Leadership for the new healthcare era

Belén Garijo, board member of Merck and CEO Healthcare, and IESE's Núria Mas talk about future opportunities and challenges for the pharmaceutical industry.

April 6, 2016

Longer life expectancy and higher medical costs. Breakthrough developments, new markets and relentless budgetary pressures. Leading a 21st-century health care company is a balancing act on its easiest days. To learn more about leadership during challenging and exciting times in the industry, IESE's Núria Mas speaks with Belén Garijo, member of the Executive Board of Merck and CEO Healthcare.

In addition to heading up the largest of Merck's three sectors, Garijo became the first woman ever to be appointed to the 350-year-old company's executive board in 2015. A native of Spain occupying a top position in a German company, she is also an independent director on the boards of France's L'Oréal, Spain's BBVA and the Pharmaceutical Research and Manufacturers of America (PhRMA). With her training as a medical doctor, an international perspective and a demanding mandate, Garijo has her fingers on the pulse of health care today and what's in store tomorrow.

A new era for healthcare?

Núria Mas*- It has been said we are entering, or are in, a new health care era. Do you agree? Is this time really different?*

Belén Garijo- I have been working in the pharmaceutical industry for almost 30 years. Obviously, it is not the first time that I have heard that we are entering a new health care era. However, I think this time there is an acceleration of changes in the current environment and an acceleration in the development of new treatment options for patients. To this extent, we

©IESE Business School

can say that yes, indeed, we are entering a new health care era.

Opportunities and challenges in the new era

***NM**- What are the determinants of this new health care era? What are its hallmarks?*

BG- There are certainly some unprecedented challenges in the health care environment, but also plenty of opportunities. Let me start with the opportunities.

First of all, we are talking about a completely different and very rapidly evolving scientific base. The scientific foundation on which pharma rests is improving exponentially every day. This is thanks to massive increases in processing power; major advancements in genetics and genomics; and on new data management tools (the so-called Big Data). We better understand diseases and, therefore, are in a better position to offer therapeutic solutions. For us, as an industry, we are in front of an opportunity to provide unbelievable advances in patient care. So, if you take the field of cancer, for example, the new immuno-therapy approaches, it's enabling us to offer unprecedented results in a number of very difficult to treat cancers. This means that today we are not only looking at options to manage symptoms but we can really speak about prolonging patients' lives. And, of course, this is giving tremendous hope to patients and their families.

Another positive trend is that access to health care is improving across the globe, notably in what we used to call the "emerging markets." There is a dynamic increase in the demand for pharmaceutical products, especially as the global population increases, ages, and becomes more sedentary.

Another dynamic factor is trade liberalization. Many of the historical barriers to free trade have also been removed, bringing a period of unprecedented growth in global trade.

So, overall, the tools to develop breakthrough medicines, to innovate, are materializing, demand for medicines is escalating and trade is getting, to a certain extent, easier.

> "*The biggest hurdle that we are confronted with is innovating in an affordable way*"

Yet, as a pharma industry, we are also confronted with some significant challenges. And some of them have to do with the very opportunities I mentioned before. It is, by nature, more difficult to deliver breakthrough innovation. The industry is getting extremely competitive and although the number of new medicines reaching the market picked up back

©IESE Business School

in 2014 and 2015, we are still catching up on R&D productivity, which has effectively flattened out over the past decade.

On top of this, the regulatory environment is getting more and more rigorous, and rightly so. But that means developing a new medicine and bringing it to the market is becoming increasingly expensive.

But, as an industry, the biggest hurdle that we are confronted with is innovating in an affordable way. Health care expenditure as a percentage of gross domestic product (GDP) is climbing everywhere. This is not sustainable for payers. And although medicines account for only 10% of the total health care bill, the pharmaceutical industry and the price of medicines are often put under the spotlight. The rising health care bill is in everybody's mind. So, we look at this, having partnerships at the center of our strategy because this is critical to protect the interests of major health care stakeholders.

Merck's strategy: How to approach innovation

***NM**- Merck is a global company, based in Germany, but present throughout Europe, the Americas, Asia-Pacific and Africa. How can one company innovate globally? In pharma, does it make sense to have globally distributed R&D teams to serve local needs and/or a unified R&D approach to pursue truly breakthrough innovations?*

BG- We are a mid-size biopharmaceutical company. Our R&D budget is by nature limited and we have to make the best use of our money. We believe that what is particularly important for our R&D is to stay very, very focused. We believe that a focused R&D model that delivers critical mass in a select number of areas and programs is key to our success.

We focus on our three major therapeutic areas, which are oncology, immuno-oncology and immunology. These are highly specialized areas where a company of our size has the potential to make a real difference.

We are also focused in terms of therapeutic modalities and high-priority programs. And last but not least, we are focused on critical experiments in early development — meaning that we want to resolve key uncertainties as early as possible, to define early on whether a compound should be prioritized or, on the contrary, should be terminated. It's what we call the "lean-to-POC" (proof of concept) approach, which is better understanding early in the development process whether the profile of a certain pipeline candidate would fulfil our requirements to go into later phases.

©IESE Business School

Now, speaking about the geographic distribution of our R&D, we have four strategically located global hubs on three continents — in Darmstadt, Germany, where our global headquarters are located; in Boston, United States; in Beijing, China; and in Tokyo, Japan. By structuring our activities around highly connected hubs as centers of excellence, we strengthen internal networking and facilitate external partnerships, while tapping into a concentration of scientific talent from local universities and life science companies.

With these four global hubs and with additional specialized R&D sites around the world, we secure broad perspectives that will have a very positive impact in fostering innovation in science and technology.

> "*We invest locally across the value chain, to better serve our local customers*"

A global approach, working in emerging markets

NM- *How do you approach emerging markets? What are the special considerations?*

BG- Our approach — in the majority of the markets — is to make sure we keep a global strategic direction but also, and most importantly, that we tailor our product portfolio to the local health care needs.

In emerging markets, now called growth markets, besides tailoring our product portfolio to the local needs, we also tailor our commercial model. We are open to adapt to tender-driven markets, as well as point-of-sale-driven markets, or physician-driven markets. We have been successful in all of those. And we invest locally across the value chain, to better serve our local customers. This is translated into R&D investment but also in local manufacturing. Most importantly, we have invested very significantly in building capabilities, in having the right teams and leadership around the world.

Key leadership competencies

NM- *What leadership competencies are important to you?*

BG- From my perspective, only companies that are able to be ahead of the curve will have a place in the future of health care. Leadership competencies are key. Just to mention some, because it's impossible to name them all in five minutes, but from a leadership perspective, to succeed in our ever changing world, I think we have to be able to:

©IESE Business School

- **Operate effectively in a highly ambiguous environment.**
- **Look at the long-term view**. Obviously we have to keep the right balance between being focused on what is going to happen in the next year but, most importantly, be future-oriented.
- **Take calculated risks**. Risk-taking is something we speak a lot about but our people need to feel that we are a company in which they can experiment. Because it is only by experimenting and taking calculated risks that they can innovate.
- **Be self-aware and empowered**. Accountability is absolutely key and our people have to realize what is it that they have to deliver and also be aware of what they can do better.
- **Have an inclusive mindset**. Diversity is king. We should create an ecosystem in which people inspire people to reach their full potential.

***NM**- How do we face the challenges of this new health care era? What is the strategy? (What is Merck's strategy?)*

BG- I think that an important aspect to have in mind is that the challenges that we are facing in this new health care area are too complex to be solved by a single group. Partnerships are critical to protect the interests of all stakeholders: health authorities and payers, patients and society in general, as well as the pharmaceutical industry.

As far as company strategies are concerned, I don't think there is a one-size-fits-all approach. Each company has to define the strategy that will work best for it and allow it to evolve as needed.

At Merck, our biopharma business has gone through an in-depth transformation over the past four years. We implemented a focused business strategy, which is now paying off. Our strategy is articulated around three pillars: (1) delivering innovation globally, (2) optimizing our core portfolio and (3) expanding in growth markets.

Our next step is to evolve the culture of our company and foster a culture where the patient is at the center of everything we do. A culture with an unparalleled ability to identify, nurture and value talent. A culture of the possible — because, yes, as a pharmaceutical company, we have to make medicine progress, so that we can continue to help people live longer and better lives.

©IESE Business School