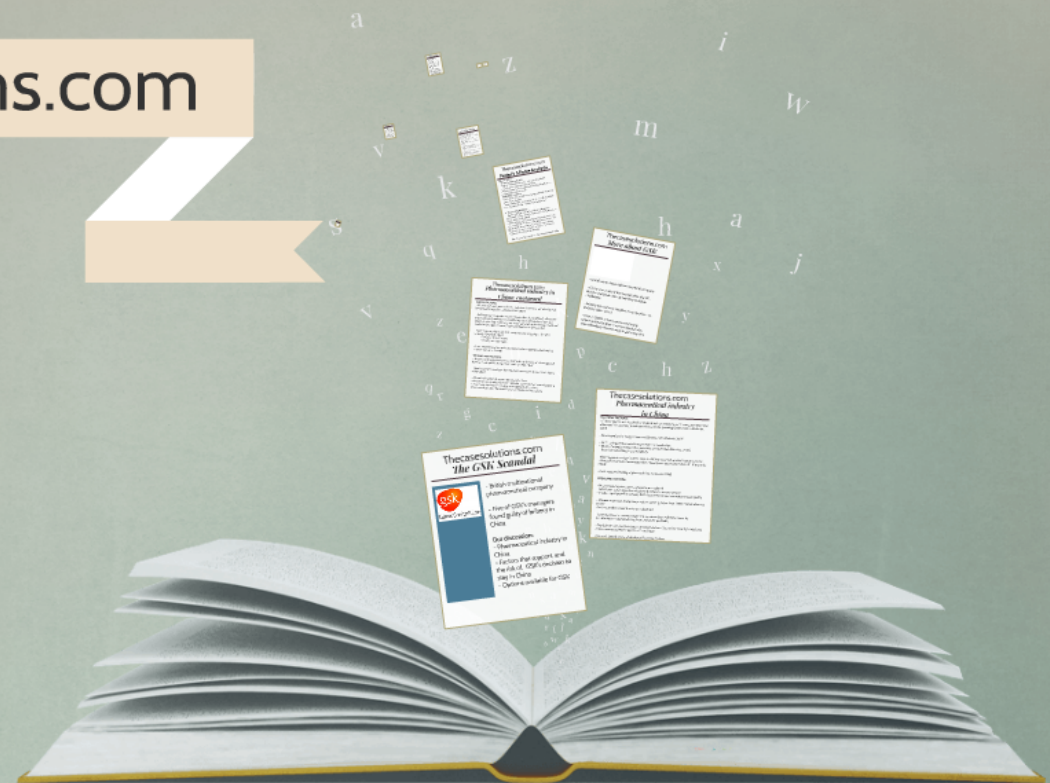


The GSK Scandal: When Questionable Global Practices Met Imperfect Institutions in Emerging Markets

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The GSK Scandal



GlaxoSmithKline

- British multinational pharmaceutical company

- Five of GSK's managers found guilty of bribery in China

Our discussion:

- Pharmaceutical industry in China

- Factors that support, and the risk of, GSK's decision to stay in China

- Options available for GSK

2014)

- Encouraged

- 42.7% of imp

- 50.5% of out

- Therefore sub

- Chinese govern

- Many pharmaco

- Gov't supported

ECONOMIC FACTO

- Pharmaceutical pr

- 1992-1996 - price

- results = rapid grow

- Chinese pharmaceu

- prices"

- but, most other medi

- Lowering prices on sor

- manufacturer to stop pr

- Top 3 pharmaceutical di

- revenue compared to the

(Sun et al., 2008) source of

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Pharmaceutical industry in China

POLITICAL FACTORS:

- Chinese gov't wants to subsidise medical & pharmaceutical costs, compared with most other countries wanting to reduce national health spending (Daemmrigh & Mohanty, 2014)
- *Encouraged local & foreign investment (Daemmrigh & Mohanty, 2014)*
- 42.7% of inpatient expenditure per visit is on medication
- *50.5% of outpatient expenditure per visit is on medication (Sun et al., 2008)*
- Therefore subsidizing is a large liability
- *Chinese government put in place a law in 2004 to assist with quality & safety concerns*
- Many pharmaceutical businesses then closed (more expensive & difficult) (Cyranoski, 2008)
- *Gov't supported making original medicines (Cyranoski, 2008)*

ECONOMIC FACTORS:

- Pharmaceutical prices almost always been regulated
- 1992-1996 - price regulation dissolved (market can set own prices)
- results = rapid growth in industry BUT also price increases, corruption & poor quality
- Chinese pharmaceutical prices perceived as being higher than "international reference prices"
- but, most other medical costs are subsidised
- Lowering prices on some inexpensive, common drugs will likely cause the manufacturer to stop producing them (no longer profitable)
- Top 3 pharmaceutical distributors in China hold much less of the industry's total sales revenue compared to the top 3 in U.S and Japan

(Sun et al., 2008) source of all info on Economic Factors

Luthfi Krida 43726860

**Do you agree with
regulating
pharmaceutical prices
across China for fairness
or de-regulating for a rise
in the industry?
WHY?**

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Pharmaceutical industry in China: continued

SOCIAL FACTORS:

- Pharmaceuticals is one of the first industries in China to establish foreign investment (Jiang, Christodoulou & Wei, 2001)
- Multinational companies are starting to realise the benefits of selling their pharmaceutical products and establishing research branches (Cyranoski, 2008). Fascinating as Chinese consumers generally prefer herbal/traditional medicines (Passport 'Herbal/Traditional Products in China', 2015).
- Some Chinese pharmaceutical companies still struggling to be taken seriously (Cyranoski, 2008)
 - "Made in China" stigma
 - Quality & safety issues
- Over-prescribing of medicine by doctors who are paid based on hospital revenue (Sun et al., 2008)

TECHNOLOGY FACTORS:

- Majority of Shanghai's pharmaceutical industry based in a technology park (GSK as an exception) (Jiang, Christodoulou & Wei, 2001)
- Receive latest technologies from foreign investments (Jiang, Christodoulou & Wei, 2001)
- Internet taking over pharmaceutical word in China.
- Consumers purchasing via online retail sites as it becomes increasingly easy
- Pharmaceutical internet retailing now represents 9% of total pharmaceutical sales (Passport 'Consumer Health in China', 2015)

- China wa
Europe and
challenges

- bribery wa
industry ope

- China's 200
opportunities
ensured bribe

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More about GSK



- world's sixth-largest pharmaceutical company
- China was an attractive market after the US, Europe and Japan were presenting multiple challenges
- bribery was common to pharm companies - an industry open secret
- China's 2009 reforms presented many opportunities for pharm companies but also ensured bribery was not easy to get away with

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**SHOULD GSK
CONTINUE TO
STAY IN
CHINA???**

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Porter's 5 Force Analysis

(Porter, 1979)

1. Threat of new entrants

- High entry barriers due to costs associated with research & development of new drugs
- Stricter government regulations in China leading to a tougher legal environment

HOWEVER in China,

- Market reforms in 2009 encouraged development of local pharm players
- Poor intellectual property protection fuelled the birth of numerous smaller-scale pharm companies

2. Threat of Substitutes

- Demand for generic vs. brand name drugs has increased because of costs (Gassmann, O, Reepmeyer, G and Zedtwitz, M 2008).
- Generic drug companies do not have the high costs associated with the research & development of new drugs which allows them to sell at cheaper prices.
(Passport: Consumer Health in 2015 – Trends and Prospects for a Healthier World)

- The threat of substitute would be considered HIGH