

## Chapter 10

# Interests-Setting

Peter was fast on his way up the corporate ladder and the new position as country manager had sounded like an ideal next step on his route to becoming CEO one day. His career within the company had been stellar, but so far he had lacked the international experience needed to have a shot at the top job. So, when he was asked to head the company's biggest foreign subsidiary, it seemed like a golden opportunity. But now that he had been on the job for two weeks he was starting to wonder whether in reality the 'golden opportunity' was fool's gold.

Running this huge subsidiary of 3500 employees in a country he had never visited before would have been challenging under the best of circumstances, but his actual assignment was outright intimidating. His task was to close two of the four pharmaceutical production sites and shift the work to cheaper locations offshore. In parallel, the two remaining sites would need to radically cut costs, probably resulting in job losses for about a quarter of their workforce. Taken together, more than two thousand people would need to be laid off, which would not be easy as employment regulations were very strict and the unions extremely militant.

The logic for the restructuring had sounded compelling to Peter. In the past, the pharmaceutical industry had been highly profitable, focusing on developing new products and getting them to market quickly. But as the number of blockbuster products coming out of the development pipelines had steadily declined, firms had become more dependent on older drugs, many of which were no longer protected by a patent and therefore had to compete with lower priced generic drugs. As for the increasingly expensive new drugs, these had caught the attention of budget-sensitive governments and insurance companies, looking for means to keep rising health care costs under control. The result had been tough price negotiations and often an imposed maximum price, seriously reducing the pharmaceutical companies' returns.

To shore-up their profitability, pharma firms had taken an axe to their cost structures, trimming some marketing spending, but mostly slashing production expenditures. Manufacturing had traditionally been close to where R&D had taken place, at scattered locations, so savings could be found by integrating plants to achieve economies-of-scale and transferring activities to cheaper locations. Furthermore, there was plenty of scope for process reengineering to achieve more efficiency, to automate in order to cut labor costs and to outsource to low cost outfits. All these interventions were on Peter's agenda. And as an extra incentive, he had even been promised 10% additional bonus for each 1% reduction in production cost that he would be able to realize.

Peter's initial worry was how to deal with the hard-nosed unions. They and their members had a lot to lose and it seemed likely that they would not accept the intended measures without putting up a fight. But Peter was also concerned about keeping the highly qualified employees on board, as they would have the best opportunities elsewhere and might be the first ones to jump ship if they saw stormy weather ahead. Losing his top talents would jeopardize production continuity in the short run, but more importantly make the upgrading of the facilities in the longer run more difficult. Getting people to follow him through this transformation process and support him in making it a success was not going to be easy.

But after two weeks of talks with all key stakeholders in the subsidiary, Peter's mental state had migrated from worry to guilt. Many of the two thousand people that would be laid-off had worked their entire lives for the company and particularly the older employees would have considerable difficulty finding new jobs. The local communities would be devastated. Didn't Peter have a responsibility towards these people – the people he wanted to lead? It also became clear to him that the subsidiary had enormous untapped potential, but for years lacked the leadership to bring it to a higher level. Shouldn't he champion their cause?

But at the same time he feared that serving their interests would be against his own. He had accepted the restructuring task and not sticking to his assignment would threaten his standing as 'golden boy'. Choosing between his own, and the interests of the people around him, was a bitter pill and one he was not yet ready to swallow.