

# Corporate Reputation and the Pharmaceutical Market in the Context of World Crisis

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**Abstract** – We witness the war for the customer’s mind all around us, every day. The effort and the resources involved are remarkable: armies of people and expenses amounted to hundreds of million, even billion per year. Who has got a place in the mind of other people has won everything: partners, supporters, clients, employees, marketplace profitability. Thus, in this paper we study corporate reputation as a success factor for companies in the context of current crisis.

**Keywords** – corporate reputation and economic crisis

## 1. Introduction

The Romanian pharmaceutical industry is constantly changing due to the new market opportunities. With the growing number of pharmaceutical and cosmetic products made, launched and distributed throughout the country, companies must act as quickly as possible in order to recover their huge investments and get maximum profit. Although the turnover of the pharmaceutical industry and drug distribution exceeded one billion euros last year, the pharmaceutical industry and drugs distribution in Romania are still less known for the public. After 1989, the imported products barely circulated. Soon after 1989, the pharmaceutical market has become compatible and comparable with the European Union market. Also, the “pharma” market is more regulated than the other markets and the fierce competition between companies does not exist. Competition in this industry has totally different values. The exclusive distribution of drugs is a non-sense. 60% of the drugs bought by Romanians are being made in Romania, and 40% are being imported. However, three quarters of the income go abroad, as active substances are imported, and the imported products are more expensive.

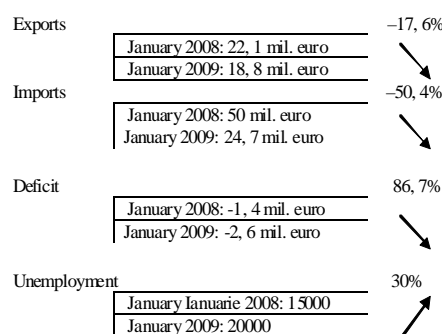
The economic crisis began on September 15 2008, with the collapse of one of the largest U.S. investment banks, Lehman Brothers. After, it started to spread From US to World Markets. September 15 will remain in history as the day the global economy entered the greatest economic crisis since the Second World War.

The shock wave hit all the world economies - except China and India – leading to thousands of bankruptcy cases the highest unemployment rate, destroyed human destinies.

The crisis highlighted the vulnerability of the Romanian economy. Although they were on an upward curve, hard to stop at that point, the issues have emerged: the current account deficit rise to 15% of GDP, the big dependence on foreign capital focuses on parent bank,

leaving the economy without liquidity, equity is inefficient, widespread corruption and an inability to absorb EU funds, etc.

After the effort of the eight years of development, specialists realized the fool dimension of the crisis, so have been taken measures: constraints, reduced labor costs and expenses, but rising unemployment and labor migration are unstoppable. [1] The figure below shows the balance sheet recession in Romania in mid-2009.



**Figure 1.** Main indicators in May 2008 and January 2009

Global economic situation is difficult. The U.S. are willing to accept a budget deficit up to 9% of GDP. Countries such as Germany and France fear of inflation, and decide not to exceed 5% -6% of GDP. Industrial production has fallen dramatically: Japan 31%, Spain 24%, Germany -19%, -11% UK, U.S.-11%, and the World Trade Organization, states that in 2009 the global trade will fall by 9%.

The current economic crisis shakes the economic system and the public health system. The latter faces a number of modifications and obstacles dealing with drug manufacturers in the pharmaceutical industry. Raises the question about what has to be done in order to avoid inefficiency, waste and threats for those who feel the crisis?

In this context, a good image of the company can be used in order to maintain its business success and its viability, while a bad reputation will require additional spending. Many businessmen put the problem of the presentation of persuasive arguments that demonstrate the direct link between the company image and its economic and financial indicators. Until recently they would mainly come up with empirical rather than scientific arguments. Since 1984, Fortune magazine has been doing research regarding corporate reputation. Thus, firms with higher reputation are being characterized by an increased development or by a preserve of the profit-assets ratio.

Among the dangers of a bad image, we can mention: underestimation of the share price, higher attention from the media, negative influences on employee morale. [2]

The concept of corporate reputation has been introduced in the literature by Americans and became popular in the second half of the XXth century, as a result of economic, technological, political and social factors: increased power of the companies, naturalization of the "corporations rule the world", the internationalization of business, development of mass media, and, recently, the emergence of concepts of modern corporate governance, corporate citizenship, corporate social responsibility etc.

Reputation is often difficult to define, since the things that harm the reputation varies from case to case. Many academic sources offer a variety of definitions for this concept. According to the American Heritage Dictionary (1970: 600), reputation is the general estimation in which a person is held by the public. Reputation can be defined both in terms of organization and from stakeholder perspective.

In terms of organization, reputation is *an immaterial good that allows the company to deal more efficiently with the needs and expectations of its various stakeholders*.

From the stakeholder's perspective, reputation is *the intellectual, emotional and behavioral answer to the organizational actions that resonate with their needs and interests*. If stakeholders consider that the organization meets their needs better than the competition, they will adopt a favorable attitude towards it: for example, they will invest, support or join its causes. As companies respond to the needs and interests of stakeholders, they improve their reputation and reduce risks, creating a so-called halo effect that proved to be very useful in difficult times.

## 2. The economic crisis

The Romanian economy has also been affected by the economic crisis, due to its connections to the world economy and suffered significant progressive compressions. Measures taken in order to reduce the amplitude of the economic crisis require a high professionalism, continuity, a stable currency – expressed by inflation and foreign exchange market.

All these measures, in close correlation with the actual economy and the government policy should avoid chaotic cheap populism – that lack credibility in economic terms.

The presence of foreign capital in the Romanian economy is generating economic progress, the current account deficit, inflation and gross domestic product (GDP) depending on it.

The main problem is that the foreign capital comes and goes unexpectedly, despite all the measures taken in order to keep in banks minimum reserves of capital, avoiding the application of market liquidity abundance or withdrawal by charging high interest rates, ranging up to 20%. In this way, the Romanian external debt has tripled in 2009, and Romania was forced to borrow money from the International Monetary Fund and from the European Union. These loans must be paid at maturity by the Romanian taxpayer.

In order to exit from this vicious circle, firms may need to upgrade their technologies, invest a bigger percent into scientific research in order to create innovative products- overcoming similar products on export performance, leading to a balance between production - consumption and import - export. Brands must be used in order to improve the image of the Romanian economy in the eyes of foreign investors.

*Brands* must be limited to those with real market success, conquered markets must be kept and penetration into new markets, where costs are high and the success is not guaranteed, limited.

In order to *change the bad image of the economy* into an attractive destination, marketing must adapt to the new economic realities. In the global economy, competition is particularly fierce and ruthless, based on the principle of natural selection and elimination of weaker economies; this principle has been applied in all human civilizations that have succeeded throughout history.

Man, the main actor must limit and control his excesses, suppress his instincts and try to dominate and control the future.

Globalization must ensure a harmonious development for every citizen of this planet, creating a modern, scientific and industrial civilization.

The current economic crisis can be solved only by civilized global governance. The power and the policy should be in the hands of qualified and competent persons, with a perfect knowledge of the laws of the market economy mechanism. The market is global and based upon an economy in which the capital will be the fundamental value of the markets unification. To achieve this goal and navigate in the right direction, people and firms must start from scratch.

Every economic system is being characterized by periods of stability and periods of crisis, which can be positive or negative, see the figure 2:

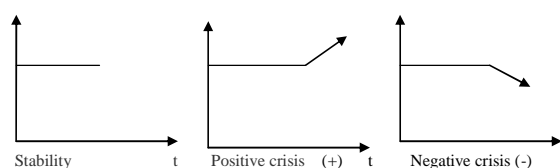


Figure 2. Stability, positive crisis and negative crisis [3]

During the today's economy crisis, companies should rethink their marketing strategy, advertising their

brand in order to reach the buyers. During economy crisis, incomes decrease significantly. People and firms need to reorganize their whole life, stay home for a segment of time, give up on expansive holidays etc. They change their habits, adapting to the new daily economic realities.

The buyers will choose to fulfill their material and spiritual needs with less money, using the reputation of the product as an element of personal satisfaction in the new conditions of supply and demand.

During the crisis, the company must give up to new strategies of attracting new buyers, as they consume large funds that the company needs during the recession. The effort should be aimed at maintaining the company's loyal customers, motivating them and giving various facilities for those who pay cash.

In conclusion: while crossing the crisis, both companies and the purchaser must redefine their relationships as business partners, using the most effective financial resources in order to escape the economic recession shock waves. The recession virus has contaminated the entire global economic market and influences the corporate reputation and strategies, and the chain of consequences stops at the consumer.

#### *Weaknesses of the Romanian economy:*

- crisis will last 2-5 years;
- economy contracts 6, 4% in 2009 and 2, 5% in 2010;
- lack of strategic vision in public investment.

#### *Romania's economic strengths:*

- reduced dependence on exports;
- low non-government credit - only 39% of GDP compared to 70-80% in some EU countries,
- reduced energy import dependency

How can companies overcome the crisis in the context of current economic and business development:

- urgent changed management;
- identification of success factors for business and brands
- management skills requirements
- inflation will exceed the limit of 3, 5% set by the NBR to  $\pm 1\%$ , one percentage point due to higher inflationary pressures and currency depreciation;
- inflation rate forecast : in 2008-6, 3% in 2009-5, 2% in 2010 - 4,0%.

Global economic recovery will be slow, long-term unemployment and protectionism. Started as a minor financial crisis has become a major economic crisis, and it is likely to develop in to a social and human crisis, with important political consequences. These risks concern mainly African continent, some Latin American countries, and some Eastern European countries (included Romania).

### **3. The importance of corporate reputation**

Reputation is an immaterial asset of the organization and is a key weapon against competition. In Romania, a solid reputation impedes competition because it is difficult to imitate it. A strong corporate reputation indicates good quality products and services and that the organization is responsible and treats its customers well.

More, immaterial assets are a competitive advantage because they have great value, are rare, and are either too difficult or too expensive to imitate, substitute or transfer. In general, one could say that the immaterial nature of reputation, rarity and social complexity make it difficult to imitate, which means that it can play an important role in determining the level of the performance differences between organizations. Organizational stock market went from material goods to immaterial goods. According to a study by Cap Gemini Ernst & Young (2003), between 80-85% of the market value of the S & P 500 consisted of immaterial assets, versus 15% of material assets.

The financial management accepts the idea that organizational reputation is an immaterial asset. From this perspective, reputation is an immaterial resource, socially complex, non-transferable and extremely valuable, whose organizational past plays an essential role. It has been proven that reputation does clear differences in performance. The view of organizational reputation indicates that reputation is a result of interactions and stakeholders' experiences over time. [4]

Some authors have shown that a good organizational reputation has a strategic value. Freeman (1984) suggests that stakeholders gather information about the organization behavior, and that is helping them to determine its purpose and values. [5] Researcher Wartic (1992) reached to the following conclusion: stakeholders, even confronted with negative information, change very hard their perceptions. [6]

It is very important that the public relations practitioner and communicator shows that reputation has a positive impact on the financial aspects of the organization, and demonstrates the efficiency of the nowadays increasing requirements of effective communication programs.

Data gathered by Fombrun & Van Riel (2004) indicate that the financial arrangements made for a period of up to five years by the organizations with a good reputation surpass the financial arrangements of those with a bad reputation. [7] Davier (2004) notes that reputation ensures approximately 3-7.5% of the early profits so should be regarded as an investment in order to achieve gains and not as simple costs. As an argument for these calculations, Davier brings a representative example: Exxon lost 5% of profits in the year after Exxon Valdez ecological disaster. Other researchers have also found evidence of the close connection between reputation, financial performance and market value [8].

Reputation plays a significant role in mergers, acquisitions and partnerships. Immaterial value of reputation is often valued implicitly, though sometimes explicitly by analysts, with the help of the stock prices, of the assessments made by credit agencies and credit programs. Mechanisms used in international organizations in order to increase the capital through immaterial assets include securing, lending, licensing and sales. Mc Brown (1998) states that "*a bad reputation draws a warning to investors, indicating that there is a risk of seizures, and when these crises will occur, organizations will not receive the necessary support of the audience to get out of that situation*". [9] Fombrun also, (1996) believes that "*companies that have a good*

*reputation capital are valued better than others*" and indicates that corporate reputation is an important evaluative factor for all the potential investors. [10]

#### 4. Romanian pharmaceutical market in the context of economy crisis

2010 was a very good year for the Romanian pharmaceutical industry; the domestic drug market reached 9.7 billion lei on the market. Despite the large number of companies, the first 20 firms control about 78% of the market. Drug sales amounted to 12 billion lei, marking an increase of 18%. After stagnation in 2008-2009, the growth of the last year boosted the pharmaceutical market growth. Analyzing the evolution of the pharmaceutical industry over the past three years, we find the confirmation that the drugs market has proved more resilient to crisis than other. Being less sensitive to economic cycle, crisis years added 4.6% to its market value. Studies indicate that a number of factors impede a similar pharmaceutical market growth in 2011. Among them: the decreasing public support, deterioration of the hospitals, extended payment terms, the increasing debts, etc.

Estimated range between 7% - 9%, and although growth is only half of the previous year's, these values can be considered quite well. If the estimates prove correct, the pharmaceutical market would reach 13 billion lei in sales.

A Cegedim survey indicates a decrease of the drugs sales volume and a decrease of the number of treatment days in the last three months of 2010. Only prescription drug sales have increased. Thus, the Q4 2010 growth at a rate of 4.4% compared to Q4 2009. The first three months of 2010 have brought modest increases, below the 2010 average. The pharmaceutical market registered a 2.8% advance in the first quarter, the value confirming the growth forecasts for this year. (Cegedim). This growth was supported by prescription drugs sales. Further poor evolution is estimated in the hospital segment.

In Romania manufacturers distribute their products through one or more distributors, using the traditional distribution model: distribution agreements and distribution general conditions – accepted by distributors. The wholesale distribution of drugs in Romania has been in the continuous attention of the competition authority. In order to analyze the functioning of the Romanian distribution system and the modifications that might occur on short and medium term, the Competition Council has conducted a sector

investigation; there have been reported some malfunctions related to distributors access to certain drugs. The investigation was performed on a sample of 23 pharmaceutical groups activating on the Romanian market (holding more than 80% of the Romanian market in 2009). The sector inquiry had two objectives, namely the market analysis of legislation affecting the wholesale distribution of drugs and the analysis of drug distribution market. Have been analyzed the high level of market concentration due to the significant market shares held by innovative drugs. In the investigation were analyzed also the penetration of generics in these markets and the factors that led to that situation.

There is a high level of market concentration due to intense commercialisation of innovative drugs: there are 36 markets containing Top 50 drugs, 29 markets containing innovative drugs, 3 markets containing both innovative and generic drugs and 4 containing generic drugs. [11]

In this context, Procter & Gamble turned to Goldman Sachs in order to find potential customers interested in buying the company's pharmaceutical division. The company officials said that they would be opened for any other options of getting out of business. According to P & G Global, the company surpassed \$ 2 billion in cumulative sales in 2008. The company sells products of brands like Gillette, Colgate or Crest, and last year pursued the increasing of all developed business since 1837. [Reuters]. A.G. Lafley, Procter & Gamble chief executive, said late last year that the whole company had given up investing in research and would like to renounce to some pharmaceutical industry brands.

A BMI market study estimated that the Romanian market ranks the 6<sup>th</sup> place in the emergent Europe, and that a person spends about 175 \$ on medication, much less compared to other East European countries.

Here there are presented some positive examples regarding business survival in a time of economic crisis. In 1998, Antibiotics S.A. - registered sales growth below the market average, (10.86). The sales improved considerably in the first quarter of 2011 (19.5% to 22.5% turnover and net profit). [12]

In 2010 Biofarm S.A. – Registered a 22.63% sales growth, achieved as a result of considerable efforts.

In 2010 Sandoz SRL - registered 16.04% sales growth and brought three specialists in order to provide viable solutions to overcome the crisis. Table 1 presents statistical arguments:

**Table 1.** Project selection matrix rules [18]

Drug producers	Year	Turnover	Employees	% y/y
Antibiotice S.A.	2008	215805947	1523	-
	2009	219754104	1430	1.8%
	2010	243626062	1441	10.86%
Biofarm S.A	2008	65102889	335	-
	2009	67108836	343	3.08%
	2010	82294885	343	22.63%
Sandoz S.R.L.	2008	253892410	203	-
	2009	250467914	203	-1.35%
	2010	290645714	206	16.04%

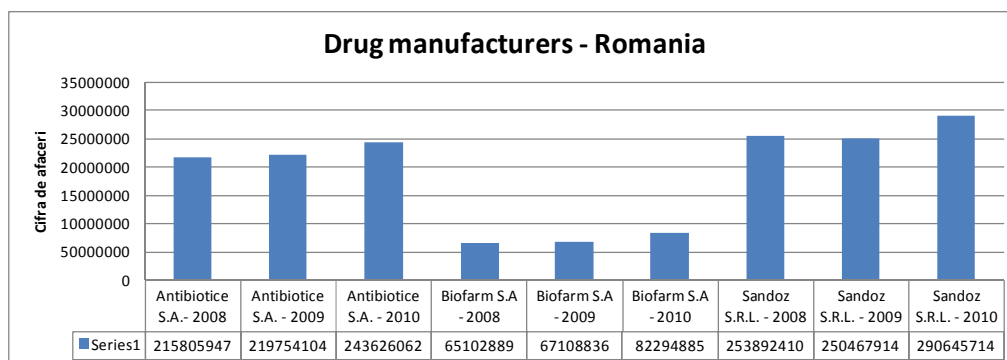


Figure 3. Diagram of turnover of the three drug manufacturers in Romania [18]

## 5. Crisis and steady increase in drug consumption. Why?

Romanians are champions in consuming non-prescription drugs; each family has one small home drug deposit. Sociologists say that the phenomenon is caused by hypochondria and by people's habit to hold stocks of drugs.

If a person has symptoms of illness 18 days per year, the research shows that he treats himself: 5 days with self-medication, 3 days with drugs prescribed by his doctor, 3 days with natural remedies, and one week he ignores the symptoms and takes no remedies at all. Most drugs sold without prescription are remedies for cold and flu, painkillers, vitamins and minerals, liver protectors, remedies for peripheral circulation. Antibiotics and the anti-inflammatory drugs represent a significant amount of drugs taken without discernment. Selling them without a prescription is prohibited by law, though pharmacies can sell them at a dose of emergency (for 2-3 days) during night shifts, public holidays and weekends. Clara Smith, vice president of the College of Pharmacists in Romania, "In France I could not manage to buy an antibiotic ointment, even if I showed my pharmacist badge. There you risk losing your license by selling a drug without a prescription". Danger of self-medication is that antibiotics are no longer effective, and bacteria and viruses become resistant. [14]

This phenomenon takes place because people want to control their own health; people should become aware of the risks involving self-medication. If used properly, medicines can bring relief. For example, insulin and antibiotics, as well as the inexpensive and simple oral rehydration solution save lives. But it is difficult to evaluate the benefits and the risks of self medication. It is true, in some regions of the country the qualified medical aid is probably too far or too expensive. Therefore, when they need information about a specific medication, many people rely on their friends and relatives opinions or read self-improvement books. Also, "advertising campaigns insinuate that by buying a capsule, you can be healthy and feel good. Therefore, in order to face the

consequences of an excessive work, of a poor diet and even the emotional distress, many turn to drugs. Instead of improving their quality of life, people try to solve their problems by using pharmaceutical products. And who knows if patients have the correct diagnostic? Besides using drugs in order to treat some health problems such as headaches, hypertension and upset stomach, many use drugs trying to cope with their anxiety, fear and loneliness. Even qualified medical staff is inclined to prescribe and recommend a variety of analysis. There is no interest in the patient's medical history. The time that physician spend with his patients is limited, the doctor treating only the symptoms, not the causes. Medical use of drugs is a way to solve social problems. However, some doctors warn that psychotropic medication should be prescribed carefully. [15]

Indeed, a drug may also harm. Anorectic pills work upon the nervous system and therefore may trigger some side effects such as insomnia, behavioral changes, and in some cases even hallucinations. A tablet may be the beginning of a vicious cycle of treatments, each new treatment neutralizing the effect of the other. Many commonly used drugs can provoke stomach irritation and even nausea, vomiting and bleeding. Certain drugs can create addiction or harm the kidneys and liver. This mania for vitamin supplements is extremely dangerous. Many say that the vitamin supplements taken in the correct dosage may be necessary or useful in treating certain diseases and disabilities. Some doctors believe that nearly 10 percent of the headaches are caused by the abuse of painkillers. Many people come to have headaches every day instead of once a week due to self medication. It has been discovered recently that patients who take too often headache painkillers have a deficit of serotonin, a substance that prevents blood vessel dilatation. Low levels of serotonin leads to arteries dilatation, which causes headaches. [16] Even relatively small overdoses of substances, such as paracetamol, an active ingredient of Tylenol, and many other non-prescription drugs can affect seriously the liver, especially when taken in combination with alcohol, can cause death. Most people believe that they can take a dose two or three times higher than the recommended one without being affected. [17] This does not apply in the case of paracetamol. As paracetamol dissolves, body secretes a poisonous secondary product that is poisonous for the liver. Liver is protected by an enzyme responsible for detoxification, called glutathione. However, an

overdose of paracetamol can overcome defensive measures of liver. Alcohol induce glutathione depletion, therefore is very dangerous to take this medicine after consuming alcoholic beverages. And since more than 300 pharmaceutical products contain paracetamol, it is easy to reach an overdose without even being aware of it.

## 6. Conclusions

Research proposed theme led to the formulation of conclusions and recommendations below. Drugs have been created with the noble purpose of improving people's health; however in recent decades this sector has become a large global industry, but it has not reached the intended purpose. In our country the pharmaceutical market is growing, this field is one of the most dynamic in the domestic economy.

In order to overcome the economic crisis and avoid a major failure in 2011, we would like to recommend several measures: 1. attraction of a large amount of European funds; 2. funds orientation towards investment; 3. responsibility in spending money; 4. shortening and simplifying the European funds terms of access.

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