EMERGING UNSCATHED?

Excellent and diverse skills still provide the best opportunities in merged companies.

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The recent acquisition of Pharmacia by Pfizer could set the stage for another wave of merger and acquisition (M&A) activity in the pharmaceutical industry. Insufficient numbers of new chemical entities (NCEs) in the development pipeline to meet growth expectations, expiration of patent protection for medicines on the market and rising costs associated with the drug discovery process are some of the main sources of pressure for the industry. Although the genomic revolution inspired much excitement, life in the post-genomic era still suffers most of the obstacles that existed before this information became available.

Historically, the larger drug companies have been reluctant to abandon their traditional ways of searching for new drug candidates, as the risk of trying something new might well outweigh the benefit of producing a slow but steady stream of NCEs that are obtained through tried-and-tested methods. Lately, the in-house scientific efforts of large pharmaceutical companies have resulted in fewer numbers of prospective drug compounds. Equity research firm Sanford Bernstein predicts that, at current levels of research and development (R&D) productivity, the industry would have to spend 17% of sales on R&D to expect 8% US revenue growth in the long term. However, current spending is at 12.9%, implying 6% long-term US sales growth. They also conclude that the current absolute net income that is attributable to research matches current research spending, which means that the benefit of having patents now matches the cost of obtaining them[1].

To address this situation, the discovery shortfall could be solved through M&A of firms that offer a cachet of potential drugs and novel technologies to fill the gaping holes in a company's pipeline. Several small, emerging companies that have concentrated their efforts on single diseases or discovery platforms are now finding promising drug candidates. Once management has reorganized itself after an amalgamation, the scientists can all get together and roll up their sleeves with gusto. But is it really like this in practice?

The reality is that scientists in the new organization are faced with changing corporate structure, internal politics and decreased job security. Depending on the size and nature of the partners, mergers often create redundancies of function and lead to disruptive restructuring and lay-offs. In many cases, reporting schemes change, projects are terminated and groups are disassembled to streamline the new company. For small companies, assimilation and dissolution become realities. "Too many times, scientists at biotech companies find themselves incorporated into another company not so much because of technology synergies, but because of business advantages: pipeline additions, cost savings, market expansion, or franchise protection", claims Todd Brady, Senior Director of Business Development at Aderis Pharmaceuticals. Nipon Das, a management consultant whose firm, ISO Healthcare Consulting, works with major pharmaceutical companies to assess R&D strategic issues, states, "M&A activity attempts to obfuscate the real problem of a lack of discovery in-house with increased efficiencies through short-term gains by consolidating certain R&D processes. There is a limit to productivity enhancement, and M&A activity actually worsens the underlying problem which is an erosion of the culture of discovery and innovation. It does nothing to help improve how research scientists in-house are incentivized to enhance a passion for discovery". Indeed, the management of biotechs and smaller pharmaceutical companies tends to do deals because of predicted market opportunities, relationships with institutional investors and so on — far more so than as an augmentation of the science and discovery itself.

Having worked as both a bench scientist in a research lab of a large, private university and as a clinician in a multi-hospital system, one of us (L.J.G.) is familiar with the experience of moving between cultures. There was a marked shift in what was expected in these distinct roles. In a similar vein, scientists who are accustomed to the fast tempo and close interaction with senior management that often characterizes the environment of small-to-medium-sized biotech and pharmaceutical companies might find themselves at odds in a larger corporate milieu. The slower pace that is intrinsic to greater bureaucracies can be an immediate source of frustration. Distance from higher management can lead to a sense of anxiety for scientists in the lab, as they might have become dependent on their input in making research decisions. Furthermore, the expectations of scientists in smaller companies might be too optimistic with regard to product goals, leading to a reality check in the new job. Big-company scientists often have a 'not-invented-here' syndrome, and tend to consider information from outside sources as less important. Innovation in merged companies is often less creative than that of the original organizations, as many teams have been broken up and the original spirit of discovery and camaraderie have dissipated. Scientists in larger companies have generally been at the same firm for much longer than their smaller counterparts, and might have different levels of lifestyle and compensation, including the balance of salary and stock options.

In the wake of mergers, all scientists are faced with the realities of personal and corporate mobility, and the notion that even in 'big pharma', nothing is permanent. For the scientist, the strategy doesn't change: excellent and diverse skills built on a solid base of education provide the best opportunity for a rewarding career in any environment in which the culture of discovery and innovation is preserved.

Dr Leland J. Gershell and Dr Thomas A. Miller

1. Evans, R. T., Yeh, J. & Moss, E. T. *US Drugs: Are Drug Stocks a Cheap Way to Gain R&D Exposure? R&D Spends, Implied Growth, and Indifferent Monopolists* (Sanford Bernstein, New York, 2002).