STRATEGIC CHANGE MANAGEMENT

MERCK &CO., INC.: CORPORATE STRATEGY, ORGANISATION AND CULTURE (A) CASE STUDY

By Jack Onyisi Abebe

TABLE OF CONTENTS

1.0 Background of Merck....4
2.1 The Case at a Glance....4
2.2 Principal Competitors....5
3.0 INTRODUCTION....5
4.1 BUSINESS ANALYSIS....5
4.2 PESTEL....5
4.2.1 Political forces....5
4.2.2 Economic factors....6
4.2.3 Legal forces....6
4.2.4 Social forces....6
4.2.5 Technological factors....7
4.2.6 Competition....7
4.3 Swot Analysis....8
Table 1: SWOT analysis....8
5.0 Cost Cutting strategies used by MERCK....10
COST CUTTING STRATEGIES USED BY MERCK....10
5.4 Down sizing....10
6.1 CHANGE MANAGEMENT AT MERK CO. INC....11
6.2 Created Ownership....11
6.3 Communicated Change....12
6.4 Creation of Layers and Address Each Group....12
6.5 Addresses the Human Aspect – Reach Out To Every Individual in the Value Chain....12
7.0 Employees Concerns during the Change Process....13
8.1 Merck Leadership and Strategic Directions....13
8.2 Roy Vagelos as the CEO....13
8.2.1 Roy Vagelos strategies....13
8.2.2 The underlying issues indentified....14
8.2.3 Functional decision making....14
8.2.4 Functional Barriers....14
8.2.5 Company by management....14
8.2.6 Poor global coordination....15
8.2.7 Lack of employee development policies....15

8.2.8 Findings....15
8.3 Ray Gilmartin Reign as CEO....15
8.3.1 Strategy Formulation under Ray Gilmartin Reign as CEO....16
8.3.2 Restriction of the management team....16
8.3.3 Strategy Implementation....17
8.3.4 Strategy Evaluation and Control....17
8.3.5 Current Challenges....19
9.0 Recommendations....20
10.0 References....20

1.0 Background of Merck

Merck & Co., Inc. is one of the largest pharmaceutical companies in the world. Merck also develops, manufactures, and markets pharmaceuticals through a number of joint ventures, including: a partnership with Johnson & Johnson that concentrates on designing and commercializing over-the-counter versions of prescription medications, such as Pepcid AC; a venture with Aventis A.G. focusing on the European vaccine market; and another partnership with Aventis, this one concentrating on animal health and poultry genetics. Nearly half of the company's revenues are generated by Merck-Medco Managed Care, a pharmacy benefit management subsidiary principally involved in selling prescription drugs through managed prescription drug programs. Merck spends more than $2 billion each year on pharmaceutical research and development. About 40 percent of the company's human health product sales are generated outside the United States.

2.1 The Case at a Glance

Although Vagelos had built Merck into its position of industry preeminence by the time of his retirement, the entire pharmaceutical sector was in upheaval stemming from the growth of managed care. Sales and earnings growth were on the decline. Industry pressure resulted in large mergers that created Glaxo Wellcome plc and Novartis AG and toppled Merck from its position as the world's biggest drugmaker to a tie for third place with Germany's Hoechst Marion Roussel. Merck also was suffering from the difficult 18 months it took to find Vagelos's successor and the 'turf-conscious, defection-ridden' culture that Vagelos left behind. One of Gilmartin's first major tasks, then, was to restructure the company's management team. In September 1994 he set up a 12-member management committee to help him run the company and plot strategies for growth. The management team included sales executives in Europe and Asia, the heads of the veterinary and vaccine divisions, the president of Merck-Medco, and executives from the research, manufacturing, finance, and legal areas. The creation of this committee helped to streamline and flatten Merck's organizational structure, fostered a greater degree of company teamwork, and halted the exodus of top managers that occurred during the Vagelos succession.

One of the management committee's first acts was to create a mission statement for Merck, which affirmed that the company was primarily a research-driven pharmaceutical company. Gilmartin then launched a divestment program, which jettisoned several noncore units, including a generic-drug operation and a managed mental-health care unit. In 1995 Merck sold its Kelco specialty chemicals division to Monsanto Company for $1.1 billion, and its other specialty chemicals unit, Calgon Vestal Laboratories, went to Bristol-Myers Squibb Company for $261 million. These sales also helped Merck pay down the debt it incurred in acquiring Medco, a unit that Gilmartin retained.

2.2 Principal Competitors

Bristol-Myers Squibb Company; Glaxo Wellcome plc; Schering-Plough Corporation; among others not listed in the case.

3.0 INTRODUCTION

Merck & Co incorporation is a pharmaceutical Co. that faced tumultuous time in the early 1990. It was ruled by powerful forces from within and outside the organisation. The company was forced to revise its basic strategy and align its organization arid competitive turmoil and shake of its top management team including the departure of a celebrated CEO Roy Vagelos.

During the period, the company sales and earnings growth slowed dramatically, company stock valuations fell precipitously. The company had to change its strategy formulations development, implementation and its evaluation and control style.

4.1 BUSINESS ANALYSIS

To assess the business environment of Merck's Inc., we will use PESTEL and SWOT analysis.

4.2 PESTEL

This analysis of Political, Economical, Social, Technological and Legal forces enabled the senior management planners to bring together a comprehensive review of the external environment. These further help in the understanding of how Merck's management came up with strategies to revive the company.

4.2.1 Political forces

These factors indicate how and to what degree a government intervenes in the economy. The political climate influences the types of legislation which in turn influenced corporate spending or tariffs on drugs and services at MERK. Political factors were at times restrictive or beneficial. Specifically, political factors included areas such as price control, patent laws, tax policy, labour law, environmental law, trade restrictions, tariffs, and political stability.

In early 1990, the political forces influence became evident in the pharmaceutical industry when pharmaceutical companies came under political attack following U.S. President Bill Clinton's election in 1992. Clinton initiated a review of the entire U.S. health care system, which ultimately recommended a new system of federal control on health care including priced control on prescription drugs. This was because of their non profit margins and their alleged contribution to runaway U.S. health cost.

4.2.2 Economic factors

These factors include economic growth, interest rates, exchange rates and the inflation rate. These factors had major impacts on how MERCK operated and made decisions.

In the period prior to 1990, pharmaceutical Industry had high profits, and was one of the most profitable in the United States. The industry was highly fragmented with no company controlling more than 5% -6% of industry sale. This shows the high competition in the industry. These forced firms in 1993 to reduce costs particularly in research and development costs. There was increased growth of strategic alliances, mergers and acquisition as players attempted to gain scales and scope advantages. The alliances increased from 121 to over 400 between 1986 and 1993. In November 1993, Merck acquired Medco containment services, the largest Pharmaceutical benefit manager in the United States.

4.2.3 Legal forces

The change in legal regulations paved way for increased competition from generic substances against patented drugs. In 1984, a Waxman_Hatch Act came into effect and reduced the barriers to generic entry by accelerating the approval process for the drugs. After Waxman_Health generic substitutes began appearing in the market. Immediately after, branded drugs lost patent protection, whereas before Waxman_Hatch generic entry had taken years. These changed the rules of competition in the industry including reduced prices. Generic share rose from 19% in 1984 to 36% in 1993.

4.2.4 Social forces

Social factors include the cultural aspects and include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety. Trends in social factors affect the demand for a company's products and how that company operates. For example, an aging population may imply a smaller and less-willing workforce (thus increasing the cost of labor). Furthermore, companies may change various management strategies to adapt to these social trends (such as recruiting older workers).

The industry nature is also affected by the social organization and also changes in population. The growth of managed care organisations (MCO) mounted pressure to reduce drug prices by introducing the number of drugs offered to patients is a particular therapeutic category. To illustrate the change, we find that in 1980, only 5% of the insured in US population was covered by managed care. However, by 1993, the figure had risen to 80%. By 1995, NCOs accounted for 75% of drug purchases, and they used their purchasing power to extract large price concessions from drug manufacturers. The industry players have to charge their strategy as most of their customers are third party buyers.

4.2.5 Technological factors

These include technological aspects such as R&D activity, automation, technology incentives and the rate of technological change. They can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation. Technology factors are the scientific advances, which influence the competitive position of the enterprise. Maintaining awareness of new technologies decreases the probability of becoming obsolete and promotes innovation. Advancements in technology can impact the transformation plan in many ways. New technology as cited in Develop Vision and Strategy (n.d.) can change the demand for a product, render current manufacturing processes obsolete, and reduce costs to undercut competitors, produce new products and a host of other possibilities.

MERCK indicates that the strategy as articulated by senior management at the time was generic as it was not operational since it seemed to reflect confusion in the future role of research. Research was underfunded, underplayed and under focussed. This had been the organization's traditional competitive strong hold hence needed revival for competitive advantage.

4.2.6 Competition

Every business has external peers that perform similar functions within their professional discipline. These peers are considered competitors and they are rival producers of goods or services. These competitors contribute to the overall industry by their ability to deliver goods and services of high caliber at competitive prices. Competition is good from a market perspective as it gives consumers choices and provides the businesses and opportunity to create a niche. In MERCK, they site several strategies to apply in strategy formulation. One of them, is understanding your competition's weakness and then exploits it. Competitors are purchased as a strategic move to gain market share for example *hundreds of pharmaceutical companies competed in more than 20 different therapeutic categories. The industry had been fragmented with no one company controlling more than 5%-6% of sales.*

4.2 Swot Analysis

Merck and Co. Inc. is in a competition industry, vulnerable to external factors as analysed under the PESTEL analysis. Now to breakdown the factors, we use the SWOT analysis to know the strength, weakness, opportunities and threats facing the company so that we can understand the strategies required and to be implemented.

SWOT analysis is a strategic planning method used to evaluate the **S**trengths, **W**eaknesses, **O**pportunities, and **T**hreats involved in a project or in a business venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favourable and unfavourable to achieve that objective.

- **S**trengths: characteristics of the MERCK or team that give it an advantage over others like Bristol-Myers Squibb and Galaxo in the industry.
- **W**eaknesses: are characteristics that placed the firm at a disadvantage relative to the aforementioned and others.
- **O**pportunities: *external* chances to make greater sales or profits in the competitive environment.
- **T**hreats: *external* elements in the environment that could cause trouble for MERCK.

Table 1: SWOT analysis

FACTOR	STRENGTH	WEAKNESS	OPPORTUNITY	THREATS
Organization structure	-Strategic decision making -Quick decision making	-Functional barriers -Bureaucracy in solving issues -poor global coordination of its activities	Expertise management to identify business opportunities	-Flexibility by other competitors in their management structure
Market share	-Among giant market players -Has a global strategy -Had focused on	-Less secure in some markets because of generic drugs -Increased acquisitions and	-Internal growth -Acquisitions and mergers -Strategic alliances	-Substitutes generic drugs -Increased competition

	customer satisfaction as its quality orientation	mergers by competitors -Marketing viewed by MRL as weak and medically unsophisticated		

Product range	-Wide range of products -Strong brands -Quality established	-	-Improve bulk purchasing -Maintain high quality	-Price decrease -Failure to recognize the needs of customers -WAXMAN accelerated the approval process for drugs including generic ones -Policies infringing into the patented drugs-the Waxman sought only that drugs had same chemicals and were biologically the same.
Financial position	-Steady growth in sales -Excellent cash flow and profitability	-Change in business environment affects the performance	-Reduce costs while maintain quality of products and services	-Influx of generic drugs-generic drugs price over 30% to 90% discount to brand names -Possible dip in returns due to low prices
Customer base	-Regular customers	-	-Sustain growth	-Competitors activities

Staff efficiency	-Good staff compensation mechanism -staff able to identify areas of adjustment lie R$D, competent	-Rewarded managers based on individual achievement not on team building and people skills	-Staff development and training	-Less satisfactory performance due to bureaucracy and certain rigid policies
Management	-Dynamic and results oriented	-	-	-frequent changes could impede business operations and culture

5.0 Cost Cutting strategies used by MERCK

COST CUTTING STRATEGIES USED BY MERCK

The following factors, among others, could cause actual results to differ from those set forth in the forward-looking statements: the possibility that the expected synergies from the merger of Merck and Schering-Plough will not be realized, or will not be realized within the expected time period; the impact of pharmaceutical industry regulation and health care legislation; the risk that the businesses will not be integrated successfully; disruption from the merger making it more difficult to maintain business and operational relationships; Merck's ability to accurately predict future market conditions; dependence on the effectiveness of Merck's patents and other protections for innovative products; the risk of new and changing regulation and health policies in the U.S. and internationally and the exposure to litigation and/or regulatory actions.

5.4 Down sizing

The Company planned to eliminate quite a number of vacant positions. These workforce reductions will primarily come from the elimination of duplicative positions in sales,

administrative and headquarters organizations, as well as from the sale or closure of certain manufacturing and research sites. They hired a consultant to help engineer this process.
There are a number of reasons why a MERCK downsized its employee base.

- **Merging of two or more firms**: When it combined its operations with other firms and operated as a single entity, in order to stay in profit or expand the market reach. In case of a merger, certain positions became redundant. The same work is done by two different staff members. Usually in such a case, the company cut staff to eliminate redundancy in work. It is characterized by some employees leaving an organization voluntarily, or by lay-offs, especially in case of higher management positions.
- **Acquisition**: If MERCK purchased another organization, there is a definite change in the management and the acquired company staff had to face unemployment. The reason for this is the same as the earlier case, viz to cut costs and and increase the revenues.
- **Change in management**: The change in the top brass of a company also resulted in downsizing. The working methods and procedures varied with the management. Therefore, a significant change in the management roles may drastically affect the employee size to suit a particular style of working.Different managers of the company came in with different strategies of cutting costs including this strategy of down sizing
- **Strategy changes**: The company reduced certain areas of operation and focus on other areas-core competency. It focused its resources on specific projects, which could be profitable ventures. Hence this led to downsizing.
- **Excessive workforce**: In a period of high growth, MERCK had hired excess staff, to meet the needs of a growing business. However, in times of recession the business opportunities dwindle, leading to downsizing of the surplus staff that was hired.
- **Increase in efficient work flow and computerized services**: If an organization work process is extremely fast and easily meets the requirements of the market, it may downsize some of its workforce. Similarly, if manual work can be done by a machine, in a much better and cost-efficient way, it also results in the reduction in the number of employees.

6.1 CHANGE MANAGEMENT AT MERK CO. INC

In order to support the various feasible changes made in the organization, the executives ensured the following;

6.2 Created Ownership

Whenever any form of change hit the company, people sought and needed answers to all their queries. If left unanswered, such questions give way to dissent and mistrust about the change.

The credibility of the management executing the change also came under scrutiny. Teams with nominated or appointed leaders were created to dissipate such a scenario, which can dampen the objectives of change in the firm. Appointed leaders operating in small teams have been observed to be more effectual than the manager you last saw at the annual conference during change management. This will created ownership and mutual trust leading to effective implementation of change processes.

6.3 Communicated Change

Good communication is, more often than not, the biggest carrier of any proposed change. Senior leadership often assumes the communication process to be effective, when it is not. The focus on the formal communications network should be interspersed with the way in which the informal networks are used: an impromptu meeting with the CEO or an extempore at the quarterly meeting could sometimes be more emphatic than a formal memo. Research has exhibited that the various communication channels companies use have different levels of effectiveness for example a face-to-face conversation will always work better than an email, which could at best serve to reinforce. The company management resolved that both as individuals and as a team they would be actively involved in the changes. This was communicated in a meeting.

6.4 Creation of Layers and Address Each Group

As mentioned previously, the groups created with objective of implementing change successfully should be small. An average employee feels ‘lost’ in a maze of people and keeps his questions and objections, if any, to himself. As the change cascades throughout the organization, each group should feel involved and empowered; each individual should feel they have contributed towards the successful implementation of the efforts. They should feel aligned with the company’s vision, and understand the need for change, in the context of their markets, competition and other related aspects. Lou Tice, founder of **The Pacific Institute**, once said “All meaningful and lasting change begins on the inside and works its way out.” For example this can be achieved through participation and staff involvement programs.

The staffs of MERCK were involved as individuals and teams in every aspect of the change processes.

6.5Addresses the Human Aspect - Reach Out To Every Individual in the Value Chain

Any change effort requires people to reconcile and adjust to the new situation they find themselves in. As job functions are moved around, responsibilities reassigned, and in some cases restructuring of the company (firings), people are led by their personal agendas to protect themselves. If not given the credence of being an important part of the organization, employees are vulnerable and susceptible to the ‘water-cooler’ conversations that often act as rumor mills, impeding the change process. As Steven Covey famously said, "People can't live with change if there's not a changeless core inside them. The key to the ability to change is a changeless sense of who you are, what you are about and what you value."

The value of change was obviously owned by managers who through leadership passed it onto the other staff.

7.1 Employees Concerns during the Change Process

1) The profiling process revealed that MERCK employees viewed the company as highly function- oriented. This was reflected in the company’s long range planning process which they viewed as disjointed and divorced from strategic issues. Others contended that the annual profit planning process did not match MERCK’s cross functional business processes and saw incapability between performance measures.

2) Employees also complained that MERCK’s finance function was more of a control function than one oriented to towards helping line organizations to make better financial decisions. The viewed it a policeman since they dominated the process.

3) The employees were concerned by the fact that resource allocation was driven by MERCK’s functional groups contrary to the norm as it should of using overall strategy in resources allocation. Furthermore, other functions found it hard to influence MRL in the resource allocation process. –USHH was frustrated and had to go through White house station to have themselves allocated resources.

4) Employees reported difficulties integrating vaccine demands with the rest of the organization, a fact which revealed shortcomings at the company’s vaccine division.

5) Employees were also concerned that the company’s new coordinating mechanisms, PACE and WBSTs were not being integrated sufficiently into MERCK’s existing functional organization. They saw PACE as duplicative while WBSTs were not well understood.

6) Employees complained that there was no discernible career path at MERCK and they were strongly critical about MERCK’s Human resources.

8.1 Merck Leadership and Strategic Directions

8.2 Roy Vagelos as the CEO

The CEO, Vagelo came up with strategies to redeem the company.

8.2.1 Roy Vagelos strategies

1. Reduction in costs. Waste costs were to be cut out. There included implementing a free voluntary early retirement program and discontinued the employee service awards, with less than 25 years of service.

2. Business expansion strategy though acquisition e.g. in 1993, Medco containment service was acquired.

The following are 7 areas that the CEO though required action taken in implementation of the strategy;

1. Increase sales volumes to enhance profits.
2. Develop new drugs.
3. Communication of information to decision makers
4. Improve efficiencies
5. Reduce costs through low cost production.
6. Growth through new products, innovation and ideas.
7. Reduce employee expenses by reducing head count.

The senior management meeting established that the actions taken by CEO Vagelos did not address the challenges that were facing the company; rather they were quick fix solutions which were not giving long lasting solutions.

8.2.2 The underlying issues indentified

8.2.3 Functional decision making

Decision making was two tier based but it was donated by company senior research and development scientists at Merck research labs (MRL), where marketing was seen as comparatively weak. These led to non inclusive decision making. The poor communication between the two meant the decision making was bound to suffer.

8.2.4 Functional Barriers

Functional excellence had been the basis for marcis success in the market place. However, it also made efficient nad cross functional decision making difficult nad costly. The role of marketing group became increasing unclear which limited its ability to influence MRL.

8.2.5 Company by management

The employees at Merck looked at the years of success and developed tendencies of arrogance and complacency. Some employees also complained the Merck was too bureaucratic and that they spent an inordinate amount of time in management meetings. For Vagelos to succeed in his action, he had to address these urgently.

8.2.6 Poor global coordination

Merck faced a problem in the global coordination of its business a manifest in the past by sometimes contentions, relationship between WHHM and Mercks country organizations and between those groups and MRL.

Achieving global coordination by product category thought the organization while maintaining functional excellence was the most difficult.

8.2.7 Lack of employee development policies

Lack of employee development policies which lowered the employee motivation, employees had complains about lack of discernible career path at Merck and were highly critical of the company, HR function.

8.2.8 Findings

We find that the CEO, Vagelos was not only wrong in the actions he recommended to revive the company, but also did not take time, together with management committee to analyse the business environment both internally and external to address all the challenges facing the business.

The road to recovery by Merck was further thrown in disarray when Richard Makham resigned as a president of the company casting uncertainty on the succession process and increased confusion in the organisation.

8.3Ray Gilmartin Reign as CEO

After times of uncertainty over the succession of Vagelos, Ray Gilmartin was appointed the CEO and the president of Merck in June 1994.

Being an outsider in the company, he initiated what was famously known as "Ray's due diligence". Through this exercise, Gilmartin carried out the following which were meant to help him have a thorough understanding of the company.

1. Interviewed approximately 80 people across the company about their views on major issues affecting Merck. These helped him understand the internal and external environment of the company.
2. He viewed managed care as an opportunity rather than a threat. He resolved to position Merck to serve the emerging needs of this new dominant class of health care payers. He also believed that competition in pharmaceuticals would continue to increase, bringing

with it shortened product lifecycles and continued downward pressure on prices and earnings thus the need for the company to come up with competitive strategies.

3. Improved corporate organizational strategy

Gilmartin moved rapidly to address the lack of specificity and clarity around organization's strategy by ensuring strategic thinking in the organization and a clear vision.

8.3.1Strategy Formulation under Ray Gilmartin Reign as CEO

Having understood the challenges facing Merck company, Gilmartin, after the "due diligence test", he set out to launch the new strategies direction to help overcome the challenges.

8.3.2 Restriction of the management team

In September 1994, Gilmartin eliminated the two tier structure (the chairman staff and the management council) that had existed under Vagelos and replaced it with one management committee comprised of direct reports. This was meant to enhance communication and decision making in the company.

1. In the first management committee meeting, the basic strategy decisions were made. Merck was to focus on its core business.
2. The committee further resolved that Merck would remain a research based pharmaceutical and vaccine company with the overriding goal to become the top tier growth company by making Medco acquisition to pay off.
3. Preserve the profitability of the core business by being able to respond quickly to change and opportunity. This would be achieved by offering continuous learning and growth to employees, where increasing productivity and effectiveness will be permanent strategies and less hierarchy and more teamwork.
4. Maximize sales growth by improving on cornerstone of research, strongly promoting existing products and strongly launching new products.
5. Divestment. Merck co. decided to exit generic drugs and later decided to divest its speciality chemical business.
6. Growth strategy

The company resolved not to seek growth through mergers or acquisitions but rather through its own research and development program.

8.3.3 Strategy Implementation

After strategy formulation, in 1995, Gilmartin started to lay foundations for the less hierarchal, more responsive empowered and cross functional organization that they envisioned and felt it was necessary to execute Merck's strategy.

1. The management committee resolved both as individual members and as a team to be involved in the change process.
2. To break the functional barriers and solve its global co-ordination problem, the company launched the Product and Cycle Time excellence (for products under development) and the worldwide business strategy team process (for marketed products). The consultancy services of Pittiglio Robin Todd & Mc Grath (PRTM) to implement the product and cycle time excellence. This was called the PACE process. it was meant to make better, more efficient and more timely product development decisions.
3. A cross functional product approval committee (PAC) responsible for product development and commercialization was also established and its progress measured through a stage review process.
4. The worldwide business strategy teams (WBSTs) helped coordinate worldwide franchise activities for Merck products. There four phases of WBSTs life which was strategy assessment for products, program generation for review, monitoring of the programs and proposals and lastly each team conducted a continuous revision of the strategy. The team findings and recommendations would be given to the management committee twice a year.

8.3.4 Strategy Evaluation and Control

After the first implementation of the strategies, it was time for evaluation in what was termed as "Organizational fitness". Gilmartin initiated a comprehensive internal review of the issues facing the company. A task force was created to interview close to 100 people across all Merck's functional areas. The services of Mr Michael Beer, an outside consultant were hired.

This process was meant to help senior leadership team in partnership with lower level managers to inquire into the extent to which the organization possessed capabilities to implement strategies and to what extent they had gone in doing so.

The exercise revealed the existing challenges in the organization according to the respondents.

1. The company was still function oriented and was disjointed from strategic issues and there was incompatibilities between performance measures. For instance finance function

was more of a control function than one oriented toward helping line organization make financial decisions.

2. Resource allocation was driven by Merck's functional groups, not by the firms overall strategy thus making the unresponsive to the market and business needs.
3. There was weak internal planning process which made resource trade off across business difficult due to functional barriers.
4. The management committee had achieved most of its objectives and thus had earned mutual trust and improved personal relationships between members.
5. Employees were concerned that the company's two new coordinating mechanism, the PACE and WBSTs were not being integrated sufficiently into Merck's existing organization.
6. Employees reported the problem of work overload had not been addressed. They reported resenting the all consuming nature of work life at Merck. They had to work late at night and on weekends to meet strict deadlines.
7. Lack of employee development and training. The human resource was seen as bureaucratic and unresponsive to line requests and was lagging in the timely development and implementation of employee program.

These issues were immediately addresses by the management committee that put in place strategies to overcome these, they were

1. Review Merck's strategy for the year 2000 and above
2. Overhaul the planning process with emphasis on resource allocation
3. Develop a more effective management committee with a clear structure
4. Clarify the role of PACE and WBSTs
5. Improve Merck's management development, training and reward system
6. Make communication to employees more honest and effective
7. Increase understanding between Merck and Medco division
8. Address pressing issues inherent in Merck's culture that were limiting change

To this point, the strategies applied by the company under the stewardship of Ray Gilmartin have yielded tremendous results. In 1998, Merck co. was considered to be the premier research based ethical pharmaceutical company in the world. It was also listed among the top 300 of the Fortune list of companies

Merck had increased its investment in R&D and sales marketing and delivered the business results in drug recovery, development and new product launches.

The employees believed the organization had improved in corporate strategy, Medco-Merck relationship, Leadership development, and management committee and employee communication.

The management committee devised comprehensive leadership training and development program for employees at all levels of the organization in management skills, development and leadership skills and identifying development needs.

There was improved management –employee communication. Communication had become a management priority unlike before when it used to be driven by the HR function.

8.3.5 Current Challenges

For the company to reclaim the lost glory the fight is not won yet, there is work in progress the management has to commit to.

1. The process of improving internal planning and resource allocation is still in progress. Among the issues reduce the speed of recovery and growth is the poor internal planning system. The resource allocation process has to shift from allocation by function to allocation around strategy with savings from productivity invested in R&D, marketing and sales.
2. The initiated cross functional process has yet to reflect a true integration of its global business. According to the survey carried in 1997,WBSTs had not been fully intergraded in Merck's functional organization
3. Unexploited market capabilities
   There is poor coordination of marketing activities worldwide thus leading to poor communication between marketing and research team and this lowers the performance of the company.
4. High competition
   In 1997, Merck ceded nearly half of the market for new prescriptions to up upstart Lipitor in Cholesterol drug category. This poses a challenge of generating sales growth and maintains the double digit growth rate in sales and earnings.
5. Growth plans
   The company is set to continue with its internal growth strategy by launching five new drugs in 1998.

9.1 Recommendations

Currently the stock price of Merck &co inc. is 130, the highest ever for the pharmaceutical giant. Under the Gilmartin leadership, the performance of the company has improved with market value climbing from $38 billion in 1994 to $156 billion in 1998.

To sustain this growth, the continuous strategies should be formulated to meet the business needs from current business environment. The following recommendations are proposed:

1. Frequent business environmental analysis should be carried out to help in strategy formulation, implementation and evaluation. These unlike during the tenure of Vagilos as CEO, will help the management understand the challenges facing the business and opportunities and how to take advantage of each.
2. Change management culture
   The company still has the culture of complacency and arrogance among the management members because of the success the company has had over the period. The culture need to be changed to have the employees become risk takers which will spur innovation in the company.
3. A clear channel of communication between the marketing group and research group (Medical Research Labs) should be set out to ensure objective communication that will improve decision making and coordination in the company.

10.0 References

1 .Case study Merck & Co Icl Corporate strategy, Organisation and culture (A)

2. Skills of Management by W David Rees and Christine Porter

3. Essentials of management by Harold Koontz and Heinz Weinrich

4. Managing strategic innovation and change by Michael L Tushman and Phillip Anderson

5. Management a practical introduction by Angelo Kinicki and BrianK.William

6. Competitive base management by slocum/Jackson /Hellriegel

7. Management concepts and practices by Tim Hannagan

8. Operation Management by McGraw.hill

9. Understanding business by Nickels Mc Hugh

10. Management of strategy case by Ireland Hoskisson Hitt