



## **Need of the Hour – Shift to Value-based Leadership**

- Ms. Ruth D'Souza



*Desperate times call for desperate measures; such is the case of the pharma industry today. The stakeholders' trust everywhere has hit an all-time low. It is important to reinvent how the different stakeholders are managed, be it speciality drug makers or generic manufacturers to capitalize on the possibilities that lie ahead.*

## **C**hallenging times for the pharmaceutical industry

The pharmaceutical industry faces challenging times. Almost everywhere, stakeholder trust is at an all-time low. Global surveys repeatedly emphasize the unflattering reputation of the pharma industry. The 2012 Gallup poll showed that the pharmaceutical industry got the second place among the industries viewed most negatively by the public.

The 2012 Patient View survey of 600 international, national and regional patient groups, on the corporate reputation of pharma in general and 29 leading pharma companies in particular showed that the overall industry reputation has dropped. In terms of reputation, the pharma industry was 7<sup>th</sup> of the 8 healthcare sectors evaluated. Only 34% of respondents gave pharma a “good” or “excellent” rating for reputation. Pharma trailed retail pharmacists (62%), medical device companies (50%), private healthcare services (46%), biotech companies (44%) and generic drug makers (37%).

From a patient's perspective this negative view of pharma is being driven by:

1. A lack of fair pricing policies leading to unseemly profits (50%);
2. A lack of transparency in all corporate activities (48%);
3. Management of adverse event news (37%);
4. Acting with integrity (32%)

Till the final quarter of the last century, the pharmaceutical industry's social, political, technological and economic credentials were unparalleled. Its range of noble and altruistic ideals attracted the best and brightest graduates who delivered an outstanding range of new medicines. Its single-minded pursuit of integrity was widely respected and its reputation, image and influence were without equal.

The erosion of public respect for and trust in the pharmaceutical industry can be attributed to its failure to conduct its

business activities in an ethical manner. Although some would consider the concept of “business ethics” an oxymoron, John Maxwell contends in the book “There's No Such Thing as Business Ethics” that business conduct ought to be governed by the same ethical principles that apply to other endeavours. He emphasizes that the golden rule, or the notion of treating others as one would oneself want to be treated, is a fundamental principle of all human interaction, and that “business ethics” is no exception.

### **A tale of two companies**

India enjoys a reputation in the global generics market, as a reliable provider of good quality and affordable treatment options for patients the world over. A reputed national company (NC) was one of the leading companies that helped build it. In May 2013, after 6 years of investigations, the NC finally pleaded guilty to felony charges related to drug safety and agreed to pay \$500 million in civil and criminal fines under a settlement with the US Department of Justice. The company has admitted it fudged data so that it could launch its products in the United States. What makes the crime so grave is the fact that medicine is consumed by all, whether young or old, rich or poor and is meant to save lives and improve the well-being of patients.

Interviews with the whistle-blower point to systemic failures that went uncorrected. The NC's management failed to take immediate corrective action even when evidence of quality and regulatory non-compliance and large-scale fudging of data surfaced.

In the light of this judgment, the threat of reputational damage to Indian pharma is very real, considering India's huge stakes in global generics markets. Indian generics account for a 30% share of the US market and its pharmaceutical exports are poised to rise to about \$20 billion by 2020. This is indeed a wake-up call for the entire Indian pharma industry for collectively working to protect its hard-earned reputation through demonstrated action.

However, the NC's story is not an isolated incident in the larger pharmaceutical story. In recent times, large global pharma corporations have pleaded guilty to criminal and civil charges and paid up huge fines that endorse the critics' claim that problems are endemic in the sector.

Take the case of a leading global multinational. On July 2<sup>nd</sup> 2012, the MNC pleaded guilty to marketing drugs for unapproved uses and failing to report drug safety information to the U.S. Food and Drug Administration (FDA) and paid a \$3 billion fine to settle criminal and civil charges with federal and state governments stemming from illegal activity over 10 years. The company was fined for its misdeeds in inappropriately marketing two of their anti-depressants brands, for withholding information on the cardiovascular risks of a diabetes drug that has been shown to cause heart attacks, and for promoting an inhaled lung drug, to patients with mild asthma even though it wasn't approved or appropriate for them.

Moreover, what has shaken most industry observers is the prosecutors' evidence that the MNC had been allotting over half a million dollars a year to its district sales representatives to offer doctors regular golf lessons, fishing trips, and basketball tickets while promoting the use of an antidepressant drug brand in children. The company also orchestrated the publication of a "misleading," ghost-written study purporting to show that the anti-depressant drug helped children when evidence suggested the opposite. Despite the large fine, \$3 billion is far less than the profits made from the drugs. A diabetic drug has made \$10.4 billion in sales; one anti-depressant drug took \$11.6 billion while another's sales were \$5.9 billion during the years covered by the settlement, according to IMS Health, which tracks information for the pharmaceutical sector. Since the profits from bestselling drugs far dwarf the fines handed out, it appears that for Big Pharma, crime pays!

### **Why good managers make bad ethical choices?**

If one analyses the various cases, they have a lot in common, though the individual stories are different. The key issue is unethical leadership behaviour. Central to the problem are the questions of human behaviour and human judgment applied in ordinary day-to-day situations. One has to ask "How is it that usually honest, intelligent, compassionate human beings could act in ways that are callous, dishonest, and wrongheaded?" How is it that leaders risk their personal reputations and those of their organizations by making choices that are clearly flawed?

Saul Gellerman in his article "Why Good Managers make Bad Ethical Choices" (Harvard Business Review, July-August 1986) identified four rationalizations that lead to bad decisions. He states that managers believe that:

1. The action is not really unethical or immoral ("everyone does it");
2. The action is in the best interests of the company (growth, profits, maximizing shareholder value, and so on);
3. The action is unlikely to be detected (possibly the worst assumption); and
4. Because the action helps the company, the organization will condone and even defend such action.

In case of the NC one can see that there were issues of unethical leadership behaviour. In spite of repeated information that violations were widespread, no action was taken. The national company has acknowledged that in 2003 and 2005 it was informed of current good manufacturing practice (cGMP) violations by consultants it hired to conduct audits at two of their facilities but did not act to rectify them. Jim Collins in his work "How the Mighty Fall" notes that 'hubris born of success' and 'undisciplined pursuit of more' provide the foundation for Gellerman's four rationalizations. While Robert Simons argues that performance pressure,

temptation and opportunity combine to form a dangerous triad (Levers of Organization Design).

Perhaps all of these were in force in the NC's case, and in all the other cases. The combination of beliefs, performance pressures, temptations and opportunity, together with the pursuit of "more" lead to unethical choices and thereby lack of values based leadership behaviour.

### **The future of pharma industry depends on value-based leadership**

Pharmaceutical companies face grave ethical quandaries as they attempt to balance a duty to promote public health while maintaining profitability. With increasing competition and pressures on profits, the focus is often on maximizing market share and bottom lines even if it means cutting corners. Though responsible for ensuring public health, some pharmaceutical companies have betrayed the common good with unscrupulous practices such as false drug quality reporting and unsafe production practices in their pursuit of higher profits. Improving regulation is often touted as solution to this crisis of credibility. While regulation is important, no amount of regulation can stop fraud. Policing has its own limitations.

What is needed is corporate integrity. Corporate integrity is about leadership culture. It is about a culture of integrity, where unethical behaviour cannot be condoned and rewarded. It is about building an ethical atmosphere where leadership is accountable to its stakeholders; where ethics is not merely a postscript taught in isolation but is woven into day to day decision-making.

### **Value-based Leadership**

Value-based leadership is defined as connecting organizational goals to employees' personal values. In a Forbes magazine article by Kellogg professor, Harry M. Jansen Kraemer Jr. described it simply as 'doing the right thing'. He said "As I tell my students, becoming the best

kind of leader isn't about emulating a role model or a historic figure. Rather, your leadership must be rooted in who you are and what matters most to you. When you truly know yourself and what you stand for, it is much easier to know what to do in any situation. It always comes down to doing the right thing and doing the best you can." Mussig argues that "values-driven leadership sets the function of the relationship as putting values into practice" and "the function of the leader may be to bring values to the relationship.

In today's increasingly complex world, leaders and followers are often confronted with ethical dilemmas and moral mazes. They are unsure how to act and what to prefer. Recognizing a situation as an "ethical" one is the first, critical step in the process of ethical decision making. In short, ethical deliberation implies ethical detection states Wittmer.

Value-based leadership is defined as a relationship between an individual (leader) and one or more followers based on shared, strongly internalized ideological values espoused by the leader and the followers' strong identification with these values. Ideological values are values concerning what is morally right and wrong. Such values are expressed in terms of personal moral responsibility, altruism, making significant social contributions to others, concern for honesty, fairness, and meeting obligations to others such as followers, customers, or organizational stakeholders.

Ethics and values in leadership are thought to be uniquely important because of the impact leaders have on the conduct of others through their behaviour and decisions and on organizational performance and effectiveness. Leaders have visible positions of authority, the responsibility for shaping formal organizational policies, the opportunity for on-going interactions with employees and control over rewards and punishments. Hence, they should play an important role in influencing employees' ethical and

unethical conduct. By being role models, leaders can influence followers by demonstrating high ethical standards in their own conduct and by using the reward system to teach employees about the outcomes of ethical and unethical behaviour in the organization. The reverse is also true. Leaders can be poor role models as demonstrated by their choices, decisions and behaviours which are often embedded in their value system. The higher the rank of the leader in the organization, the greater is the authority and the ability to influence subordinates.

Leaders demonstrate values awareness by having a concern for:

1. The collective good of the group,
2. The impact of both means and ends,
3. The long-term and not just the short-term, and
4. The perspectives and interests of multiple stakeholders

Value-based leadership competence is to put values into practice. Kavathatzopoulos defines it as a psychological skill, a leader's ability to treat values-related conflicts in the best possible way for all parties concerned, knowing how to think, how to analyse actual cases, how to make decisions and how to solve problems on the basis of values. It also implies self-confidence and willingness to execute difficult decisions, and to support and sustain value-based positions.

#### **What value-based leaders need to do?**

In order to truly change paths and become more value-based, organizations have to orient their leadership teams and redesign the organizational culture to answer hard questions.

1. Each one must discern and clarify for themselves the foundation on which their ethical decisions are based. One needs to decide what is negotiable and what is not negotiable; what is acceptable and what is not acceptable; and why?

2. Leaders must also appreciate that people make decisions based on the values they hold dear. Everybody speaks their "truth". While it may not be THE truth, it is their truth, and their truth is based on what they value. This does not have anything to do with what is right or wrong but with what is truth for an individual.

3. Leaders must also recognize that ethical principles are concerned with how things should operate and not with how they currently operate. The implicit moral obligation is not merely to understand ethical principles but to individually integrate them in order to guide their followers to the desired end.

4. One has to also accept that the most difficult decisions to make are those in which there is a conflict between two principles one deeply believes in. For example what is more important – trust or loyalty, justice or mercy? The next part is to facilitate the resolution of that conflict.

5. Leaders also need to determine beforehand what their priorities are, realizing that a lot will depend on the situation. The goal here is not to "water down" one's priorities based on the situation, but rather how will priorities be applied and communicated based on the situation.

If leadership has to be effective it is vital that leaders take the time to get the necessary knowledge and training to be more effective and develop strategies to anticipate their response to ethical choices.

#### **Conclusion**

While meeting the challenges of conducting business in the sector, both specialty drug makers and generics manufacturers must reinvent their methods of managing various stakeholder groups to fully capitalize on the possibilities that lie ahead. The principles of values-based leadership provide an excellent framework to capitalize opportunities while balancing public health and corporate profits.

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