel imports, which are cheaply priced? Volumes will eventually go down, profits will be reduced and their customers will lack confidence in genuine products meaning that the parallel importers will benefit as they bring in more products which are cheaper hence affordable to many.

What plans are there to manage these challenges?

	Frequency	Percentage
Proactive strategies	9	45
Market research	6	30
Restructuring	5	25
Total	20	100

4.5 Discussions of the findings

It is clear from the above findings that parallel importers of pharmaceutical drugs engage in business across border without the permission of the manufacturer as confirmed by (Ducket, 1999). The incentives for its occurrence is a sufficient difference in prices between two nations to cover shipping and transaction costs and still offer gains to both shipper and the buyer. It is therefore, a form of arbitrage. Those involved in this business do not spend any money in terms of marketing. Out of stock situations, poor government regulations, greed for high margins and high prices encourage parallel importation of drugs. The main driving factor of parallel importation is for the culprits to make excessive profits , thus denying the legally registered and appointed companies to make good margins, which is usually invested in research and development of new products.

There are usually three prerequisites for the evolution of grey markets as indicated by (Chaudry and Walsh,1995), grey marketers must have a source of supply; trade barriers between countries must be low enough to provide easy access from one market to another; and price differentials must be large enough to appeal to the profit motives of grey marketers.

Economic theory demonstrates that the welfare tradeoffs in regulating parallel imports are complex and depend on circumstances. Price differs between two identical nations except in incomes per capita is due to income effect. The demand curve in the rich nation is steeper and less price-elastic that the demand curve in less affluent nation. Assuming similarity of production and distribution cost functions, this difference in demand curve elasticities leads a profit maximizing firm with some monopoly power to charge a higher price in the rich nation than in the poor nation.

Parallel imports take place when there is underlying monopoly power or market imperfections such as difference in political, social, economic, legal and regulatory regimes as asserted by (Rozek and Rapp, 1992), among which patent protection figures most prominently, exploited by the original seller through a strategy of price discrimination. The strategy that the firms undertake in price determination is the Ramsey Pricing rule or the inverse elasticity rule.

The price discrimination started when the research and development (R&D) is taken into account by the innovator firms. Danzon (2000) noted that cost of (R&D) is relatively high i.e. 30 percent of total cost, including forgone interest and it is 13-20 percent of sales of US pharmaceutical firms. These R&D cost is a fixed cost, invariant to volume, and accepted as "common cost" which serves patients worldwide. Hence, R&D costs cannot rationally be allocated to specific countries or patients.

As competition and free entry of generics will force the prices down to marginal cost, patent is used to permits innovator firm to bar generic products. With Ramsey pricing, the fixed cost can be recovered with the smallest feasible reduction of the total surplus retained by consumer and producers. Constrained Ramsey pricing would leads to price just enough to ensure recovery of the desired fixed cost. On the other hand, unconstrained Ramsey pricing allows prices charges more than marginal cost, maximizing funds to induce future R&D. In the end, the former could charge higher prices in order to break even, including the cost of R&D.

There are certain conditions whereby pricing would or would be likely to fail according to (Scherer, 2001) and this involves parallel trade. Parallel trade arbitrage prices from low-price to high-price markets. This will leads to two adverse consequence: 1) erode profits in higher price market that further reduce probable fund for future R&D; 2) Firm will reduce or stop the supplies or increase price of drugs in a low-price market. To avoid this, some legislation should prevent parallel exportation of pharmaceutical product at low priced market. If market in low income nation can be segmented to two (or more) groups: 1) minority with health insurance coverage will be the one with low price elasticity of demand; 2) majority with less ability to pay for a higher drug prices. Firms may decide to service the minority groups with price charged higher than one would expect with Ramsey theory (in the poor nation). To promote access cheap medicine for all, the less income nation shall be allowed to do parallel importation.

Low-priced drugs in one nation may be due to national price control policy, not due to Ramsey pricing rationale. Therefore, consumers might pay less than Ramsey optimal price. As a result of this, firms may reduce supply to price-controlled nation and welfare benefits are reducing by product shortage.

In order to encourage welfare benefits, parallel import from nation subject to price control strategy shall be prohibited.

However, Maskus and Chen (2000) advanced a model that analyzes parallel imports as a response to vertical pricing arrangements between a rights holder (manufacturer) and a foreign distributor. In the model, if markets were segmented, the manufacturer would charge a wholesale price to its foreign distributor to ensure an efficient (profit-maximizing) retail price. On the other hand, if markets were integrated by parallel trade, the distributor could purchase the good at a wholesale price and resell to other markets at the local retail price. If the transport cost were low enough, this would be profitable, but would diminish the return to the manufacturer and waste resources in costly trade.

The welfare: if the costs of engaging in such trades are low, there would be gains from permitting it; if the costs are high, it would be more sensible to ban it. Countries with low trade barriers might prefer an open regime of parallel trade.

The tradeoff: parallel imports will benefit consumers in the high-price country but hurt consumers in the low-price country as such trade forces the manufacturer to set an inefficient wholesale price to limit its extent (Danzon (1998), Towse (1998), cited in Gyldmark, (1999); Markus and Chen, (2000). It also found that parallel trade increases the profitability of pharmaceutical wholesalers and retailers and may not totally lower the prices for drugs in the high-priced country.

Parallel Importation in Kenya

The purpose of Patent Act is to give legal protection to patent holders together with exclusive rights which includes the exploitation of the patents, to assigned or transferred the rights and signing license contract. Non-patentable inventions include the following: discoveries, scientific theories and mathematical methods; plant or animal varieties or essentially biological processes for the production of plants or animals, other than man-made living micro-organism processes; schemes, rules or methods for doing business, performing purely mental acts or playing games; methods for the treatment of the human or animal body by surgery or therapy, and diagnostic methods practiced on the human or animal body (Patents Act 1980, Sect.13).

The impact of parallel importation on drug prices can be evaluated by comparing prices of patented (branded) drugs obtained from local retailers, which is imported directly from the original manufacture by its agent or sole distributor, and prices of the same patented drugs obtained from international market.

For every drugs sold, it will be priced according to dosage and packaging of drugs. The most available package will be recorded and used for evaluation of price variations. Prices for comparison will be based on a unit of each selective active ingredient.

According to the respondents, the strategic responses made by pharmaceutical companies to adapt to its changing competitive situation are inadequate. They attributed this inadequacy to the pharmaceutical company's current performance in a dynamic competitive environment. The respondents also stated that pharmaceutical companies should undertake more proactive initiative and less reactive responses to facilitate the management of its environment.

The respondents emphasized that it is important at corporate level to assess the attractiveness and performance of the various products offered by pharmaceutical companies. This will assist in identifying the best products and those ones that are loss making. Most of the respondents, however, were confident that pharmaceutical firms do possess the necessary capability to adapt to strategies that can enable them effectively match the changes in the environment in which they operate. It was also established from the study that pharmaceutical companies could enhance its capability by getting a strategic partner that offers complementary services and also has a large capital reserves to boost the bank's financial resource base.

On the plans that are there to manage these challenges, majority of them gave sensitizing the government to be stringent in regulating the pharmaceutical industry so as to curb the anticipated boom in the counterfeit market as the main break through to this problem. Ministry of trade should work together with the ministry of health to address this issue in terms of legislation. They should harmonize their activities. Others gave reasons for enlightening the public about the differences that could be there between the fake and genuine packs and building good business relationship with the distributors to discourage them from buying parallel imports for the might be counterfeits. The government should appropriately man all entry points to the country. Pharmaceutical firms should have their own regulatory marketing code and ensure that all players are adhering to it.

CHAPTER FIVE: SUMMARY, DISCUSSIONS AND CONCLUSIONS

5.1 Summary

The study indicates that most respondents were confident that pharmaceutical companies do possess the necessary capability to adapt to the challenge of parallel importation of pharmaceutical drugs in Kenya. It was also established from the study that pharmaceutical companies could enhance their capabilities by getting a strategic partner that offers complementary services and also has a large capital reserves to boost the bank's financial resource base.

The study also indicates that with liberalization of the pharmaceutical industry, the companies were able to source for cheaper drugs of good quality from various manufacturers who never had access to the Kenyan market before. This has seen our volume of business grow year after year.

The study asserts that most pharmaceutical companies came into play after market liberalization, especially those firms dealing with generic products. This had a positive impact on patients for it allowed easy access to medicines.

At the same time, there were many players coming in, some with the same molecules thus increasing competition. With poor government control, parallel importation of drugs had to increase.

There was need by the government to provide quality and affordable healthcare to the population. Tendering process by the government yielded fruits in that due to increased competition, prices were lowered hence enabling patients get quality products at affordable prices. Registration process of pharmaceutical products sometimes take too long (up to a year), delaying patients access to new molecules.

The study also says that there is need to interact directly with doctors who prescribe our drugs through continuous medical education. Although many doctors attend, some don't take this CME's seriously and don't bother to attend. It has made employees with science background become social which is not always the case.

Strong Research and development is crucial in addition, technological innovations rely on telecommunication efficiency, however, the existing communication infrastructure in Kenya is poor and, thus, it hampers the full realization of the benefits of technological improvements.

Innovative marketing strategies like use of prescription, pads, pens, (promotional materials) had to be perfected in order to brand the products in the prescribers' minds.

On the strategies that these companies have employed/ or are they are planning to employ to manage the challenges raised majority gave boundary spanning as the most profitable method, while others gave, Joint ventures , mergers, acquisitions and strategic alliances to strengthen R & D department

5.2 Discussions

On when did the pharmaceutical companies started business in Kenya, The findings indicate that most of them (70%) started before 1990, thus before industry liberalization in Kenya, after 1990 there 10%, before 2000 there were10% and after 2000 there were 10%.this mean that there was an influx of generic pharmaceutical firms after liberalization hence increasing the number of players in importation of the pharmaceutical drugs in Kenya. This created a problem in that the major companies were to devise strategies to adapt to the changing business environment so that they compete with the inevitable business adversaries.

On who are the principal shareholders, the findings show that many of the major companies said that they are subsidiaries of parent companies abroad hence most of them are foreign owned MY multinationals 75%, subsidiaries only run 25% of these firms.

On these companies defining their core business, the study shows that majority of them said that they fall under distribution (wholesale) and marketing50%, while 30% said manufacturing, marketing and distribution and marketing only 20%.

On number of employees in these companies the study show that majority of these companies have employees ranging from 0-200 as indicated by 65% of the respondents, those who said between 200-400 were 10% while those above 400 were 25%.It can be interpreted that they are large and majority of these employees are working in sales and marketing departments and sizeable number in the management indicating that they also contribute to the economic development in Kenya and they are affected when other companies parallel import their drugs, hence thus they have to devise strategies to deal with that.

On the key drivers of change in their business most respondents indicated that patients needs and competition is a major driver in adapting to change as indicated by 45% respectively, while those who said other factors were a paltry 10%. This means that when the needs of the patients change, the companies have to proactively respond to satisfy those needs at the same time fight the competition which sometimes is so fierce that turns out to be survival for the fittest.

On what strategic intent or position that the companies intend to achieve in the Kenyan market, most of them said that it is to source for quality products as indicated by 90% of the respondents while 10% said it is better profits. On how these firms performance has been in achieving this strategic intent or positioning in the market, majority of them said that previously the cost of drugs to the patients was beyond reach for the majority hence most of them used proactive strategies as indicated by 80% of the respondents while 20% said reactive strategies. On the challenges facing the pharmaceutical companies majority pointed out Business/Operating environment as a major challenge as indicated by 45% of the respondents, those who said

Technological environment and Macro Economic environment were 20% respectively while Political/ Legal environment and Social environment were 10% and 5% respectively.

on managing the challenges many of the companies pointed out that it has used strategic alliances as indicated by 35%, mergers 10%, franchising 25%, boundary spanning 10% and joint ventures 20%.It can be interpreted therefore that most of ther to deal with the challenges head on they have to enter into strategic alliance to gain from the benefits of economies of scale as synergistic benefits are great.

On ranking of the stakeholders in order of importance between 1 and 8, 1 being the most significant and 8 being the least significant to these organizations ranking was self evident 1. Doctors 25%, Government (MoH, PPB) 20%, Distributors 15%, Patients 10%, Shareholders 10%,Employees10%, Suppliers 5% and Medical professional Organizations (KMA, PSK) 5%, then finances are not there.

Many of the respondents anticipate Fierce competition from parallel importers as seer by 60% of the respondents, government policies15% and pricing 25%.It can be interpret that these companies have to learn to fight with competitors.

On the strategies that the pharmaceutical companies have employed in adapting to the competition many gave proactive strategies 45%,market research 30% and restructuring 25%.

5.3 Conclusions

This study concludes that parallel importation of pharmaceutical drugs is a big challenge to most pharmaceutical firms. The Government should strengthen controls in importation of drugs as the handling and storage of the medicines cannot be guaranteed to be safe and also safe guard the firms to make margins so that employment is created and part of the profits to be spend in R&D of new molecules.

The study concludes that customers should be informed and educated to differentiate the patented drugs imported directly from the original country or from a third party country.

The section of compulsory licensing in the Patent Act is seen not being fully utilized by the local manufacturer to produce generics replacement for a high priced patented drugs especially in highly needed drugs disease treatment compared other countries abroad. It is further supported by comparison of health expenditure by private sector.

As competition among generic drugs could reduce the price of among them in Kenya, the government shall issue compulsory license to local producer of generic drugs. At the same time, the demand of the patented drugs shall be taken into account, to make sure the preparation of the facilities to produce the generic drugs will not be a waste. Studying the pattern of patented drugs sales and projection of generic usage with the introduction of the substitute drugs can do this. There was need by the government to provide quality and affordable healthcare to the population. This was in line with our strategic intent. This enabled us supply drugs at an affordable price through government tenders. Our competition with same prices sometimes won. Registration process of pharmaceutical products would sometimes take too long (up to a year). This would favor your competitors, especially if they have similar molecules. The laid down legislation to deter parallel importation of drugs is not stringent enough to deter this behavior. The available government drug inspectors are not enough to take care of all entry points to the country. Their motivation is too low due and lack proper training.

There is need to interact directly with doctors who prescribe our drugs through continuous medical education. Although many doctors attend, some don't take this continuous medical education seriously and don't bother to attend. Herbal and other non conventional medication is on the rise due to high costs of treatment.

Strong Research and development of new molecules that are relevant to this market is crucial. Technological innovations rely on telecommunication efficiency, however, the existing communication infrastructure in Kenya is poor and, thus, it hampers the full realization of the benefits of technological improvements. The respondents added that the field of information technology (IT) is highly dynamic. As a result, what may be seen as a satisfactory information technology adaptation today will soon be considered obsolete even before the full benefits have been realized?

Some of the pharmaceutical company's IT systems were pre-packaged. As a result, the respondents noted that there was heavy reliance by these companies on vendor support that was not always readily available. In a bid to overcome the above challenges, these companies have, according to the respondents, been reviewing their contractual relationships with the IT vendors. This has enabled them to have some of the terms of service to be adjusted, temporarily, to cater for their currently needs. Advanced IT assists in fast sharing of information.

There was transfer of marketing strategies from the new attendants in the market. Unlike in the post when only one brand name was available for a particular molecule, with liberalization; there were many brands for one molecule. Innovative marketing strategies like use of prescription, pads, pens, (promotional materials) had to be perfected.

On the strategies that these companies have employed/ or are planning to employ to manage the challenges raised, majority gave Boundary spanning as the most profitable while others gave, Joint ventures , strategic alliances and Mergers to strengthen R & D department.
Most responded in terms of environmental challenges and strategic response in the exhibit below.

5.4 Recommendations

The study recommends specific measures on adaptation of pharmaceuticals firms to parallel importation in Kenya.

Pharmaceutical firms should work together with the ministry of health to ensure that laid down regulations on importation of drugs is being followed. This will ensure that companies that break this are disciplined.

Pharmaceuticals firms should lobby for employment of more government drug inspectors to man all entry points to Kenya and carry out regular checks on pharmacies. The government should strive to motivate them.

Pharmaceuticals firms should assist the government in training of drug inspectors and pass over any information that will assist them identify the culprits.

Pharmaceuticals firms and ministry of health should lobby through parliament to enact laws that will curb parallel importation in Kenya.

These firms should have competitive pricing that will assist both patients and pharmacists get affordable drugs. There should be regulation of pricing of these products. Pharmaceuticals firms and the government should ensure that only qualified professionals should run the pharmacies. This will mean reduction in pharmacies in the country hence increase in profits for the remaining players.

Continuous market intelligence by pharmaceutical firms and the government to catch the culprits should be continuous.

All pharmaceutical firms should work as a team to curb this menace. Pharmaceuticals Firms should merge or get into strategic alliance or acquisition to consolidate enough resources for research and development of new patented molecules and make enough profits. Pharmaceuticals firms should blacklist all distributors involved in parallel importation and only work with trust worthy partners.

Pharmaceuticals firms should work in partnership with distributors and promote openness. Out of stock situations should be minimal at all times. Well-trained sales force in marketing and intelligence will make customers be aware of the merits and demerits of these drugs and enlightening the trade of the consequences of parallel importation. The ministry of trade should work together with the ministry of trade to ensure that there is harmony in importation of drugs.

Other recommendations include:

Patent is a title granted in a specific country that gives exclusive rights over the manufacture and use of an invention to the owner of this invention in that country, in exchange of the disclosure of the invention to the public. Patent is national policy and must be filed in every country where protection is desired for a specific invention.

The objective of the patent system is to encourage innovation as well as technology transfer and activities associated with the commercialisation or marketing of an invention.

The criteria for a patent to be granted is that the invention must be new, involve an inventive step and be capable of industrial application. Because of this novelty criterion, a system was instituted under the Paris Convention (1883, as revised- now managed by the World Intellectual Property Organization, WIPO) to allow companies to protect the same invention in various countries.

Once a patent is granted, the patentee has the right to prevent others from "using, offering for sale, selling or importing" the invention without his permission.

In the pharmaceutical sector, patents may be granted for different kinds of inventions. The invention may concern on: Product, i.e. new pharmaceutical substance or formulation; Process, i.e. new manufacturing process for a known pharmaceutical substance. Among the recommendations advanced in this study were the following:

Formal and informal mechanisms should be in place to allow private and public stakeholders to regularly exchange views on each other's interests, challenges, and priorities. These could include creating advisory councils with a statutory mandate or convening semiannual or annual workshops to discuss the pharmaceutical industry.

Given their potential to significantly disrupt trade and travel, Kenya should engage in a comprehensive assessment as to whether data-collecting, revenue-collecting, regulatory, and enforcement functions currently being conducted at the borders or in ports of entry could be performed elsewhere, consolidated, eliminated, or privatized.

There needs to be greater reciprocity among governments in addressing the various border control imperatives confronting the region. The United States is widely perceived as zealous on the issues of drug trafficking and illegal migration and tepid in its willingness to address the region's concern with small-arms smuggling and customs fraud.

Border control agencies should employ "risk management" methodologies in performing their inspection functions. Given the rising volume of people and goods and constraints on public resources, only a greater emphasis on gathering and sharing intelligence will make it possible to identify and target the highest-risk goods or people.

More resources must be dedicated to staffing, training, paying, and supervising border control agents. There also should be stepped-up efforts to move away from paper-based border control processes and towards automation with the aim of minimizing the discretionary authority of individual border control agents.

To maximize the return on these investments, assessment criteria should be developed and applied to border control agencies to improve the public accountability of their performance.

Governments should seek to develop incentives for manufacturers, exporters, importers, carriers, cruise ships and airlines to engage in greater self-policing. This might include an advanced or "fast-track" border clearance system for private sector actors who post bonds and embrace measures that enhance their ability to comply with government mandates. Those companies that consistently and demonstrably exercise due diligence to abide by the rule of law and who cooperate closely with regulatory and enforcement officials could be allowed to move through the equivalent of a trade and travel "E-Z Lane." Border control agents would continue to conduct spot checks to ensure compliance.

5.5 Limitations of the Study

Given that the study considered one person in each of the major pharmaceutical company; it cannot give a 100% picture of the pharmaceutical industry in Kenya.

5.6 Recommendations for further study

The study recommends further research on the impact of parallel importation of drugs in Kenya on drug prices and total profitability in the industry. Further study will bring insights in this area of the study.

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Appendix 1:

INTERVIEW GUIDE

TOPIC: MULTINATIONAL PHARMACEUTICAL FIRMS ADAPTATION TO THE CHALLENGE OF PARALLEL IMPORTATION OF DRUGS IN KENYA

SECTION A: COMPANY PROFILE:

i. When did your firm start business in Kenya?__________________________

ii. Who are the principal shareholders?

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iii. How do you define your core business?

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iv. How many employees are there in your company?

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v. What are the key drivers of change in your business?

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vi. What is the strategic intent or positioning that your company intends to achieve in the Kenyan market?

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vii. How has your firm's performance been in achieving this strategic intent or positioning in the market?

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d) Technological environment

e) Business/Operating environment

ii. What strategies have you employed/ or are you planning to employ to manage the challenges raised above?

a) Mergers? Strategic alliances? Franchising? Boundary spanning? Joint ventures?

b) ENVIRONMENTAL CHALLENGE STRATEGIC RESPONSE

Macro economic	
Political/ Legal	
Social economic	
Technological	
Business/ Operating	

SECTION C: STAKEHOLDERS INFORMATION

i. Kindly rank the listed stakeholders in order of importance between **1** and **8,** 1 being the most significant and 8 being the least significant to your organisation.

- Shareholders
- Government (MoH, PPB)
- Employees
- Distributors
- Retailers
- Suppliers
- Patients

- Medical Professional Organisations (KMA, PSK)

ii. What are the key challenges raised by the stakeholders listed in (i) above?

STAKEHOLDER	KEY CHALLENGES
Shareholders	i) ii)
Government	i) ii)
Employees	i) ii)
Distributors	i) ii)
Retailers	i) ii)
Suppliers	i) ii)
Patients	i) ii)
Medical Professional Organisations	i) ii)

iii. What strategies have been employed in adapting to the environment in managing the challenges raised by the stakeholders above?

STAKEHOLDER	**STRATEGY**
Shareholder challenges	
Government challenges	
Employee challenges	
Distributor challenges	
Retailer challenges	
Supplier challenges	
Patient challenges	
Medical Professional Organisation challenges	

iv. What do you anticipate will be your greatest challenges with stakeholders, going forward?

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v. What plans are there to manage these challenges?

Appendix 2

LETTER OF INTRODUCTION

Samson E Muchelule,

P.O Box 78392,

00100,

Nairobi

GlaxoSmithKline Ltd,

P.O Box 78392,00507

Nairobi

Dear Sir,

RE: INTERVIEW FOR MANAGEMENT RESEARCH PAPER

I am a postgraduate student currently studying for an MBA at the Faculty of Commerce, University of Nairobi. I am currently conducting a management research project in partial fulfilment of the requirements for the Masters in Business Administration degree.

Your company is the main focus for this study. The choice is based on its sustained profitable operations over the years and the Professional Corporate image. I kindly request your assistance by availing your time for a short interview which will be based on the interview guide herein enclosed. The information you give me will be treated with utmost confidentiality and will be used solely for this research. A copy of the final report will be made available on request for the company's resource centre.

Your assistance will be highly appreciated.

Thank you

Yours Sincerely

Samson E Muchelule

Appendix 3

List of Pharmaceautical firms to be interviewed.

Name	Address	Town	Telephone Number
GlaxoSmithKline	78392, 00507	Nairobi	6933200
Roche	44212, 00100	Nairobi	2715720
Sanofi Aventis	20337-00200	Nairobi	2735150/2735146/7
Merck Sharp & Dohme		Nairobi	823660
Boehringer Ingelheim	30196	Nairobi	862863
Astra Zeneca	10107-00100	Nairobi	2714812/3
Pfizer Laboratories Ltd	18244	Nairobi	531202/3
Elli Lilly	41556	Nairobi	3747054/88
Bayer	30321	Nairobi	860667-74
Novo Nordisk	59117	Nairobi	3751020/3744483
Aventis Pasteur	30104	Nairobi	211533
Norvatis Pharma	46057, 00100	Nairobi	2737771
Abbot		Nairobi	223145
Schering Plough	30409, 00100	Nairobi	534612
Pharmacia Upjohn	72030	Nairobi	4180342/352
Howse McGeorge Laborex	72030	Nairobi	69039000
Wyeth Ayerst LTD	46824	Nairobi	336008, 336514
Assia Pharmaceuticals	30620-00100	Nairobi	537628
Bristol Myers Squib	46662	Nairobi	554278, 553282/3
Europa Healthcare	66541	Nairobi	335014, 335018
Glenmark Pharmaceuticals	6915-00200	Nairobi	2730591

Jos. Hansen & Soehne Ltd	30196	Nairobi	860920/374
Lords Healthcare Ltd	49397	Nairobi	2717111-5
Wockaine Ltd	42718	Nairobi	651069/70