GLOBALIZING WORK IN THE LIFE SCIENCE INDUSTRY:
KEY PEOPLE AND ORGANIZATION CONSIDERATIONS

LE Zhong, lzhong@deloitte.com, Deloitte Consulting LLP, China
David Hole, dahole1@gmail.com
Jennifer Radin

ABSTRACT
This paper explores key people and organization considerations as life sciences companies expand their operations in emerging markets, and move from labor arbitrage to sourcing knowledge work in order to spur innovation and control overall R&D cost. It draws on case studies to present considerations along four dimensions: talent, rewards, organization and culture.

KEYWORDS
Talent, organization design, globalization, life sciences

1. INTRODUCTION
Many life science companies have made the strategic choice to expand their footprint into emerging markets. As a result, their ability to effectively address global human capital considerations is becoming a differentiating competitive factor. Increasingly, life science companies have been asking themselves a key question:
• As we build a global business to achieve growth, spur innovation and realize cost savings, have we systematically considered the people and organizational issues that will be critical to reaching our goals?

More recently, in light of wide ranging challenges including shocks to the global financial order, discovery of contaminated products across industries ranging from toys to baby formula, and the need to build local talent capability to enable sustainable performance, a series of related questions have emerged within the industry:
• Can we be sure that our emerging market strategies are sustainable?
• Can we trust the integrity of our supply chain and determine that we foster working practices that address issues of risk in an ethical way?
• Are we developing local leadership to help maximize business performance in a manner that is aligned to the values of the company?

These emerging considerations reflect the reality that as life science organizations continue to expand their global operations, human capital considerations are evolving. Companies are shifting from initial considerations of low cost labor availability to those of sourcing knowledge work and creating R&D and commercial capabilities more closely aligned to the needs of the specific market and geography in which they are operating.

In order to effectively address the global human capital considerations in life science organizations, it is important to note that the considerations across the value chain in the pharmaceutical and biotechnology sectors are very different from those in the medical device and diagnostics sector. Furthermore, there are unique people and organization issues at play within specific market segments and geographies. The companies that adopt a holistic approach to these human capital considerations will be much better positioned to be successful at globalizing their operations. This approach should address the talent, rewards, organization, and culture considerations unique to each sector, value chain segment, market strategy and geography within the life science industry.

2. BODY OF PAPER
Enter the text here. The literature review should be limited to the articles, books and other items that have a direct bearing on the topic being addressed. Theoretical papers may devote a full section to the motivation and potential usefulness of the proposed theoretical framework. Empirical papers that do not develop new theories or hypotheses should be kept short. The empirical section should give details of the methodology used only if it is new. Details of the empirical section tests should not be included in the paper itself.
2.1. Beyond Labor Arbitrage

As with other industries, notably manufacturing and consumer products, emerging markets hold an attraction for life science companies as a source of low cost labor supply. However, two areas differentiate life science companies from other consumer goods companies: high stake investments in R&D and proprietary product patents.

Pharmaceutical and medical device companies have recognized the lure of the “China Price” as much as companies in any other industry. What differentiates life science companies’ global aspirations is their desire to gain access to a large talent pool of knowledge workers within R&D and Sales and Marketing, as well as to exploit commercial opportunities and reduce operating costs. With that in mind, many life science companies now include China and India in their Phase III global registration trials and have established full-fledged sales and marketing operations to launch new products in emerging markets concurrent with their launch in Western markets.

With healthcare spending in these markets increasing exponentially, life science organizations are setting up sales operations in emerging markets to tap this new revenue stream. Historically, life science companies have entered emerging markets by selling off-patent generic products, but as these markets mature, more and more companies are also selling patented products. A case in point, Janssen Pharmaceutical, the first foreign drug company to establish operations in China after the Cultural Revolution, entered the market by selling anti-fungal products that were off patent in the West. Today Xian-Janssen, a joint venture between Janssen and four Chinese state organizations, is the largest pharmaceutical joint venture in China and sells several patented drug products.

As life science companies expand into emerging markets, they have a commercial imperative to recruit local talent that can understand the requirements of selling to a specific geography. This requires the ability to navigate local business culture, talent and rewards considerations, as well as knowledge of therapeutic sectors and the ability to work with physicians and specialists.

Increasingly, companies also view emerging markets as a way to control escalating R&D costs. The past decade has seen R&D budgets increase by an average of 7% annually; however new product output has fallen 3% each year on average. In this context, the availability of a large pool of lower-cost R&D knowledge workers in emerging markets could help life science organizations enhance R&D productivity. In India for example, local companies have taken advantage of the lower-cost R&D knowledge workers to expand their operations globally. For example, Ranbaxy Laboratories Limited, which started as a small distributor of medicines, has become a multinational giant and India’s largest pharmaceutical company. The company has evolved from being predominantly a generics drug manufacturer to a large knowledge driven R&D organization with a number of patented drugs. In 2007, Ranbaxy Laboratories formed a multi-year R&D agreement with GSK to conduct research on a wide range of therapeutic areas including anti-infective, metabolic, respiratory and oncology. With a strategy of developing and manufacturing in India, and serving international markets, Ranbaxy exports its products to 125 countries. In one of the biggest deals of 2008, Ranbaxy sold its majority stakeholding to the Japanese drug firm Daichi Sankyo for $766 million.

In addition to increased R&D productivity, global R&D operations also offer unique opportunities for drug development. As more clinical trials get shifted overseas, a more diverse workforce and patient population can be helpful in patient recruitment and management and an increased understanding of how diseases affect various ethnic groups and subpopulations.

With rising competition for knowledge workers in emerging markets, however, companies need to carefully evaluate future talent availability and rewards trends when selecting geographies to operate within. The competitive nature of talent acquisition and retention, not to mention the complexities involved in organizing to manage operations across borders, have led some companies to favor partnership arrangements with clinical
research organizations (CROs) over building local internal capabilities. Regardless of whether companies choose to partner, build or acquire local operations, they have to resolve distinct challenges of structure and governance to make their relationships work.

Finally, there are unique people and organization capabilities required to capitalize on the rapidly evolving and increasingly favorable business/regulatory environments in emerging markets. Government regulatory policies in many countries are becoming more sophisticated and more closely aligned to those in the West. Furthermore, governments are providing tax and other financial incentives to encourage investment. In Brazil, for example, recent government investments in R&D and biotech sectors motivated companies like Genzyme, Shire, and Biogen to significantly expand their local operations. Maximizing these new and rapidly evolving opportunities in emerging markets requires life science companies to grow talent with knowledge of the regulatory, tax and business policies of these markets. Furthermore, quickly identifying and translating opportunities into appropriate business responses requires the companies to be organizationally nimble. These considerations introduce a new level of sophistication in organization, decision rights and governance design as many life sciences companies seek to quickly scale their operations in emerging markets.

Bayer Schering Pharma (BSP) is an illustrative example that illustrates the increasing maturity in life science companies’ global people and organization capabilities. In just 5 years BSP has grown to become the number one foreign owned pharmaceutical company in China, as ranked by overall sales. Its oncology business, launched less than 3 years ago, has become the fastest growing oncology business in China. The preeminent importance of product and brand integrity required that BSP pay special consideration not only to the design of the sales organization, but also to other supporting functions such as medical information, clinical operations, medical affairs, pharmaco-vigilance (safety) and health economics. As a result BSP placed a clear focus on talent recruitment, rewards structures, and compliance enforcement policies that helped mitigate corporate risks.

2.2. From Global Operations to Globalizing Work

Responding to these trends and opportunities, life science companies have ventured into a range of geographies that span the globe beyond the borders of the BRIC (Brazil, Russia, India and China) countries. Market dynamics indicate that this trend of global expansion will continue to accelerate.

It is estimated that by 2016, at least 84% of life science organizations will conduct more activities in emerging markets. Examples include: Merck & Co. which developed a global strategy to strengthen its position within emerging markets, and subsequently established an Asia Pacific headquarters, Johnson & Johnson which has identified the development of new growth opportunities in emerging markets as a top strategic priority and Pfizer which has increased investments in emerging markets, notably Eastern Europe and Asia, where the company expects changing demographics and economics to drive demand for high-quality healthcare.

Despite this track record of global activity, life science companies have not always fully considered the people and organization factors critical to operating successfully. This may reflect the inability of the human resources (HR) function to act as a true strategic partner and participate in and ensure the people and organizational considerations are factored into discussions on corporate strategy development and execution. Indeed the challenge of Globalization for HR is to think in terms of differentiation, rather than standardization. It is to recognize that there are limits on the degree to which strategies and policies designed for the parent company can be deployed in a uniform way on a global basis.

---

8 Client interview
To be successful in sustaining performance in emerging markets, life science companies should address a holistic set of people and organization issues as part of their global strategy. These include four essential elements:

- **Talent Management**: Recruiting, developing, motivating and retaining the right people for the right jobs
- **Rewards**: Determining that compensation and incentives are aligned to the performance management requirements of the organization model
- **Organization**: Determining that the operating model, organizational design and governance model support a global organization
- **Culture**: Developing and instilling corporate philosophy, working norms and values including considerations of corporate social responsibility

Taken together, these factors incorporate the people and organization issues that have a significant impact on developing and executing a global business strategy. For example, when defining a market entry strategy life science companies should consider the availability of critical workforce (talent), the impact of country specific and regional reward trends on costs and operational sustainability (rewards), the possibility to build/acquire/partner for local operations (organization) and the alignment of locally accepted business behavior with the parent companies’ values and ethos (culture). A careful consideration of these four dimensions can help companies make smart, informed strategic decisions and execute accordingly.

**Talent**: The talent considerations associated with knowledge workers (R&D) vary from those of manufacturing and sales & marketing. In the life sciences industry, capabilities in particular therapeutic segments and experience in specific distribution channels (e.g., hospitals vs. retail pharmacy) play a key role in defining the talent a company needs. Key factors in attracting and retaining talent also vary by geography. In India, fierce competition for talent frequently results in “bid wars” for employees. Competitive compensation, updated on a quarterly basis, is critical to attracting and retaining talent as is a sense of respect for employees. In China, while pay is an important consideration, people’s job decisions are equally influenced by the leaders and colleagues they work with and the overall work environment. Since employees tend to work long hours, they consider team bonding and pleasant workplaces as key components of their quality of life. In Latin America, on the other hand, a key factor in attracting top talent is providing opportunities for international assignments. Understanding these differences in motivating factors enables organizations to balance global talent strategies with local realities.

Another top talent consideration for globalizing work is a consideration of the role of expatriates versus that of local talent. Organizations tend to be pulled by two opposite forces – they want to promote local talent, but at the same time, as the importance of these markets grows, they also want tighter control. Currently, life science companies are addressing this dilemma by differentiating between the roles of three specific groups: local talent, ex-patriots and returnees. While they rely on local talent to navigate the rapidly evolving markets, proactively address the unique needs of local customers and to develop relationships with the local government, they use ex-pats to develop high-level strategy, conduct quality assurance programs and ensure compliance. They rely on returnees to bridge language and cultural barriers, foster global collaboration, and play the role of both local talent and ex-pat.

Each group, however, also has its limitations. Local employees often need training to foster cultural alignment in their interaction with the parent company, maintain compliance with local and US regulations, and develop business or management skills that they might be lacking. Ex-pats need extensive knowledge of the local business environment, culture, language, and effective leadership styles in order to successfully operate in these markets. Finally, returnees (those born and brought up in a given geography, educated in the west and returning to their home country) can be a source of resentment due to the difference between their rewards packages and those of local talent holding the same positions. Although the compensation gap is closing in many cases, there are still wide differentials. Irrespective of where the talent comes from, life science organizations have to adapt proactive strategies for retaining the high performing employees especially given the high attrition rates in China\textsuperscript{13}, India\textsuperscript{14} and Eastern Europe\textsuperscript{15}.

**Rewards**: Compensation levels for knowledge workers are rising significantly across all life science sectors and segments including R&D, Manufacturing and Supply Chain and Commercial in most emerging markets. For example wages are increasing at an average of 8% per year\textsuperscript{16} in the Chinese coastal cities and compensation

---


for skilled workers and management is rising even faster as life science companies expand aggressively. As a result, some companies make exceptions to their global rewards policies in order to compete for critical talent they cannot hire or train fast enough.

In India, wages have increased at a staggering annual rate of 26-38%\(^\text{17}\) for certain categories of knowledge workers. Due to fierce competition for talent, compensation is often reviewed on a quarterly basis and promotions offered on an annual basis in order to retain good employees\(^\text{18}\). This quarterly rewards review cycle is becoming the norm in many parts of Central and Eastern Europe as well.

Increasingly however there is a need for a more holistic approach to rewards that goes beyond compensation considerations. Forwards-thinking companies addressing the issues of Globalizing Work are beginning to think in terms of programs that embrace compensation, learning and development – including overseas assignments – and other mechanisms to reward critical workforce segment and high potential talent pool.

Organization: Many pharmaceutical and biotech companies are developing operating models based on partnerships or other formal relationships with local companies to facilitate activities in their R&D organization as well as in their sales and distribution channels. Medical device companies are also fostering such collaborations. Therefore, whether to build, partner/collaborate or buy R&D capability is a key consideration as life science companies enter emerging markets, balancing considerations of speed to market with operational efficiency and effectiveness as well as compliance requirements.

In terms of sustaining performance it is increasingly important to look at the efficiency and effectiveness of the structure to drive business results. Furthermore, for pharmaceutical companies, it is important to develop organization structures that facilitate collaboration between headquarters (HQ) and local operations and effectively manage relationships with partners. These companies also require governance structures to effectively make decisions across borders and boundaries.

Table 1. Key Human Capital Considerations for Life Sciences Companies

<table>
<thead>
<tr>
<th>HUMAN CAPITAL DIMENSION</th>
<th>KEY CONSIDERATIONS FOR LIFE SCIENCE COMPANIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Talent: How do we attract, retain and develop local talent?</td>
<td>Leadership is essential to driving performance on a global basis; however, the role of leadership varies by geography. In China for example, the concept of “Renzhi” (leading with people) places a premium on social networking and the local leaders’ values and relationship management skills. Leadership can have a larger impact on talent retention and business norms in the company than formal policies, structures and programs, because people make employment decisions based on the reputation of the leaders they work with. Understanding this should lead life science companies to consider selecting leaders based not only on the competencies they bring to the table, but also on their values and influence.</td>
</tr>
<tr>
<td>Rewards: How do we use creative rewards strategies to remain competitive?</td>
<td>The rapid growth of compensation for knowledge workers in emerging markets is changing some of the fundamental assumptions around the underlying sourcing economics. Looking forward, rewards strategies will need to be increasingly flexible and responsive to adapt to rapidly changing labor market trends.</td>
</tr>
<tr>
<td>Organization: How do we structure to manage across border and boundaries with our business partners?</td>
<td>The need to balance operational efficiency and effectiveness with compliance and risk management plays out in both the R&amp;D and manufacturing space. Pharmaceutical and biotechnology companies considering off-shoring their operational capabilities or growing their “in country” commercial presence need to think not only of structure but of building strong governance models to support effective decision making and robust compliance.</td>
</tr>
<tr>
<td>Culture: How do we align corporate culture with local culture and drive ethical and compliant behavior across our global enterprise?</td>
<td>Issues of cultural alignment work both ways and global companies need to understand the country and region-specific business practices, and adapt their organizational culture accordingly. Cultural grounding in local markets allows companies to quickly develop networks, recognize nuances, understand the customer needs and enhance responsiveness to local opportunities. Importantly it also serves to attract top talent by providing an attractive work environment. At the same time, however, there is a need to ensure practices regarded as the norm in a specific geography are also compatible with the compliance needs and ethical standards of the parent company.</td>
</tr>
</tbody>
</table>

http://www.chinalaborwatch.org/2006%20Editorials/07-07-2006%20labor%20shortage.htm,
(July 2006)
\(^\text{17}\) The India Times, “Speed it up,” The Economic Times,
http://economictimes.indiatimes.com/Opinion/Editorial/Broadband_initiatives_Speed_it_up,
(April 2007)
\(^\text{18}\) T.V. Mahalingam, “People Power,” Business Today,
Culture: Cultural alignment is a top consideration for many expanding life science organizations as it can enhance the effectiveness of global collaboration, and the drive towards global standards. The degree and nature of the cultural alignment challenge varies across geographies. Factors such as historic experience, political and legal framework as well as geographic proximity to the North American or Western European parent company will all influence local business culture.

Cultural gaps are most commonly seen in the area of communication and work styles. For example, in China, local middle management can find it challenging to make presentations to headquarters in an effective and credible manner reflecting a lack of understanding of the target audience – understanding how western leaders think, and what information they need.

Cultural norms also often help determine what is considered an appropriate business practice and local business culture may not always align with the global corporate values. As a result, organizations need to educate local talent on the environment outside of their markets, and foster understanding of which practices are incompatible with the values and compliance requirements of the parent company. Investing in the alignment of leadership behavior around shared ethical standards is an essential precursor to driving compliant performance.

2.3. Getting started and taking stock

In order to make sense of the complexities involved in operating as a global business, life science companies should consider conducting a comprehensive assessment of the people and organization considerations of building and sustaining business performance on a global basis. The focus of the assessment would differ for organizations planning to enter a new market and for those looking to sustain or develop their existing operations within that market. For example, a life science company which has fully established commercial, manufacturing and R&D operations in a geography will be focusing primarily on talent development, retention and aligning models for collaboration whereas a new market entrant will be focusing on developing recruitment capabilities, operational capabilities, building quality assurance and decision-rights frameworks. The Global Strategy Framework (Figure 1) depicts how people and organizational considerations vary according to the level of operational maturity within a market.

These varying levels of maturity are:
- Beachhead: Nascent or rising player in emerging markets, This is a strategy for those beginning to explore opportunities in these markets by off-shoring manufacturing, and selling products through brokers or dealers
- Margin Player: Company manufactures products in an emerging market for global markets; This strategy is employed by companies that are entering these markets primarily to reduce costs by off-shoring R&D and manufacturing

![Figure 1: Deloitte Global Strategy Framework](image-url)
• Local Company: Expanding or established player in emerging markets; This strategy is employed by companies that enter emerging markets primarily to increase revenue or gain market share
• Global Citizen: Producing in emerging markets for both local and global markets. This strategy refers to companies that have local manufacturing and R&D capabilities along with advanced production and sales penetration within the emerging market

Once a company has identified where it’s current strategy fits on the framework above, or where they believe their strategy should be, they can then assess how their current capabilities and plans match up to that strategy. The Deloitte Organization Assessment framework (Figure 2) is designed to help companies take a holistic view of their current state along key people and organization dimensions. It portrays the existing links between these key dimensions and their alignment with an organization’s strategy. The level of alignment, in turn, is associated with the organization’s ability to drive performance excellence in a global setting.

This assessment approach can be used at the outset of developing a market entry strategy or global sourcing strategy. Alternatively, it can be used to take stock of existing operations to assess those human capital factors that might impact the efficiency and effectiveness of operations.

![Figure 2: Deloitte Organization Assessment Framework](image)

The benefits of deploying this structured assessment include:
• Ability to ask the right questions to focus on the right problems in order to understand where an organization is in the path toward high performance
• Greater understanding of drivers of business performance by providing a deeper look into globalizing work issues across multiple dimensions
• Gaining a rigorous and holistic view across multiple dimensions (e.g., strategy, structure, people, performance, process, and technology); which facilitates an assessment and diagnosis of all of the different factors affecting an organization
• Detailed recommendations and a roadmap in order to align the activities most critical to achieving high performance
• Inputs to the development of a business case
• Improved understanding of gaps between current and future state capabilities

2.4. **Looking Ahead**

The recent shock to the global economic order has led some to question the future of globalization and we have seen indications of the rise in economic nationalism. The heated rhetoric notwithstanding the very fact that the world’s economies are now so interdependent would suggest that the process of globalizing work will continue to evolve.

What does the future hold? Will talent costs in emerging markets rise to a point where the economic rationale for labor arbitrage disappears for certain labor sectors? Will consumers demand region-specific products and services and thereby transform the way life science companies operate? Will there be a reverse trend for pharmaceutical and biotech companies based in India, China and elsewhere to expand into the US market? As life science companies navigate today’s global economy, those that have thoroughly thought through the critical human capital aspects of their emerging markets strategy, and monitoring the continued development of the countries they are active in, will be better prepared to anticipate and respond to future changes in those markets.

3. **CONCLUSION**

In order to sustain performance in emerging markets, life science organizations should recognize that human capital considerations are broader than the acquisition and retention of talent. Furthermore, organizations cannot generalize - smart companies should consider the human capital factors unique to each market, therapeutic focus, sales channel, function and geography. Key dimensions of human capital considerations include talent, rewards, organization and culture. To formulate a talent and organization strategy that supports life sciences companies’ global strategy, and helps make sense of the complexities involved, companies can begin by conducting a comprehensive assessment of the people and organization considerations.