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DR. AMITA JOSHI AT SAMUEL DRUGS LIMITED[1]

Abhinav Gupta wrote this case under the supervision of Professor Anup K. Singh solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

It was June 2009 in New Delhi, the capital of India. The heat was punishing and Dr. Amita Joshi, the CEO of Samuel Drugs Limited, the flagship company of the Houston Group, was in a top management meeting with her team of two vice presidents and four functional general managers. As the discussion about the decision on the distribution channel, media advertising and promotion for an exciting new product was underway, Joshi received a phone call from her executive assistant informing her that Samuel Drugs had virtually lost the bid on a major tender for drug supply to the Ministry of Health of the Indian government. He also told her that, ironically enough, Eastern Pharmaceuticals Limited (EPL) — a 51 per cent subsidiary firm of the Houston Group — had bagged a handsome order.

Joshi was surprised and shell-shocked at first. But as she recovered from the shock, she quickly realized that this was the handiwork of Rajesh Mishra, head of marketing at Samuel Drugs and CEO of EPL. She was very disturbed, faced with such a brazen act of breach of trust by Mishra. The loss of this order would lead to a substantial gap between the anticipated and real performance of the company. The task before her was to decide on a course of action that would suitably address this debacle. She cancelled the meeting immediately and started recalling the series of events that had unfolded since she had taken over as the CEO of Samuel Drugs. She knew she had to plan her next steps very carefully.

GOVERNMENT POLICY AND THE PHARMACEUTICAL INDUSTRY

The first prime minister of independent India, Jawaharlal Nehru, felt that the drug industry needed to be in the public sector since it was very susceptible to being abused. Consequently, various state entities were incorporated in India with the main objective of creating self-sufficiency in the manufacture of essential life-saving medicines, in order to free the country from dependence on imports and to provide medicines to India's millions at affordable prices.

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As the decades went by, more and more state corporations turned into failing units and started losing millions rupees every year. The Indian government's policy of promoting public sector organizations had been ineffectual in several industries, and the pharmaceutical industry was amongst the worst hit. The government took a long time to realize that this industry could flourish in India only through private investment by spirited entrepreneurs. Marking a shift in national policy, the Indian government introduced several schemes after 1980 to promote medium, small and micro enterprises (MSMEs) in the pharmaceutical industry. Legislation was passed to facilitate the entry of private players in the pharmaceutical industry and various tax breaks were introduced for manufacturers of generic drugs.

SAMUEL DRUGS: A HISTORY

Samuel Drugs was founded by Samuel Houston, an ex-employee of a large state-owned drug manufacturing organization. Houston was a youthful man when he joined the state-owned corporation in 1959, and he climbed the career ladder very fast. He had an amazing grasp of the manufacturing process of drugs and he introduced various innovative practices. A former colleague who was now a competitor once mentioned in an award ceremony, "Samuel is a visionary leader. He has the potential to rise very fast in the organization. One shouldn't be surprised to find him at the helm of the industry soon. He has some brilliant ideas that the drug industry and the entire nation can benefit from."

In 1981, when private entrepreneurship in the drug industry was introduced, the government of Gujarat (a state in western India) also decided to sell some of the non-functional units of state drug corporations. More than half a dozen non-functional manufacturing facilities near the state capital, Ahmedabad, were put up for auction. Houston had recently come into a large sum of money from the sale of some ancestral property and he was evaluating the investment options for it. The auction notice struck him as a golden opportunity. He discovered that the outdated machinery would also come with the manufacturing facilities and he was confident of his capacity to turn the units around. He discussed the matter with his like-minded colleagues and friends, who were apprehensive at first but soon recognized the potential in the investment. Houston convinced them to invest in a new organization, which he was going to found and lead.

Samuel Drugs Ltd. started its operations on August 15, 1982. Samuel Houston, who owned 70 per cent of the equity, assumed the position of chief executive officer, and many of his previous colleagues and subordinates joined him in the new venture. He created an organizational culture that facilitated professional autonomy. The division of responsibility was based on the competencies of people, and the personalities of executives were matched with appropriate job content. However, the company's legacy as a bureaucratic government organization also impacted the organizational culture. There was a high degree of formalization and the decision-making process was unduly long.

Under the leadership of its founder and CEO, Samuel Drugs grew to be the biggest player amongst the MSMEs in 1994. The company played a major role in strategic national health programs, such as Family Welfare and Population Control (providing Mala-D & Mala-N), in the fight against malaria (providing chloroquine), and in the prevention of dehydration (providing oral rehydration salts). During the country's calamitous outbreak of plague in 1994, it played an important role in supplying tetracycline to the entire nation. The firm acquired a reputation for manufacturing and supplying quality medicines and its presence played a price-balancing role in the competitive business environment. A leading business analyst made his observations on Samuel Drugs as follows, "Samuel Drugs has achieved in 10 years what others have in 50. Their products have been examined for quality very carefully by developed countries . . . and many of them want to buy from here."

GROWTH CURVE

In 1989, Samuel Drugs acquired controlling stakes in Tamil Nadu Pharmaceuticals Ltd., Eastern Pharmaceuticals Ltd. and Northeastern Drugs Ltd. These companies were state corporations controlled by the Tamil Nadu, West Bengal and Assam governments, respectively. They were declared unviable owing to their non-profitability for the previous 15-20 years. Samuel Drugs restructured the management of the three subsidiaries and appointed its veteran experts in key positions. These organizations became profitable within three years of takeover, but their manufacturing capabilities remained stunted. They primarily engaged in the marketing and distribution of drugs manufactured by the parent organization and came to have a substantial hold on distribution channels in their respective regions.

In 1996, Houston stepped down from the CEO position, but retained the position of chairman of the board. Dr. J. J. Mehta, a stalwart of Samuel Drugs, was appointed CEO. Although Mehta's commitment to the organization was beyond compare, his appointment came at a time when his vision and execution powers had become limited to making the bottom line grow.

One of his former subordinates commented:

> Mehta's allegiance to the interests of the organization was deep-rooted. He, however, lacked the ability to take the organization to the next level, where it could play a key role in the pharmaceuticals industry of India. His skepticism about the growth possibilities in the global generic drugs market set him apart from his predecessor, Houston, who was highly optimistic of the company's growth prospects worldwide.

Consequently, the organization began to stagnate. It registered an annual growth of 11 per cent as compared to the overall growth of the pharmaceutical industry, which hovered at around 18 per cent. Mehta was reportedly suffering from health problems and there was talk about his stepping down. This time, the board was of the opinion that the organization needed someone from outside to take charge of the situation. It was perceived that the top executives in the company lacked the vision and leadership qualities that were critical for its growth.

In 2003, Mehta announced his resignation because of ongoing health issues. The board had been unsuccessful until then in identifying a suitable candidate to replace him. It decided to appoint an interim CEO, pending the final selection, and Rohin Das was given the charge. He, too, was an industry stalwart and was nearing his retirement, which made him a good choice for an interim appointment. Although the board had identified a potential candidate for the position of CEO, the final appointment was delayed for more than six months due to certain disagreements amongst the board members.

In 2005, the company reported its first-ever annual loss of INR 20 million. It came as a shock to everyone and robbed the stakeholders of their sleep. As a result of the poor financial performance, the board hastened the process of selection and Amita Joshi was appointed as a full-time CEO from June 2005 with the responsibility of reviving the company. She took very little time to gauge that the immediate problems of the organization were its huge employee cost bill and poor marketing, which were eating heavily into the revenue, causing the poor bottom-line performance. Further, she conducted several joint sessions with the employees to sketch out a plan of action to resolve the company's immediate problems and devise long-term growth strategies.

After a mass downsizing, the company cut its manpower by 40 per cent, including contractual workers. Production went up to INR 2 billion. The company reported an operating profit of INR 360 million in

2008-2009. This boosted the morale of the employees significantly and earned Joshi tremendous respect within the organization. The company started exploring various options for exporting to African countries, and partnered with a South African drug company to supply vitamins and minerals to poverty-stricken countries under the aegis of the United Nations.

In 2009, Samuel Drugs was the largest among MSME pharmaceutical companies in India, with plants in Baroda, Hooghly, Faridabad, Vellore, Sikanderabad and Moradabad. The top and bottom lines of the organization started growing simultaneously, and what ensued were the peak years in the company's history. It had more than 1,300 employees on its payroll.

PEOPLE

Dr. Amita Joshi

A doctorate in public administration, Joshi was a non-conformist in every sense of the word. Her family had settled in Mussoorie, a hill station, where her father was the principal of a state government college. She habitually defied irrational social norms and spoke out openly against discrimination against women. Though her family wanted her to get into academia, she was fascinated by the elite Indian Administrative Service (IAS). The IAS officers occupied strategic positions in the central and state governments and were involved in policy formulation and the direct handling of civil administration. Joshi appeared for the challenging entrance examination and was selected to join the IAS inductees of 1970.

During her career, she handled important portfolios in the Ministries of Health and Finance, and rose to the position of joint secretary in the Ministry of Chemicals and Fertilizers.

She was the Samuel Drugs board's choice of CEO for the following reasons: i) the board wanted someone from outside the industry, ii) she had an impressive pedigree, and iii) she had an excellent administrative record in the Ministry of Chemicals and Fertilizers, which supervised the pharmaceutical and drug industry in the country. Presumably, the board also counted on her contacts in the government, which could be of great use to the organization.

When she got the surprise phone call from George Houston, son of the founder of Samuel Drugs, offering her the position of CEO of the company, this presented a tough decision on whether to give up the security and power of a senior IAS officer. She felt excited that heading an organization would present a once-in-a-lifetime opportunity to make a difference in the lives of many people. But she knew that it also demanded sacrifice and courage on the personal front. Undaunted, she decided to take early retirement from the IAS and accepted the challenge of turning around a family-owned business.

The CEO's Mantle

During her first year as the CEO of Samuel Drugs, Joshi struggled to garner the support of key stakeholders and channel partners to change the status quo and organize the required working capital to escalate production to its full capacity. She succeeded in establishing a very positive relationship with major customers. Joshi assessed the shortcomings of the culture in the organization, and addressed them constructively. She often delegated responsibilities and whenever senior managers achieved important milestones, such as reviving an old plant, she gave them the entire credit and expressed her gratitude for their support.

Joshi encouraged everyone to give her feedback directly by e-mail. She was of the opinion that every member of an organization should be empowered to have a say in what the organization did. At every decision point, she consulted all the key stakeholders and addressed their concerns. This approach was highly appreciated by everyone in the organization. Joshi was circumspect in her use of company resources, since she believed that, as the CEO, frugality was a virtue she needed to demonstrate so that her subordinates felt inspired to emulate her. Her peers and subordinates, who were used to seeing her predecessor freely using company privileges, were very impressed by her personal code and ethics.

Early in her career at Samuel Drugs, Joshi realized that marketing required a thorough revamping in order to generate demand for the products that the organization had the potential to manufacture. The current director of marketing of the organization was retiring, and financial constraints and an uncompetitive salary structure made it difficult for Samuel Drugs to hire the best from the industry. At the same time, it was felt that none of the current marketing director’s immediate subordinates possessed the skill-set for the job, and the position stayed open for a long time. Joshi finally began to look further than the immediate circle of candidates.

Rajesh Mishra

After considerable thought, Joshi consulted the board and decided to go for an unusual appointment. Rajesh Mishra, who was general manager of sales at Samuel Drugs, was chosen to take charge of the entire marketing department. Mishra, who had started his career at Samuel Drugs, was only 41 years old. He was a youthful person who had steadily risen through the ranks, and was known to have excellent relationships with all his previous bosses, a fact that was reflected in his impeccable performance records. His appointment was controversial because there was no precedent for any general manager being entrusted with such a huge responsibility. In the past, the positions of functional heads were awarded only to those who had completed at least four years as a vice-president. As was expected of him, Mishra quickly grasped the situation at hand and impressed Joshi with his foresight and grasp of marketing. During the first two months, Samuel Drugs got several orders that helped meet its working capital needs. As Mishra’s position strengthened in the organization, Joshi gave him increasing autonomy, permitting him to take major decisions related to his job without having to consult his superior.

Within the organization, Mishra was regarded as a highly rational person. He was logical and charismatic, and convinced everyone of his capability and his passion for the job. This earned him a greater status than other functional heads in the organization. At work, he was more of a maverick than a collaborator, and insisted on going alone to marketing negotiations, at which he had a very high success rate. His eloquence and tendency to indulge in hyperbole earned him the buy-in of the key people in organization. He commanded great respect for his composure in the face of pressure and his crisis-management skills.

THE GROWTH OF EPL

As Samuel Drugs moved forward, establishing its presence in the market, its strategy included transforming its subsidiary companies. To date, the three subsidiary organizations of Samuel Drugs had been used only for marketing and distributing products manufactured by the parent organization; manufacturing by the subsidiaries had been on a limited scale. The financial troubles that Samuel Drugs encountered were worse for its subsidiaries. These organizations had also been suffering from debts that had accumulated over time. Joshi and her team of functional heads jointly formulated a plan to revive these subsidiaries by providing them with the resources that they lacked. Although the revival plan included enhancing production capacities, the primary goal was to extensively market Samuel Drugs' products through them, as they were much better placed in terms of distribution capabilities at the grassroots level. The subsidiaries would be allowed to retain a big chunk of the profit, while passing on minimal margins to Samuel Drugs, whose products they sold.

EPL had several non-functional units and its production levels were more or less static. It was only involved in the distribution of generic drugs manufactured by Samuel Drugs. When an extensive review of the subsidiaries was carried out to assess their potential for revival, EPL emerged as one unit whose future seemed promising. As the production capacity at Samuel Drugs increased, the board considered it wise for EPL to collaborate with Samuel Drugs and undertake extensive marketing, which involved taking charge of distribution of the entire product portfolio of Samuel Drugs in the state of West Bengal, which had been recognized as a growing market for generic drugs.

Meanwhile, the search committee was struggling to find suitable candidates to fill the vacant positions in the subsidiaries. The existing salary structure was a major hindrance in this endeavour. For the top positions, the salary on offer was about 65 per cent less than what the competitors offered. When the committee began to review the possible candidates for the position of managing director of EPL, Joshi could not think of any better candidate than Mishra, who had risen swiftly through the ranks and had successfully headed the marketing of Samuel Drugs for about two years by this time. Placed at Samuel Drugs' headquarters, Mishra was well acquainted with the top executives of EPL. Eventually, Mishra was offered the post as an appointment in addition to his current job, for a temporary period of one year, which he gladly accepted (see Exhibit 1). The confirmation of his position as the managing director was contingent on his performance during that year. Meanwhile, the board could also initiate the search for a new suitable director of marketing of Samuel Drugs.

Upon his dual appointment as the managing director of EPL and director of marketing of Samuel Drugs, Mishra worked very hard to do justice to both positions. The marketing function of Samuel Drugs grew in importance as substantial demand for generic drugs was created and as the market was captured by the organization. Samuel Drugs once again became a strong contender in the market, and the bottom line started growing. The production facility had been revamped to keep pace with the growing demand for products. EPL also began to do well, and had become the largest distributor of generic drugs manufactured by Samuel Drugs. The demand was constantly growing, and the process to restart the closed-down manufacturing plants was initiated. In order to meet the demand for certain drugs, EPL was also outsourcing some of the manufacturing activities. This turnaround earned Mishra a good reputation in the industry.

THE IMPORTANT GOVERNMENT TENDER

A few months earlier, the Ministry of Health of the Indian government had declared its plans to buy generic drugs in bulk to supply to hospitals in remote areas. Accordingly, the government had invited tenders from drug manufacturing companies and, in this process, suppliers under the MSME category had been given preference. When Joshi heard of the Ministry of Health inviting bids for bulk purchase, she knew that it was something that could change Samuel Drugs' fortunes overnight, and decided to try to procure a major order for her organization for this tender. With this order, she thought, Samuel Drugs would not only increase its profits significantly, but would also secure its claim to the top position among the Indian pharmaceutical MSMEs. She had immediately called upon Mishra to take all necessary actions to prepare a strong bid on behalf of Samuel Drugs. She had immense confidence in her colleague's capabilities.

And now she had been informed that Samuel Drugs Limited had been awarded only about one-tenth of what it had hoped for from the bid, while EPL had got an order 10 times that of Samuel Drugs. It became clear to her that all these days Mishra had been promoting the interests of the organization that he headed at the expense of Samuel Drugs. As the director of marketing at Samuel Drugs, he had had access to all the contacts that Samuel Drugs had maintained over the years and he had mobilized them to promote his own interests.

Joshi was stunned to see that someone to whom she had given a major promotion could do this to her. While she was trying hard to take the parent organization to the next level, her subordinate-turned-peer was only interested in strengthening his own position within the subsidiary organization he was heading. Feeling betrayed and disgusted, her mind raced to figure out the future course of action.

Exhibit 1

ORGANIZATIONAL STRUCTURE OF THE HOUSTON GROUP