the People Factor in Post-Merger

by Victoria Griffith

Illustration by Stephen Kroninger

Fred Hassan's human touch transformed Pharmacia & Upjohn from hostile tribes into a growing global concern.

Integration

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When Fred Hassan took over as CEO of Pharmacia & Upjohn (P&U) in May 1997, many thought he should sit down immediately and study P&U's bleak numbers. Formed in 1995 in what had been considered a promising union of two multinational drug companies, Pharmacia AB of Sweden and The Upjohn Company of the United States, P&U was hemorrhaging financially.

The group had just issued a series of profit warnings and its share price was languishing. The CEO who had orchestrated the merger — John Zabriskie — had resigned abruptly five months earlier, in the face of rising merger costs and the board's frustration with the progress of integration. Between 1996 and 1997, P&U's sales worldwide dropped 8 percent, to $6.6 billion, and earnings plummeted 53 percent, from $550 million to $258 million. This happened in a market that was registering double-digitgrowth. To complicate matters, P&U was completing the takeover of Farmaitalia, an Italiancompany.

Despite the severity of the situation, Mr. Hassan didn't puzzle long over the possible reasons for the fall. Instead, he instinctively zeroed in on one factor he believed was more important than all the rest — low worker morale. Then the new leader rolled up his sleeves and reached out to employees.

"This company has really recovered well, and a lot of the credit goes to Mr. Hassan," says Sergio Traversa, an analyst at Mehta Partners, a pharmaceutical research firm in New York City. Likewise, those inside the company applaud Mr. Hassan's contribution to the turnaround, especially his persistent focus on people's attitudes and behaviors, and his ability to influence both. While this skill is referred to as the soft side of management, few dispute that the soft stuff is hard, especially for leaders in merger situations trying to get many distracted and stressed people to concentrate on business performance.

His first act was to hold a press conference in New York City designed to send a very public message to P&U employees. "I wanted to tell them that there's a new CEO and we're moving in a new direction," says Mr. Hassan. "I thought it would buy me a little time."

More specifically, it allowed him to begin the complex process of rebuilding trust among employees and their confidence in the organization. Mr. Hassan went directly from the press conference to the airport, where he caught a plane for Europe. In Stockholm and Milan and outside London, he listened to people's gripes, gathered information on the company's products, and took detailed notes on everything he heard. His next stop was Kalamazoo, Michigan (the former Upjohn's hometown), where, in his words, the main goal was to establish "eye contact" with American workers. "Just meeting a human being on the other end who they can relate to gives people a sense of reassurance," Mr. Hassan says.

Three years later Mr. Hassan's hunch about how deeply human variables in corporate mergers affect the bottom line was dramatically affirmed. Indeed, P&U's rapid turnaround is striking. Coming back from the plunge in 1997, net income more than doubled in 1998, and surged another 14 percent in 1999, to $799 million. The stock has risen 40 percent over the past two years, compared with an increase of 31.4 percent for the Dow Jones pharmaceutical index.

In late 1999 P&U's resurgence caught the eye of the life sciences and chemical giant Monsanto Company, based in St. Louis. In December, Monsanto announced it would spin off its controversial crop bioengineering businesses and artificial sweeteners unit, and join with P&U to create the Pharmacia Corporation. Its aim, as one analyst described it, is to become a first-tier "druggernaut" in the prescription and consumer drug market. To that end Monsanto is contributing to the merged company several top-selling arthritis drugs (including Celebrex) and popular contraceptives. P&U brings its own potential winner, Zyvox, the first of a new class of antibiotics,

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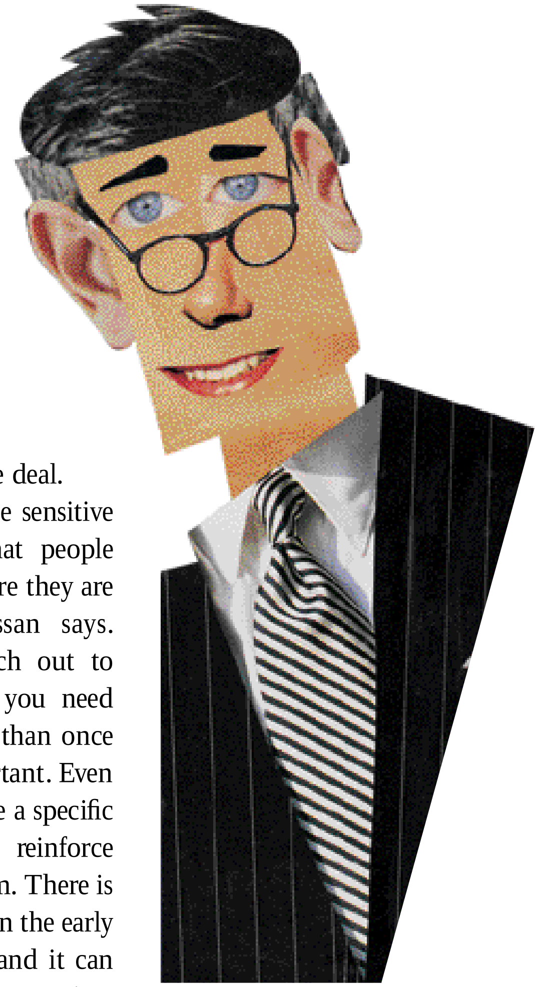


which was approved by the U.S. Food and Drug Administration in April 2000. Monsanto and P&U shareholders voted to approve the merger, forming the new Pharmacia Corporation in March.

"Before Fred came on board, people spent most of their time thinking about their roles," says Hakan Astrom, senior vice president of corporate strategy at Pharmacia Corporation. "Discussions usually revolved around who makes decisions about what. It was pure politics. With Fred we breathed a sigh of relief, because everyone started to talk about the business again."

Many leaders think they can afford to be unattuned to worker morale after a merger. After all, most mergers are straightforward absorptions to cut costs; leaders must be tough about shedding employees and remain tough on remaining employees, who are usually left with greater pressure to do more with less.

These days, however, as many as one-third of mergers are not driven purely by cost-cutting. Instead, as in the case of Pharmacia Corporation, management seeks to combine the best of separate companies to form a stronger, more exciting and innovative company, better positioned for long-term growth. The AOL and Time Warner union and many dot-com deals also exemplify this increasingly common type of merger.

In the pharmaceutical industry in particular, acquiring companies are interested in quickly enhancing their pipelines with hot drugs from the other group, because it takes blockbusters to meet Wall Street's demands for double-digit sales and profit growth. But to realize the full financial potential, these firms need to retain the talent and know-how that created the pipeline in the first place. In this type of marriage, making sure employees stay with the company — and stay motivated — can be the greatest challenge of the deal.

"One has to be sensitive about the fact that people want to know where they are going," Mr. Hassan says. "You have to reach out to them. Sometimes you need to tell them more than once that they are important. Even if you can't promise a specific job, you have to reinforce that you value them. There is a lot of ambiguity in the early days of a merger, and it can lead to anxiety. If that anxiety gets out of hand, it can be very harmful to the company."

Battles Across Borders

Mr. Hassan was a rising star at American Home Products (AHP) when he was asked to take the helm at P&U in 1997. He had joined AHP as president of its Wyeth-Ayerst Laboratories division, and as an executive vice president of the parent company he had played a key role in AHP's 1994 acquisition of American Cyanamid Corporation. In 1995 Mr. Hassan was elected to AHP's board of directors; many considered him the heir apparent to the CEO, John Stafford.

Colleagues thought he was crazy to leave all this to take charge of a foundering pharmaceutical company. Yet Mr. Hassan was attracted to just this kind of challenge. Mr. Hassan's parents encouraged him early in life to be a risk taker. In the 1960s his mother crusaded for women's rights in Pakistan, a bold exploit in a Muslim country. His father became Pakistan's first ambassador to India in

Americans transferred to Milan complained about smoke-filled offices. Europeans complained about American arrogance. It was "scary," recalled Mr. Hassan.

1976. Watching him forge ties with India, despite the deep enmity between the two countries, Mr. Hassan formed a long-lasting respect for bridge builders.

As he assessed P&U's situation, Mr. Hassan saw he needed to tap his own diplomatic skills to move the company beyond the cultural morass that was dragging it down. He read press reports about disputes between the group's divisions. But the media had understated the case: P&U was in complete disarray, and it was clear employees were drawing battle lines between the European countries and the United States.

This was a classic case in which companies merging across countries had spawned especially bitter infighting that could be sorted out only by a widely respected and firm CEO. "Cross-border mergers can work, but they need stronger leadership than other types of mergers," says Tom Burnett, president of Merger Insight, a research firm based in New York City. "Look at Global One [the merger of Sprint, Deutsche Telekom, and France Télécom]. That was a total failure because of competing cultural interests." Sprint bowed out of the Global One partnership last fall, after it rejected an acquisition bid by Deutsche Telekom.

Although both Upjohn and Pharmacia AB had great potential, the companies' performances had been weak before the marriage. In 1995 Upjohn's stock price was flagging, and it was often rumored to be an acquisition target. The company had a mature product line: Patents were about to expire on some of its most important drugs (like its anxiety product Xanax). Halcion, an insomnia drug, was plagued by safety concerns. Mr. Zabriskie, then Upjohn's CEO, thought a friendly merger would revitalize the company by giving it access to new markets, while allowing it to retain its core character.

Pharmacia AB was in better financial shape than Upjohn, but wanted to find a partner. Its biggest drug, the growth hormone Genotropin, faced severe price competition, and the company needed to refill its pipeline. Pharmacia's management believed a merger with Upjohn would leverage the two companies' complementary research strengths — Upjohn was strong in infectious diseases, Pharmacia in cancer. At the time Pharmacia was also stymied by distribution troubles in the U.S., and an American company would give it access to the world's most profitable prescription drug market.

The overall goal of the merger was to create a united global sales-and-distribution force. Combining the companies, however, proved much harder than anyone imagined. Each side thought it could depend on the other's sales force, only to find that each was more interested in promoting its own products. What had been envisioned as three centers (in Sweden, Italy, and the U.S.) working in harmony became three warring factions.

Americans transferred to Milan complained bitterly that they were forced to work in smoke-filled offices, while the Italians made fun of the Americans for their fussiness. Workers at the Kalamazoo plant threw up their hands in despair when they couldn't reach anyone in Sweden during high summer, while the Swedes wondered why the work wasn't taken care of before their July holidays. All the Europeans complained about American arrogance and poor language skills.

These disputes had been handled through compromise under Mr. Zabriskie. He had chosen England as an appropriately neutral spot for P&U's new headquarters, for instance. Americans, he reasoned, would feel linguistically at home there, and the Swedes and Italians would be pleased that the company had remained in Europe.

By all accounts the English headquarters was an idyllic spot. "I arrived there on the ninth of May, a beautiful spring day," Mr. Hassan recalls. "The location was very special; it was in the shadow of Windsor Castle. There were ducks swimming in the river Thames next door, and from an aesthetic point of view, it looked like a great place for a headquarters." But the scenic tranquility didn't fool him. "There was a sense that one company was heavily populated with Swedish nationals, one with U.S. nationals, and another with Italian nationals, and as the companies clashed there was a tendency to make it a flag issue. It's human nature, I suppose. But it's also scary, and once there's a breakdown of trust you can't run a company."

Educated in three countries, Mr. Hassan found this sort of tension especially distasteful. Born and raised in Pakistan, he had graduated from the University of London in 1967 with a bachelor's degree in chemical engineering and completed an MBA at the Harvard Business School in 1972.

Instead of relying on group meetings, Mr. Hassan scheduled many time-consuming one-on-one meetings with P&U managers around the globe. He says the time was well spent. In these private, personal meetings he learned the degree to which distrust was rising and morale suffering. Managers were mounting personal attacks against anyone they viewed as an outsider. One employee charged, for example, that a country manager made hiring and firing decisions based solely on workers' nationalities. Such dogfights were generating a general sense of uneasiness at the business; divisional bitterness had all but paralyzed intracompany communication at the most sensitive time in the post-merger integration process.

A Unification Plan

The company's future depended on getting beyond the nationalism that was ripping it apart. That meant creating a mission, a strategy, and a set of values — in essence, a P&U flag to which everyone shared allegiance. It soon became clear to Mr. Hassan that the unifying flag was the company's products. P&U needed a systematic way to bring to market quickly best bets for blockbuster success, and to rally people across the firm and around the world to bring about and share in that success.

For that to happen, senior management had to aggressively lead the change, marketing resources had to be applied more effectively, and the organizational structure had to change. Mr. Hassan personally examined what was in the pipeline, sitting through many presentations by R&D staff, searching for big winners and removing less promising projects.

One presentation caught his eye even though it was not his area of expertise: an anti-infectious agent that was the initial drug of the first new class of antibiotics in 40 years. Zyvox, as the treatment was dubbed, was the drug that could be a force for organizational unification and an enormous revenue source. It was placed on the corporate fast track, and P&U poured $100 million into its development over the next three years. "Someone at the top needed to be setting the priorities for the company," Mr.

Hassan says. "I championed Zyvox a bit, but now the whole organization owns it. Not just Kalamazoo, but people in Europe and Japan, too."

Beyond using a product with high potential to revitalize team spirit, a process of centralizing and streamlining began in the then highly fragmented institution. Not only were activities organized by country at that time, they were separated by disease as well — areas like oncology, urology, ophthalmology, endocrinology, women's illnesses, and infectious diseases. To Mr. Hassan, it just didn't make sense. Why divide the money more or less evenly between these divisions when some R&D teams clearly had more promising candidates than others?

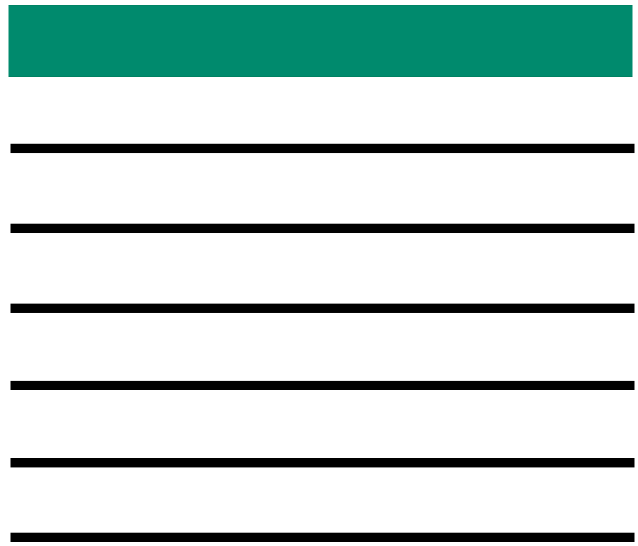
"When you have silos like that, the tendency is for each group to try to maximize its head counts and resources," says Mr. Hassan. "That's a drain on the organization, because in certain of those areas, there may just be no good drug candidates at a given moment."

The regional offices and the silos structured around types of diseases had to be dismantled to make it easier to identify best bets, and then to channel marketing dollars and sales support toward them. On his second trip to Sweden, just weeks into his tenure, Mr. Hassan delivered a speech to senior managers about "key products and key markets." It was his first attempt to formulate a vision for the new group, and the speech had a profound impact. "Until then, it was just assumed that the world was managed through separate tubes," Mr. Hassan says. "After that everyone knew they were in for big changes."

Five Engines of Growth

Ultimately, Mr. Hassan focused on five "engines of growth" — key products with high-revenue and unifying potential: Detrol, a bladder incontinence treatment; Genotropin, a growth hormone; Fragmin, an anticoagulant; Xalatan, a glaucoma medication; and Camptosar, a colon cancer treatment drug. (See Exhibit 1.)

Exhibit 1: **Pharmacia's Engines of Growth, 1999 Sales**



Even though the company was in bad financial shape, Mr. Hassan spent heavily on sales and marketing for key products, cutting costs in other areas. P&U added 600 new salespeople in the U.S. alone, and began to market Detrol directly to U.S. consumers, not just to physicians. This transformed it from a niche product to a mass-market drug. In Japan, P&U moved aggressively to recover rights to Genotropin, choosing not to renew a distribution contract with Sumitomo. The company also relaunched the anticoagulant Fragmin in the U.S.

Throughout the repositioning, Mr. Hassan had to wrest control of major products from country managers. "The success of Fragmin, for example, was in serious danger, because the European marketing team controlling its rollout was having a tough time breaking into the U.S. market," the CEO says. "Yet without success in the U.S., the product's future was in doubt. We said these products don't belong to separate divisions anymore. The company owns them, and the marketing effort will be run centrally."

Over the next year, Mr. Hassan centralized most management functions at P&U. He created a simpler structure, reducing the corporate management team from 19 to seven. He also cemented his own control, handpicking all executives reporting directly to the CEO. New heads of the finance, legal, and human resources departments were chosen and put in charge of operations.

The U.S. was central to the other half of Mr. Hassan's message, "key markets." His years at AHP had convinced him that a strong share of the U.S. market is vital to securingprofits inthedrug industry. Not onlydoes America have an enormous population that spends huge sums each year on pharmaceuticals, it may be the world's freest market for medication. That's because the U.S. government, unlike Japan and most European countries, does not regulate drug prices.

But for all of the potential, P&U was failing dismally in the U.S. in 1997: Sales were declining at an annual rate of 7 percent while the overall market was growing in the mid-teens. In October 1997 Mr. Hassan announced to a stunned corporate audience assembled in London that P&U would move its headquarters to Peapack, New Jersey.

Many workers understood the strategic importance of the move, but some were very unhappy. "It was a tough message to deliver," says Göran Ando, Pharmacia Corporation's executive vice president and president of research and development. "You're dealing with people's feelings and families. People were forced to either move to another continent or lose their job." Voicing the concerns of others at P&U, a Swedish secretary stood up and challenged the CEO's initiative: "You say this is a global company," she declared. "There can't be a more global place than London. Why move to the U.S.?"

"I told her that from a cultural point of view, London, Paris, and New York are all global cities," says Mr. Hassan. "But the center of gravity in the pharmaceutical business is the U.S. Many people at the meeting had never heard that before. It was a surprising statement to them. But most eventually recognized it was true."

Although the announcement caused friction, it was greeted with relief by some senior managers who appreciated that the company finally had direction. "At that moment, we knew that Fred was in control, that he could control the board," Mr. Astrom says.

Mr. Hassan believes the crisis actually helped him pull off the relocation to the U.S. Employees who were philosophically behind the decision were faced with uprooting their lives, many for the second time in two years. Europeans, in particular, found the prospect of relocating from a beautiful and sophisticated town outside London to a New Jersey suburb less than attractive. In the end, only one senior executive, whose husband was a banker in London, stayed behind.

The New, New Pharmacia

With the integration of Pharmacia AB and Upjohn complete, Mr. Hassan began the blending of P&U and Monsanto early this year. The current merger seems to have little in common with the first — P&U and Monsanto are financially healthy, and there are no nationality issues, because both companies are based in the U.S. But Mr. Hassan says his experience with the previous merger has been invaluable in setting his current agenda.

Remembering the value of his early reconnaissance trips during the P&U merger, 10 days after clinching the Monsanto deal Mr. Hassan went to Chicago to listen to what people had to say. Despite the lack of a crisis, the tension at both companies was palpable.

He needed to get the press and analysts on his side to convince the companies' employees that the merger was a good idea. Yet both groups were initially very hostile to the deal. On December 20, 1999, Monsanto shares fell 12 percent, while P&U dropped 6.5 percent, after having already declined the previous week when the merger was announced. Why, the analysts asked, was a fast-growing pharmaceutical group joining forces with a company that had a bigger presence in chemicals and agricultural products than in drugs?

That question was easy to answer. Monsanto has vast genetic research capabilities that Mr. Hassan hopes the new company will tap for drug development. Another advantage is size. Post-merger R&D spending for the group is forecast at $2 billion a year, which should keep the pipeline full of marketable drugs.

Another driving force behind the deal was P&U's desire for Monsanto's Celebrex "super-aspirin" franchise. Celebrex is part of a new family of painkillers known as

Cox-2. Traditional pain relievers like aspirin can cause gastrointestinal upset. In most cases the damage is mild, but in some it is lethal: 16,000 people die each year in the U.S. because of complications caused by aspirin and ibuprofen, according to Stanford University. The super-aspirin category promises to provide the same pain relief as traditional painkillers, without the side effects. Celebrex has rapidly become a viable competitor to Merck's Vioxx — another Cox-2 drug. Global sales of Celebrex surged to $1.5 billion in 1999, the year it was launched.

Mr. Hassan spent much of January and February selling an upbeat story about the union to journalists and analysts, which has paid off. Wall Street and the media began to view the deal with much friendlier eyes, and positive press has re-energized employees.

Blending Business Cultures

Also in February, top research and development people from P&U and Monsanto gathered for a meeting at a neutral location. Everyone made presentations to drive home the importance of collaboration.

But the more pressing challenge this time is blending the two business cultures. Monsanto is not as product-driven as P&U. "The success or failure of our products drives our stock price up or down, but Monsanto is much more decentralized," says Mr. Hassan.

Although the P&U and Monsanto union was billed as a merger of equals, headquarters will be at Pharmacia's home base in New Jersey, not at Monsanto's in St. Louis, and Mr. Hassan is slated to run the combined company. Monsanto's current CEO, Robert Shapiro, will become nonexecutive chairman and retire before the end of 2001. Further, the agricultural business Mr. Shapiro championed at Monsanto is being spun off.

Mr. Hassan has spent much of his time since the merger announcement reassuring employees, while making it very clear whom he values most. For example, he came up with a Hate-to-Lose List of P&U's 100 most valued executives. The CEO personally called many of the people on the list; he asked other senior managers to get in touch with the rest. There's also a Monsanto Hate-to-Lose List, although Mr. Hassan concedes his distance from the company has made it more difficult to address.

Attitude and behavior are part of a company's management values, Mr. Hassan believes. In fact, he says, "*Behavior* is a better term than *culture*, because it is active and has expectations." For example, he takes a hard line on negativity in his organization. "We have very low tolerance for the energy absorbers, the loners, politicians, silo operators, and malcontents. They must be weeded out of the organization," Mr. Hassan asserts.

Mr. Hassan has found Monsanto employees are confident about his ability to lead the merged Pharmacia Corporation. Yet he's also perceived to be a demanding and self-sacrificing manager. "You can't become the fastest growing pharmaceutical company in the world in an easy-going work atmosphere, and that rattles some people," he says.

Certainly, that pressure will remain intense as the company pushes to become a top-tier pharmaceutical company. As Hermant K. Shah, an analyst with HKS & Company, notes: "Pharmacia & Upjohn was a struggling company, and new management rebuilt it. It's becoming a powerhouse, but it takes time. You don't start a newspaper and turn it into *The Wall Street Journal* overnight."

Mr. Hassan calls himself an "organic growth guy," but analysts speculate that if his rare combination of aggressive and sensitive management styles works for the second merger, Pharmacia Corporation could be in a good position in a year or so to go after another deal. +

Reprint No. 00308

Resources

Pharmacia headquarters, 100 Rt. 206 N., Peapack, NJ 07977, 908-901-8000: www.pnu.com

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