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When Silvia Ring received the telephone summons to Antonio Mosquera's office on Friday afternoon, May 31, 1996, she could feel her anxiety level rise. Only a year earlier, Mosquera had been appointed managing director of Merck Sharp & Dohme Argentina, Inc. (MSD), the regional subsidiary of the U.S.-based pharmaceutical giant Merck & Co., Inc. He arrived with a mandate to remake the insular subsidiary into a dynamic, modern business organization. An integral part of his plan was to change the company's culture and professionalize the organization. For the previous eleven months, Ring had been in charge of training and development at MSD and was the person directly responsible for implementing much of Mosquera's program. Just when it seemed that a new culture finally was taking hold, however, a sticky situation presented itself.

Friday was the day Ring had been scheduled to announce the names of the fifteen college students chosen to participate in MSD's highly selective young professionals intern program. Over a period of two weeks, thirty students had been vying for the fifteen coveted spots. Two days earlier she had received a phone call from a middle manager who informed her that one of the candidates was the son of a high-ranking official in the government's national health care program for government retirees, the single largest health care organization in the country. The student's presence in the company workforce, the caller bluntly stated, would afford MSD an excellent opportunity to increase sales by insuring that all its drugs were included in the government health care formulary. Business in Argentina had long been conducted through a web of personal connections and any company would envy MSD for its unexpected advantage. Of the thirty candidates, however, this particular individual was ranked number sixteen on Ring's list, just below the cut. When she explained the situation, the caller grew agitated with Ring's information and threatened to go "above her head" to get his way.

When Friday morning arrived, Ring was unsure how to proceed. Fearful that she would make a serious misstep by not accepting the young man into the program, she called Mosquera from the public auditorium where the program was being held to discuss her dilemma. Mosquera gave Ring no explicit guidance at first, but said he would get back to her. Mosquera had not previously been aware of the candidate and assumed he would not be barred from the internship program under Merck's conflict of interest policy.

After speaking with Mosquera, Ring decided to postpone her announcement of the winning candidates. When the afternoon's activities were finished, she returned to her office at MSD and immediately received the phone call asking her to come to Mosquera's office. As Ring walked down

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Research Associate Harold F. Hogan, Jr. prepared this case under the supervision of Professor Lynn Sharp Paine. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

the corridor, she experienced a wave of self-doubt. "Maybe this is the great mistake," she thought. When she entered the managing director's office, she was surprised. Already seated were Cristina Quinteiro, the director of human resources, and Martin Rodriguez Hunter, the director of sales. With his usual informality, Mosquera leaned against his desk and came quickly to the point. After explaining the situation, he said simply, "Okay we have this issue, and we have to make a decision." He wanted each of the three in turn to make a recommendation and explain it before the group.

Argentine Setting

Company history Merck's roots in Argentina dated back to 1915, when it authorized the H.K. Mulford Company to be the local distributor for its pharmaceutical products. The business relationship continued until 1954 when Merck & Co. itself entered Argentina. Four years later Merck merged with Sharp & Dohme, which had first opened an office in Argentina in 1936, to form MSD. From its headquarters in Buenos Aires, MSD covered the three-country region of Argentina, Uruguay, and Paraguay. Merck imported all pharmaceutical products until 1979, when it opened a manufacturing facility in Pilar, Argentina.

Unlike many multinational companies, MSD did not exit the country during the severe economic turmoil of the 1980s, when raging hyper-inflation made price-setting impossible to control from afar. Instead, it signed a licensing and distribution agreement in 1988 with Instituto Sidus, an Argentine pharmaceutical company. Sidus purchased MSD's manufacturing facility in Pilar and under terms of the transaction, which ran until the year 2000, had exclusive rights to produce and distribute products that were marketed by MSD in Argentina and Paraguay at the time of the agreement. Sidus also had the right of first refusal for licenses of new products developed by Merck and introduced after 1988.

By the mid-1990s, as a result of the agreement, Merck still maintained a strong position in Argentina's roughly $2.8 billion pharmaceutical market. Sales were divided into three categories: Group I for those promoted and distributed by Sidus under license from Merck; Group II for those distributed by Sidus and promoted by MSD; and Group III for those promoted and distributed by MSD. Group III products were those that Merck had licensed-in and Sidus had elected not to license. The combined sales volume of all its products placed Merck consistently among the top-tier pharmaceutical firms in Argentina. (See **Exhibit 1**.)

Cultural context Mosquera took charge of MSD at a critical juncture in Argentina's history. For at least fifty years, Argentina, like most of its Latin American neighbors, functioned under a nationalist economy. High protective tariffs kept out imports, and domestic business activity was directed by the policies of the highly authoritarian state. The high inflation that accompanied such policies became a permanent feature of Argentine life. In an economic milieu that was uncompetitive and grossly inefficient, Argentine companies became stagnant, bureaucratic, and rife with cronyism. When Carlos Menem was elected president in 1989, Argentina's annual inflation rate was over 3000% and the economy had ground to a near standstill.

A series of drastic reforms introduced by Menem in the early 1990s reversed a half century of economic policies and opened the country to trade and competition. The cornerstone of Menem's economic program was a monetary reform measure that pegged the Argentine currency to the U.S. dollar and brought an immediate halt to spiraling inflation. That, in turn, set in motion a strong economic expansion, as GDP grew from 0.1% in 1990 to 8.7% in 1992 to 7.4% in 1994.[1] With low

[1] *Economist Intelligence Unit*, quarterly reports.

inflation and robust economic growth a reality by the mid-1990s, Argentine companies faced a crucial need to modernize business practices and a business culture that had been formed under decades of an uncompetitive, closed economy.

New Managing Director

Background When he arrived in Argentina, Mosquera had been employed with Merck in various capacities for nearly two decades. He first joined the company in 1976 as an information systems manager in Spain, his home country. In the intervening years, he had served as a financial controller, sales representative, product manager, and sales director in Spain, England, and the USA-Canada. He was executive director for New Business Latin America at Merck headquarters in Whitehouse Station, New Jersey, when he was asked to take over the post of managing director for MSD Argentina. Merck felt that the new business environment in Argentina warranted a more competitive presence there and sought to bring its subsidiary up to the same standards expected in other countries. Though the company was not in a financial crisis, sales remained flat, and competition was intensifying as foreign manufacturers began to re-enter the Argentine market.

Mosquera accepted the offer and in March 1995, at age 47, he arrived in Buenos Aires with a 5-year planning horizon. After an orientation under the outgoing director, he officially assumed his new duties in May. By chance, his arrival coincided with the onset of a severe recession caused by the devaluation of the Mexican peso in December 1994.

Analysis of MSD During his first two months' on the job, Mosquera conducted his own analysis of the company and concluded that MSD's culture and management structure had to be thoroughly transformed. Although he had dealt with the subsidiary in his former position in New Jersey, he said he "didn't realize how much change was needed until I arrived here." He noted that MSD shared many of the same characteristics that plagued other Argentine businesses. Management operated according to a rigid hierarchy, with all important decision-making in the hands of the managing director and three or four department directors. Within the pyramid-shaped organization, functions were maintained separately and relationships were structured vertically. Departments conducted business largely oblivious of one another, with little sharing of information or cross-coordination even for product promotion. Employees did only what they were told; innovation and personal initiative were discouraged. Advancement was based on personal relationships nurtured over many years, which meant that powerful cliques dominated the organization.

Many managers lacked professional education. Their knowledge of the pharmaceutical market was based on "street smarts" mastered through years of experience in an industry that operated largely by routine. Almost all had worked their way up from the sales force, the mainstay of the organization. Of about 175 employees at MSD in May 1995, half were sales representatives who belonged to a tightly controlled union. In every province of Argentina except the federal city of Buenos Aires, sales reps were legally required to have a license that could be obtained only through completing two years of a union-run program. Admission to the program was generally confined to friends and relatives of members. Few reps held a college degree, and they were disdainful of the younger workers who did. Consequently, "being a sales rep was nothing a professional could be proud of," said one MSD executive. That was why Argentine companies couldn't attract physicians or other professionals to work in their sales departments, as was common in other countries.

Restructuring plan Mosquera knew that time was of the essence. As quickly as possible he set out to transform the organization. He gave himself one year to rebuild the top management team and get the right people in the right place. Only after that task was completed could the organization focus on where it was going on a long-term basis. Changing the culture he knew would take much longer—a minimum of three years, he expected.

From the outset, Mosquera was guided by three inter-related goals—a flatter, more integrated management structure ("no silos"), complete transparency, and empowerment—that became the mantra for his vision of the future organization. The old hierarchical structure, with only four directors reporting to the managing director, was scrapped and a new structure with 12 directors was introduced in July 1995 (see **Exhibit 2**). Borrowing an idea advanced by Merck's new CEO, Ray Gilmartin, he decided to break down "silos," the term used to describe parallel functions like sales, marketing, finance, and research, which were hierarchically organized and independently managed. Rather than segmenting different functions, Mosquera reorganized the company into business units around key product lines and related activities. Each unit was responsible for carrying out the multiple tasks that previously had been performed independently by the silos.

The restructuring plan transformed the company's power structure. The slot for marketing director was eliminated altogether, for instance, and the prominence given the role of sales director was much reduced. The move represented a major change, for the sales and marketing directors had long been considered the second and third most important positions in the company, right below the level of managing director, with responsibility for all the company's product lines.

The business unit strategy eliminated a layer of bureaucracy and gave managers significantly more authority to take quick, decisive action. Under the old system, the levels of hierarchy comprised sales director, regional manager, district manager, and sales reps. The new structure folded the position of regional manager into that of district manager. The head of each business unit was a commercial manager, a position that required knowledge and talent in many different areas.

In Mosquera's estimation, managers in the old system were really nothing more than supervisors. The marketing director would issue the sales department a plan, and sales managers would simply follow the same routine implementation year after year without ever making a decision of any consequence. Mosquera made it clear that he now demanded *managers who made decisions and were willing to be held accountable*, not passive supervisors and not functional specialists. Business unit managers were expected to make informed decisions by incorporating information supplied by sales reps in the field with information from other sources, like marketing and Merck headquarters.

Mosquera realized that what he was asking was difficult. He warned new managers, "Being a manager is not easy. It is not just having a nice car, a nice paycheck. It is a lot of problems….Some of you won't be able to do this." At the same time, he promised help to all who wanted it.

Mosquera simultaneously set out to change other aspects of MSD. A major project was to educate both old and new employees in the more open system he desired for the company, a culture that encouraged information sharing, personal initiative, and non-authoritarian decision-making. Employees were to express opinions freely and to question established practices whenever they had a better solution to offer. He wanted an organization of professionals all through the ranks who willingly embraced responsibility for their actions.

To encourage the new mentality, he established a special unit, independent of human resources, devoted solely to training and development. The new unit was integral to the company's strategy, for Mosquera saw training—"learning about things"—and development—"growth as an individual and a professional"—as critical to the organization's success. Every person, "from the receptionist on up," would be expected to have a plan for their development, including both personal and business goals. Beginning in January 1996 and continuing through the year, all sales managers were scheduled to undergo 200 hours of mandatory training activities that were intended to coach them in the new values and expected behavior.

Mosquera actively promoted "transparency," which he described as "no secrets, full disclosure, and good communication throughout the organization to every employee." Job vacancies with a full description of the requirements were posted for everyone's benefit and were open to anyone who felt qualified to apply. Under the old system, job openings were never posted; they were parceled out as favors through the web of personal connections. Mosquera also emphasized the need for honest dialogue and told his managers that they "wouldn't be fired for admitting they didn't know how to do something, that they needed to work on certain skills."

The changes Mosquera instituted proved to be traumatic for many managers. Schooled to run the organization according to a strict regimen, to brook no dissent, and to defer all decisions to a few top authorities, they were now being told to reverse direction and actively encourage independent, open questioning—behavior that in the past had been treated as insubordination. They were being told to practice consensus decision-making at all levels. To create a sense of urgency, Mosquera frequently challenged the management team, asking, "Who is with me and who is against me?" and "Are you supervisors or are you managers?"

Some long-time managers could not accept the new atmosphere and departed for pharmaceutical companies that operated in the traditional manner. Mosquera indicated that about 10 left in that fashion. Other employees had to be let go. The two most difficult decisions involved the departure in late 1995 of the sales and the marketing directors, both old MSD employees and the most powerful figures in the company aside from the managing director. But, as Mosquera lamented, "they just couldn't accept the adjustment and had to leave."

Emphasis on ethics Ethical behavior was "an obsession" with him, Mosquera explained, and he intended to make it the foundation of the new culture at MSD. He credited his father, "the most honest guy I ever met," with instilling in him a heightened awareness for the importance of right action. In the pharmaceutical industry, among the more common forms of corruption was incentives paid to physicians for prescribing certain products. The policy he adopted at MSD was not to pay incentives, but to rely instead on convincing customers to choose Merck products because they were the best remedies on the market and, overall, the best for the patient.

Promoting ethics was especially important in Argentina, Mosquera emphasized, because corruption was a significant issue in the society. Within days of his arrival, he had been stopped for a minor traffic violation and was given the choice of paying a hefty bribe to the police officer on the spot or receiving a citation. Mosquera chose the citation and quickly became active in the Public Ethics Foundation, a group of businessmen and other concerned citizens eager to reduce the level of corruption in the country. "If we want to be successful as an organization," Mosquera stated, "we have to help change the environment. We can't wait for the environment to change itself."

Ethical standards, moreover, had particular relevance for multinational pharmaceutical companies because of the serious problem they all faced in Argentina. Patent protection for pharmaceutical products did not exist, so drug copying was a flourishing national industry. Argentine pharmaceutical companies enjoyed enormous political clout and regularly stymied efforts by the multinational drug manufacturers and their governments to change the law. The county's two largest pharmaceutical firms were national companies whose profits came entirely from copies.

To communicate the ethics message, Mosquera initiated the development of a mission and values statement (see **Exhibit 3**) that all employees could access easily on their computers. He had the legal affairs department, another of the new business units he formed, conduct seminars on ethics that everyone was required to attend. Most conspicuously, he tried to set the example in day-to-day activity and he exhorted all managers to do likewise.

One year later As he passed his first year at MSD, Mosquera could point to a number of accomplishments. The management restructuring was successful, though it took much longer to complete than he had anticipated. The last major management slot wasn't filled until March, but he attributed the delay to care in selecting the personnel: "I was very particular about who I hired." He took the unusual step of picking some managers from outside the pharmaceutical industry, a glaring deviation from long established protocol. If a drug company wanted to hire a new manager, the standard procedure was to pick someone in that specific department from another pharmaceutical company. Mosquera, however, had made it clear all along that he was looking for more than experience. He wanted people who were decisive yet flexible, receptive to new ideas, and exhibited good leadership skills. He pointed out another stipulation: "When I interviewed new employees, I talked about the company's position on ethics to make sure they agreed with it."

A year after he took over the company, almost a quarter of the employees were new to MSD. The size of the workforce had increased from about 175 to over 200, and included a number of turnovers. Information flowed more freely throughout the organization, although problems still surfaced from time to time. On one occasion, for instance, Mosquera learned that a "high potential manager" told his employees "not to say anything bad to a task force sent from headquarters." Mosquera had warned the manager earlier against preventing employees from speaking candidly with company officials. It was precisely the type of behavior that was expected in the past, but now was antithetical to the open culture Mosquera demanded. "He had the wrong attitude," Mosquera said, "so I had to fire him to send a message to the rest of the management staff."

Overall, he claimed, employees began to respond positively to his efforts to change the culture. Many employees said they found Mosquera a genuinely accessible person who practiced what he preached by listening to their concerns and suggestions. "He constantly showed his face to all employees," one junior manager recalled, "which no director of any kind had ever done before."

Mosquera himself had found the Argentine environment somewhat unsettling in comparison to Europe and the United States. "Here, you receive a surprise every fifteen minutes," he said. "One day everything seems normal and the next day someone reports that Argentina has a 22% unemployment rate. Of course, Argentina's unemployment rate doesn't change overnight, but no one here has reliable information." In the face of such uncertainty, along with corruption, drug copying, and ethics problems, Mosquera had asked himself more than once how he could possibly develop a five-year plan and get everyone in the company moving forward in a single direction.

Nevertheless, he had set ambitious objectives for 1996. In consultation with his boss at Merck's annual goal-setting process, he was aiming for 26% growth in sales coupled with only 16% growth in operating expenses. In addition, he had set specific goals for new product introductions, cultural change, strategic planning, recruiting, and addressing the intellectual property protection and corruption issues in Argentina. Mosquera's performance for the year would be evaluated against both his quantitative and qualitative objectives.

Human Resources Director

When Cristina Quinteiro first interviewed for the position of human resources director in May 1995, she "knew nothing about the company or the pharmaceutical industry." She had a law degree from Buenos Aires University and had spent her career as a human resources manager for a large manufacturing company. As part of her work for the industrial concern, she was sent to Japan to study that country's unique work methods and came away from the experience a firm believer in the work-team concept. She found the process of "working in cross-functional teams and not in silos" an enlightened alternative to the authority-based management of Argentinean companies. Consequently, she was very receptive to Mosquera's plans for MSD. She looked forward to the challenge of changing the general attitude of employees and creating a new culture centered on empowerment, transparency, and a flatter hierarchy.

What especially attracted her to MSD, however, was Mosquera's emphasis on ethics. It was a theme particularly critical for a pharmaceutical company, she said, "because we were responsible for the health care of people." Moreover, she added, it was sorely needed to counter the high levels of corruption in Argentina, which over the years had become an accepted part of everyday life. Argentine pharmaceutical companies were all unethical in her judgment because they copied drugs and used improper marketing practices.

In July she became the human resources director and the first outside manager Mosquera hired. He "was deliberately looking for a human resources director from outside the industry," she explained, because he wanted someone with a different perspective, who understood what he wanted to achieve and what type employees he needed for the task. The act immediately caught the attention of the pharmaceutical industry, for it represented a sharp break with the habits and customs of drug companies in Argentina. Quinteiro was a female in an industry that had very few female managers and none as senior managers, and she was an outsider in an industry that was renowned for hiring only from within its ranks. In fact, she was the first human resources director of a pharmaceutical company in Argentina who came from outside the industry.

Quinteiro had two priorities as human resource director: to hire a large number of new employees and to assist Mosquera's efforts to transform the culture. Restructuring had greatly expanded the company, and filling the new positions with the right people required diligence and care. The pharmaceutical industry in Argentina was "very predictable" Quinteiro said, and Mosquera wanted a staff that was ready to strike out in new directions. "Antonio wanted new blood," she explained. "In some cases we preferred to hire professionals from outside the pharmaceutical industry because in Argentina those who work in the industry have a very limited view about how markets work."

In selecting new employees she looked for the qualities laid out by Mosquera: personal initiative; leadership; ability to adapt to changing circumstances; problem-solving skills; oriented toward "a continuous learning process." Aside from the desire to introduce new blood into the company, Quinteiro was forced to hire outsiders for leadership positions because few employees within the company possessed the skills and knowledge to operate under a business unit concept. Mosquera estimated that it would take a year of training to prepare existing employees for the new structure.

Beginning in August 1995, Quinteiro worked with Mosquera in supervising the development of the mission and values statement. Mosquera very much wanted the final document to be an expression of all MSD employees. Using the Merck corporate statement of mission and values as a reference point, the MSD executive committee convened in August to identify the gaps between the ideals they espoused and the reality they lived. A draft was developed and sent for review by managers in October and other employees in November. The feedback from each "gap analysis" led to revisions of the document. By December, Mosquera and the executive committee were able to sign off on a final statement.

In January, the MSD top management team participated in a "360-degree" evaluation process. Each manager was evaluated by peers, subordinates, bosses, and customers against the values, attitudes, and behaviors articulated in the mission and values statement. Managers also evaluated themselves. (See **Exhibit 4** for sample questions.) Three months later, line managers went through a similar 360-degree process, followed by coaching and counseling in areas needing improvement. Quinteiro was also working on a new performance appraisal system that linked back to the espoused values. (See **Exhibit 5**.) "Trying to do all these changes was very difficult," Quinteiro emphasized. "We had to work very hard with the employees. But a year later this was beginning to look like a very different company from when I started."

Intern program The young professionals intern program was developed by Mosquera and Quinteiro as a tool to groom people in their final year of college for a possible career with the company. MSD inaugurated the program in the spring of 1996. It advertised the internships at college campuses in Argentina, but enlisted an outside consulting firm to handle the actual recruiting. The consulting company sifted through over 1,200 applicants and chose about 70 for personal interviews and a battery of psychological and problem-solving tests. Thirty of those candidates were selected to participate in a two-week program overseen by MSD's director of development and training, Silvia Ring, who would test their skills in a variety of interactive exercises.

The candidates were judged on a point system and the total points each candidate garnered determined the final rankings. The selection process was carefully spelled out to all the candidates. The fifteen chosen for the internships would be assigned to assist sales representatives for on-the-job training experience. They would work about 20 hours a week, usually in the late afternoons, and were employed for a period of six months. At its discretion, MSD might extend the internship for another 3-6 months. When the students graduated from college, the company would offer employment to those interns found most promising. The internships carried a very good stipend and for all participants, Quinteiro said, "it was a valuable experience to put on their resumes."

Decision Quinteiro was unaware of any problem surrounding the selection of candidates for the intern program when she was called to the meeting in Mosquera's office. After everyone had gathered, Mosquera explained the situation and asked Quinteiro for her opinion of the matter first. "I really don't think we should hire this guy," she began. "There were fifteen who were judged better than him, so it is not fair to include this person and exclude one of the others. It is very important to do what we said we were going to do."

Director of Sales

When he joined the company as the sales director in November 1995, Martin Rodriguez Hunter was the second outside manager hired by Mosquera. He brought to Merck 15 years' experience in sales, marketing, and finance in a variety of industries, the previous four spent locally with another U.S.-based pharmaceutical company. During interviews for the position, he was struck at once by Mosquera's approach to management. Mosquera spoke enthusiastically about his plans for flattening the hierarchy, integrating sales with other functions like marketing, and empowering lower level managers with responsibility for decision-making. All of those features were decidedly uncharacteristic of Argentine companies, especially in the pharmaceutical industry. "Antonio had a clear vision of what he wanted to do," Rodriguez Hunter said, and Mosquera's plan gave life to ideas he had held privately for years. "It felt like I finally was talking to somebody who spoke the same language," Rodriguez Hunter explained.

Resistance to change, said Rodriguez Hunter, had long been characteristic of the pharmaceutical business in Argentina and he had become very frustrated. He cited two personal examples that he said typified the reigning mentality in the industry. In one company where he worked, he tried to offer his boss some simple advice for improving sales, but his boss put a stop to all future efforts with a terse admonition: "I think it's great you think that way, but we'll do it my way." On another occasion he mentioned to the controller of the company a different way of conducting business that could vastly increase profits, and the manager responded: "For the last 25 years I have submitted the profits that the company had asked of me, so why change anything?"

Rodriguez Hunter ascribed the authoritarian habits of Argentinean companies to the country's political culture. "Remember that we came from decades of military governments. Everything was done by hierarchy. People were told what to do and any deviation was not tolerated." It was an extremely difficult ordeal, Rodriguez Hunter said, to get people who had been doing something in the same way for decades to accept any sort of change.

"I arrived at the company in the middle of all the changes and it was very hard for me," Rodriguez Hunter said. "Most of the people already working in the company did not share Antonio's vision." Long-time employees thought Mosquera's plans were a fad, he said, and displayed an attitude common among Argentineans: "Let's say what this guy wants to hear, but in practice change almost nothing. In a few years, he'll change or be gone, and everything will be the same." What helped make the changes take hold, he asserted, "were the new people, who clearly supported Antonio's vision. They accelerated the process."

Prior to Mosquera's arrival, the sales department at MSD operated in much the same fashion as the rest of the pharmaceutical industry. A sales rep would "plan" with his district manager to visit a set number of physicians in a given month. He would record each visit on a form and periodically turn over the completed cards to his manager. For knocking on the required number of doors, he received a salary.

Rodriguez Hunter's primary duty was to professionalize the sales force and transform the way the sales department worked. All sales reps received instruction in computers, which none of them had used before, and learned the tools of planning and forecasting. They became managers of their own territories, responsible for efficiently implementing the marketing plan and developing their own business plans to grow the area. Now that marketing was integrated into the business units, they made decisions about product promotions and the distribution of samples. Most importantly, no one filled out cards anymore after visiting a customer. Sales measurements now consisted of regular audits that kept track of actual sales data, and Mosquera created an incentive-based compensation system using those figures with bonuses for those exceeding their quotas.

To assist in his hiring of new sales reps, Rodriguez Hunter developed with Mosquera a candidate profile. Preference would be given to college graduates, preferably with degrees in marketing or business administration, who had knowledge of a second language, preferably English, and who were familiar with computers. Like other leading pharmaceutical companies, Mosquera avoided the union's stranglehold over the pool of potential candidates by using the non-unionized sales force of Buenos Aires City as the vehicle for bringing in new blood. After receiving the two years' training required by law, the new sales reps could then be transferred to other parts of the country and the union would have to accept them as qualified members.

While Merck products enjoyed a solid reputation for quality among physicians, MSD's business had deteriorated, according to Rodriguez Hunter, due to poor management. Sales reps, for instance, had ceased to visit physicians in less populated provinces far away from Buenos Aires. Rodriguez Hunter reversed the slide by expanding the size and scope of the market. Efforts were made to visit all physicians in the country. Many doctors who had lost contact with MSD, Rodriguez Hunter claimed, "were very surprised to see a Merck representative again." An important part of the program was to work more closely with physicians to understand their needs and to develop educational projects they would find helpful. Moreover, the sales force swung away from its single focus on sales to physicians and instead broadened its horizon to include hospitals, clinics, pharmacies, and health care organizations. A toll-free telephone number open 24 hours a day was established to provide up-to-date information about Merck products.

Six months after he joined the company, the situation looked a little brighter. The kingdoms that once dominated the organization were disappearing. Disgruntled employees who did not want to participate in the new plan were either fired or quit, and Rodriguez Hunter said the new and remaining workers lent a sense of vitality in the restructured company. Though "competitors thought we were nuts" for doing away with the old hierarchy, the flattened structure had speeded up decision-making and provided much better communications for all employees.

Nevertheless, the challenge of competing against the local companies was daunting. Lacking research and development expenses, the national companies, with roughly 53% of the market, enjoyed a huge cost advantage. Their products included pirated copies of Merck drugs, which were in some cases priced 30%-50% lower than MSD's. For every MSD sales rep the local companies sometimes had three, and attracting reps was difficult for MSD because of short-term salary differences and the scarcity of candidates fitting the desired profile. One MSD rep sized-up the situation very succinctly, "Everything in the environment was against us."

Decision Two days before the meeting in Mosquera's office, the same middle manager who had called Ring also alerted Rodriguez Hunter to the presence of the well-connected candidate in the young professionals program. Rodriguez Hunter said his first reaction was to make sure the person was accepted into the program. He discussed the matter with Ring on Thursday and "told her that the candidate should be picked as one of the interns." As the sales director, he viewed it as an invaluable opportunity for increasing revenues and market share.

Health care in Argentina, according to Rodriguez Hunter, was provided through a system of approximately 100 health organizations. A formulary was a list of drugs approved for coverage by the various insurance programs and for which customers paid only about 30% of the cost. The largest health care provider in Argentina was the government's program, which covered 4.2 million retirees and pensioners, roughly 13% of the country's population. Moreover, a large number of Merck's products addressed health problems that afflicted older people, so being included in the government's formulary was an especially lucrative proposition. Rodriguez Hunter estimated that it would add perhaps $5 million annually to MSD's revenues.

After Quinteiro finished, Rodriguez Hunter was asked for his opinion. Looking at the matter from a sales perspective, he replied that he wanted the applicant in the company. "I know," he told the group, "that if this guy is allowed into the company we will have a very good opportunity to get our products into the government formulary and increase sales by $5 million a year. So what if he is in place 16 instead of place 15? We can change that. What harm can it do?"

Manager of Training and Development

For two days following the first phone call about the influential candidate in the young professionals program, Ring felt herself under mounting pressure. She knew the caller had subsequently contacted Rodriguez Hunter in an attempt to go over her head, since Rodriguez Hunter had met with her the next day to plead the case for admitting the candidate. He received the same reply, however; Ring simply told him the outcome of the rankings. Ring was furious with the pressure suddenly thrust upon her.

Ring had begun work at MSD in early 1986 as a secretary. She had a teaching certificate and taught in public schools for a while. Schoolteachers were poorly paid, however, so she left the profession for a job at MSD. Over the years she had worked as a secretary in various departments, and then served the last few years as a supervisor of human resources. There were no women managers at the company until Mosquera became the managing director. A month into his new position, Mosquera met with Ring, explained his plans for the company, and promoted her to project leader for training and development.

Ring was stunned with the sudden development and saw right away that Mosquera meant to change the company in a big way. "You have to understand the radical nature of what Antonio did," she explained. "Now I was seated in management meetings as an equal next to the man I had worked for as a secretary." For Mosquera's part, it wasn't such a big deal. "Putting women in these positions was nothing special to me," he said. "The issue is whether you are a professional or not—not whether you are black or white, male or female." As Ring noted, Mosquera was used to working in a mixed-gender environment. When he left Spain a few years earlier, 43% of the Merck sales force was female, albeit after a four-year push that he helped spearhead.

The first year Ring was amazed at Mosquera's determination to implement change against stiff resistance from an entrenched management, a group she referred to as "an old boys club." Under the old system, people were responsible only for their immediate task. Employees looked after their own small territory and followed the rigidly authoritarian rules of the company, which were always black and white, never gray. She enthusiastically welcomed Mosquera's vision of the company.

Yet even for Ring, adapting took time. When Mosquera first asked for her ideas on how to change the human resources function, she recalled her reluctance to speak out. "In the past, employees left their brains at home and didn't have options," Ring explained. "They were always told what to do, how to proceed. I wanted him to tell me what to do, but he wouldn't do that. Instead, he tried to help me, to coach me to think of good ideas."

In her new position, she worked closely with Quinteiro and Mosquera making plans to change the culture and mentality of the workforce. With the efforts of an outside consultant, she supervised administering both the 360-degree instrument and the performance appraisal process. "Whatever the human resources director decided in the past, well, that was how it went," Ring said. "Now, everyone was involved in their own performance appraisal."

In January 1996, she began the training sessions aimed at coaching employees in areas such as leadership, communication, conducting meetings, teamwork, planning, forecasting, and resource allocation. "After the 360," she said, "everyone was more informed about what was expected of them." As the sessions progressed, she felt that more employees were making a personal commitment to the change process. What really made the difference, though, were not the sessions but the changes people saw around them.

Decision When Ring entered Mosquera's office for the meeting, she really was not sure how the issue should be decided. She and two assistants had analyzed the thirty candidates during the two-week evaluation process. Through a series of trials, candidates were put in a work-like sales environment and judged on various factors, including such matters as attitude, which was seen as critical to people's ability to work in teams. The candidate with government connections was actually very good and had scored only slightly less than the person in fifteenth place. Ring listened to Quinteiro's opposition, and then heard Rodriguez Hunter make his case. Her turn was next.

Exhibit 1 Argentina, Prescription Pharmaceutical Market, IMS Report—Leading Corporations

	1994	Rank	1995	Rank	Q1 '96	Rank	Q2 '96	Rank
Total market— 000's U.S. dollars	2,855,022		2,810,827		668,720		722,994	
M.S.D. —Total	3.1%	"5"	3.1%	"4"	3.1%	"6"	3.0%	"7"
Group II & Group III	1.8%		1.8%		1.8%		1.8%	
Group I	1.3%		1.3%		1.3%		1.2%	
Sidus products	1.7%		1.6%		1.5%		1.4%	
Instituto Sidus—Total	4.8%	3	4.7%	4	4.6%	4	4.4%	5
Roemmers[a] (Arg.)	10.2%	1	10.6%	1	10.3%	1	9.6%	1
Bago[b] (Arg.)	8.0%	2	8.0%	2	7.7%	2	7.8%	2
Roche (Swiss)	4.7%	4	4.8%	3	4.3%	5	4.8%	3
HMR[c] (Germ.)	2.1%	12	2.2%	13	4.7%	3	4.7%	4
Novartis[d] (Swiss)	3.0%	7	3.0%	5	3.7%	6	4.1%	6
Bristol Myers Squibb[e] (U.S.)	0.6%	43	0.9%	35	1.5%	21	3.1%	7
Gador (Arg.)	2.4%	10	2.5%	10	2.8%	7	2.7%	8
G & M[f] (Arg.)	3.8%	5	2.5%	9	2.6%	8	2.7%	9
Boehringer Ing. (Swiss)	3.0%	6	2.7%	6	2.5%	11	2.5%	10

Source: Based on data compiled by *IMS America Ltd.*

[a] Lab. Chile acquired 100% Lab. Armstrong—April 1996

[b] Lab. Bago acquired 100% Lab. Volpino—September 1996–January 1997 sold 100% Lab. Volpino to Merck Quimica Arg.

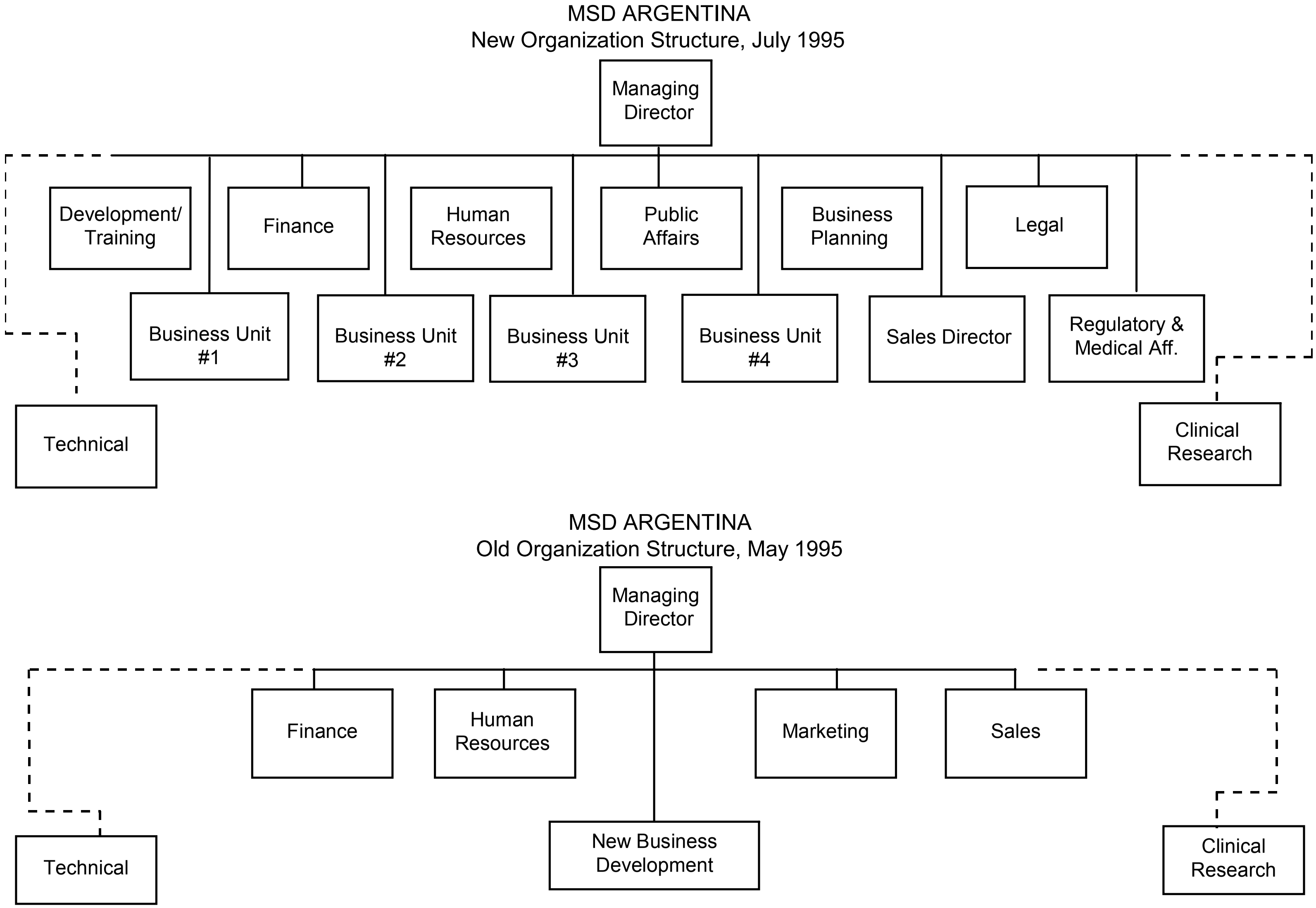
[c] January 1996: Hoechst (Knoll merge with Roussel & Lepetit March 1995)

[d] Up to February 1996 CIBA. Since March 1996 Novartis (Merge Ciba-Sandoz)

[e] March 1996 acquired National Lab. Argentina

[f] G&M S.A.: Parke Davis

Exhibit 2 MSD Argentina, Organization



Source: Company document.

Exhibit 3 Declaration of Our Mission and Values

MISSION

To ensure better service to society through the research, diffusion and commercialization of our products in order to achieve sustained growth in sales and revenues, by means of the continuous development and expansion of our businesses, as well as, to explore and to implement in a creative and innovative way all additional opportunities available to MERCK & Co. as a result of changes in the Argentinean market.

Corporate Values

A commitment to our customers We will identify carefully our customers and the segments of this changing market. We will focus our effort and resources on satisfying the needs of each of them, exploring to the utmost the potential of our products and services, adding additional benefits in order to obtain a higher acceptance from our customers. Our objective is to satisfy them 100%.

Our employees We are dedicated to achieve the company goals with pride, professionalism and a commitment to excellence. We are committed to the highest values of ethics and integrity and we fully understand that our success depends on the knowledge, imagination, flexibility and ability of our employees without discrimination. We will look for and develop potential talents and we will make an effort to offer them the best opportunities for a career full of satisfactions and challenges.

Delegation of responsibilities Our employees are the most important resource that contributes to our success. They deserve our confidence and the responsibility for satisfying our customers. For this we will promote prudent risk taking and we will not penalize mistakes.

Performance measurement/incentives Honest, transparent and fair evaluation systems will be developed. Individual and group achievements will be encouraged and rewarded with economic and non-economic incentives.

Personal Values

Integrity We maintain the highest ethical and moral values that we do not compromise as a result of job pressure or external demands. We make an effort to ensure that our decisions are fair and valid and that our positioning is expressed with sincerity, honesty and intellectual courage.

Respect We respect others as we respect ourselves and we recognize differences in culture, personal experiences, ethnic groups, gender, race and religion, as an integral part to enrich and strengthen team work. We show respect to others through the consideration and support of everyone's opinions, abilities and ideas.

Professionalism We show the highest professional profile. We maintain and strengthen our abilities and our employees' through training and learning.

Persistence We are highly committed to achieving our goals and objectives and we work together to do so.

Teamwork We believe in the power of teamwork and we openly share our ideas and experiences with others. Through teamwork, ideas and contributions are enhanced, the commitment to the internal client grows, and productivity and results increase.

Empathy We recognize that there is always a person in each professional and thus we show respect and understanding for everyone's feelings. We promote an adequate balance between personal and professional life.

Open minded We are always open to new ideas and opportunities and are willing to assume the risks involved. In our wish to learn, we make mistakes and those mistakes will be treated as opportunities to learn. We encourage criticism and constructive comments in a spirit of growth and development.

Source: Company document.

Exhibit 4 Sample Questions from 360 Inventory

Respondents were asked to evaluate managers on the following qualities related to the espoused corporate and personal values. Managers were rated on a five-point scale for each item.

Customer Commitment: "SERVING OUR CUSTOMERS"

1. Consistently treat customer satisfaction as "top priority"
3. Communicate the impact of health care reforms in the marketplace
7. Make honest, realistic commitments to customers (avoid over-committing)

Our People: "DEVELOPING OUR PEOPLE AND THEIR PERFORMANCE"

10. Ask people what they need to do their job better
13. Communicate the impact of health care reforms in the marketplace
14. Act as a "coach" or "mentor" to others
19. Refrain from making destructive comments about people at work

Empowerment

21. Involve employees in decisions that affect their work
22. Hold people accountable for their decisions and actions
27. View mistakes as inevitable and acceptable (provided the team learns from them)

Measurements/Rewards

29. Make sure people are rewarded for outstanding contributions to the organization's goals
32. Provide positive recognition for performance improvements

Integrity

37. Forfeit personal or short-term success/gain if it means compromising the integrity of the company
38. Lead with example (practice what she/he preaches)
43. Demonstrate honesty and ethical behavior in all transactions

Respect

44. Demonstrate that she/he is genuinely open to hearing different opinions
49. Demonstrate an appropriate sense of humor

Professionalism (PROFESSIONAL COMPETENCES)

50. Have a command of the technical/functional skills needed to do the job
52. Show a personal commitment to increasing profitability

Persistence

55. Work to make the company more competitive
56. Recognize and seize opportunities to advance the company's interests
60. Strive to achieve or exceed profit and cost objectives
62. Maintain support for his/her beliefs in the face of resistance and adversity.

Commitment

64. Show more concern for achieving excellence than "playing it safe"
66. Take responsibility and ownership to go beyond what is required to get the job done

Empathy

68. Demonstrate empathy for others' feelings
70. Model a healthy balance between work and personal life

Open-Minded

73. Treat mistakes as opportunities for learning, not disasters
76. Encourage and accept constructive criticism (respond positively to feedback)

Team Player

81 Treat others in the region as colleagues, not competitors
83. Share "best practices" and relevant information with others
84. Avoid favoritism (partiality and biases in work relations)

Source: Company document.

Exhibit 5 Performance Appraisal Process Values

- **Project shared** by Appraiser and employee for **growth.**
- **Reinforces strengths** and **overcomes performance weaknesses.**
- **Great respect for the employee** and his **need for growth.**
- Seeks **transparency** in communications and relations.
- Requires to **face the truth.**
- **Mistakes** shall be considered as an opportunity to learn.
- Must allow a **continuous improvement** of abilities.
- Implies a formal expression of the **Company's appraisal** on the employee's performance.
- **Legitimates** agreements and disagreements.
- **Self-evaluation** on development must become a permanent tool for personal and professional development.
- Support of the **Merit Increase and Reward** system.

Source: Company document.