Merck & Co. Inc managing organizational culture change.

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Executive Summary

The global economic crisis is impacting every area of business and forcing corporations to reevaluate how they conduct operations. In an effort to operate in the leanest most efficient manner, some corporations are merging operations to provide better service with greater flexibility at a lower cost. Merck and Schering Plough are two corporations attempting a merger. Merck has had some recent financial troubles when the drug Vioxx was pulled off the shelves and they have an opportunity to rebuild and develop new potentially profitable drugs if this merger is successful. Historically, mergers have proven to be successful when employee resistance is kept to a minimum and companies are upfront and forthright with information.

The uncertainty the merger is creating is proving to be an issue. The organizational cultures of both organizations are melting together and transforming into something that is unrecognizable by the employees. The merging companies are going to need to develop a plan to ensure that they reach out to employees in an effort to understand the conflicts and issues that they have as well as to ensure open and personal communication between management and employees. Additionally, a well thought out education program that lays out the goals and objectives and then gives employees the resources to meet the goals will ensure that everyone is on the same page and able to come together as a team and make the merger a success.

Literature Review

Over the past several years, there have been many companies that have merged in order to provide better service to their customers. However, when a merger is taking place, there are associates that are going to be resistant to the organizational culture changes that are going to take place. After a merger takes place, there are many reasons why an employee would be resistant to the merger.

There have been many studies that have been conducted on the effects of mergers in the work place. According to one study that was done in the medical field, the associates that are against a merger “argue that organizational re-structuring, rather than creating efficiencies, tends to divert time and effort from the challenges of improving healthcare delivery and that the impact on front-line clinical staff or patients is often negligible (Marshall, & Olphert, 2008). In other words, the associates of the company might feel that instead of merging the company with another company, they could find other ways to reduce cost and find more efficient ways to do the job. In the same study, the biggest reason why associates of a company are resistant to a merger is because of “uncertainty, fear, frustrations, disempowerment, and stress” (Marshall, & Olphert, 2008). If an associate has uncertainty that he/she is going to still have a job after the merger is complete, it will cause the employee to resent the merger. Another reason why associates resent a merger is because they view the merger as one organization coming in and taking over another, and this causes the associates to feel dominated (Marshall, & Olphert, 2008). If an employee feels like they are being forced to do something, they are going to resent the merger because no one likes to change the way something works. Other reasons why associates resent a merger is because they feel that their “personal value is lost or at least undermined” (Weiner, & Hill, 2008). In other words, “the dominant question in most peoples’ minds is: Where do I fit” (Weiner,

& Hill, 2008). If an associate does not feel like they fit at an organization, they will resent the changes that are taking place.

When a merger takes place, there will be associates that resent the changes that are taking place within the organization. With the mergers that have taken place within the past few years, there is a great wealth of information on what effects of a merger can have on associates.

The Merck Pharmaceutical Company has undergone tremendous pressure to produce in this critical time due to a poor economy and an unstable financial future. Globalization is a key resource that The Merck was considering when they merge with another pharmaceutical giant, Schering-Plough in the 4th quarter of 2009 (Arnum, 2009, pg 35) . The global restructuring will eliminate about 7200 positions (6800 active employees and 400 vacancies). There will be about 40% of the total reductions in the United States (Arnum, 2009, pg 35). After the merger is completed, the total number of senior and mid-level executives will be lowered by 25% globally (Arnum, 2009, pg 35). Schering- Plough are also restructuring their company so that they could achieve a cost saving target of 1.5 billion dollars by 2012, and achieving cost savings of 1.25 billion dollars by the end of 2010 (Arnum, 2009, pg 35). Merck and Schering- Plough merger expect to save about 3.5 billion dollars by 2011, while hoping to expand its position in emerging markets and Biology (Arnum, 2009, 36). By combining companies, they are expecting to generate more than 50% of its revenues outside of the United States. The merger when completed will make this company one of the top 5 Pharmaceutical Companies in the world (Arnum, 2009, pg 37). The merger will also double the number of potential medicines Merck has in Phase 111 Development increasing manufacturing capabilities, and creating a stronger financial profile. The combined company's revenue in 2008 totaled 47 billion dollars (Author Anonymous, 2009, pg 8).

Richard T. Clark, who will be leading the new company as Chairman, believes the combination of companies will benefit from a formidable R&D pipeline, a significantly broader portfolio of medicines, and an expanded presence in key international markets. Richard T. Clark believes that Schering- Plough employees have the talent and dedication to continue their industry leading R&D engine and late stage pipeline that is similar to Merck. Richard T. Clark said, "We are confident that together, Merck and Schering-Plough will make a meaningful difference in the future of global healthcare" (Author Anonymous, 2009, pg 8).

Merck is a research driven company and in order for this company to compete globally, innovation plays a huge role in the growth of the company. The Merck Pharmaceutical Company believes in three principles that are important for global success:

One: A commitment to innovation to drive growth.

Two: A consensus on core values that guides actions and decisions.

Three: An adherence to the highest standards of ethical behavior and integrity to inspire confidence and trust (Gilmartin, 1999, 211).

Through innovation, Merck has discovered more important new medicines than any other research organizations in the world. Merck's success is not only based on innovation it also has core values and ethical standards that are important. In order to meet these standards, Merck practices what they teach: Good Leadership and Good Ethics. Merck feels that with good leadership that this is what can carry them through tough economic times (Gilmartin, 1999, 210).

Merck Pharmaceutical Company really prides themselves when it comes to a diversified workforce. The diversity in the pharmaceutical field is increasing and by the year 2050, one out of every two workers will be nonwhite (IMDiversity.com, 2009). Merck‘s success as a company is contingent on having a diversified workforce. Merck feels that diversity ignites innovation and offers opportunities for different perspectives, both globally and here in the United States (Fagerberg, 2002). Merck spends a lot of money and time to make sure their recruits are highly motivated and capable of developing into an asset to the company (Fagerberg, 2002). Sally Macaluso, senior director of global procurement said, “One of Merck’s key corporate objectives is to grow supplier diversity to support the diverse communities in which we do business” (Schering-Plough, 2009).

The Merck Pharmaceutical Company understands that even with the merger that there is still a lot work ahead of them. Competition is stiff, the economy is still iffy at best and globally challenges are arising daily. With great leadership, Merck will continue to grow and prosper and we will continue to talk about Merck 100 years from now.

Analysis

For years, the pharmaceutical industry like many other industries enjoyed large profits; employees had big salaries, great benefits and were always in the top 100 companies to work for. One of the reasons why the pharmaceutical industry have enjoyed these profits was due to the fact that drug companies when introducing a new product, enjoyed market exclusivity for years (anywhere between three and five) on the product before there was any competition. Due to fierce competition in the industry from competing manufacturers as well as generics, pharmaceutical companies now only enjoy a few months at best. Another reason for the decline is that 9 out of the 14 companies in the group are projected to lose patent protection on their highest-revenue producing drug of 2007 without having anything in the pipeline (Goodman, 2008).

The pharmaceutical industry has strategized around market exclusivity for many years. Successful commercialization of pharmaceutical products depends on maximizing the time available for product sales before generic products entered the market. Market protection opportunities that have the greatest impact on the life cycle of the product include patents, data exclusivity, patent term litigation, and extensions associated with pediatric indications for the drug (Goodman, 2008). Drug companies, their competitors which include other pharmaceutical companies, as well as generic companies understand this, thus enabling the drug companies to maximize product sales and royalties for many years (Goodman, 2008).

These factors along with a declining economy, new healthcare regulations, political influences, changes in patent law, a change of the mentality from profits first, science secondary has lead to the decline in profits for the pharmaceutical industry. Although late adaptors to the “change”, unlike the banking and retail industries, pharmaceutical have been impacted as well and in order to stay competitive must make some serious changes (Goodman, 2008).

Employees at Merck first felt the impacts of the downturn of the company's profits in September 2004 when they voluntarily pulled their blockbuster drug Vioxx off the market (Smith, 2007). Vioxx had been on the market for only a few years and was Merck's most profitable drug at the time. Eleven percent of Merck's revenues in 2003 were due to Vioxx (Smith, 2007). Merck decided in the beginning to not pay out a class action suit, instead their strategy was to fight each case individually, note: there were hundreds of cases filed against Merck. Estimated numbers of the amount Merck set aside for legal fees initially were to the tune of $7B (Smith, 2007). Initially, Merck's plan was proving to be successful. The rulings were in their favor in the beginning, but instead of the number of cases declining over time, they increased. The number of cases exceeded over 25k. In 2007, Merck set up a fund of $4.85B to settle cases against them (Smith, 2007). It is estimated that over 46k individuals would be eligible for payment from the fund (Smith, 2007). The Vioxx troubles coupled with a 40% decline in the stock price was the straw that broke the camel's back and made the company realize that they needed to change (Smith, 2007).

Back in November 2005, a few hours before the news was made public, the head of the Merck Manufacturing Organization invited the 20k Manufacturing (MMD) employees around the world to participate with him via web cast and in the MMD headquarters to be told that things are changing; the way we run our business was changing (Merck MMD, 2009). The old way of us being the most proficient in everything we do was a way of the past. The company would now focus on its core competencies and outsource its non-core competencies. The divisions at Merck would need to cut costs and demonstrate savings so we could all contribute to our core competencies which entail the research and development of pharmaceutical products (Merck MMD, 2009). The message was clear - That we as an organization need to go back to the core values as per George Merck's vision "*We try to remember that medicine is for the patient. We try never to forget that medicine is for the people. It is not for the profits. The profits will follow and if we have remembered that, they have never failed to appear"* (Merck, 2009a). The result was going to be a restructuring of the organization and implementation of new programs to make the organization "more efficient" (Merck, 2009b). There were going to be 7k job losses by 2008, Merck was closing 5 of their 31 plant sites, 3 research facilities and looked strongly at outsourcing the non-core activities Merck, 2009b). Those non-core activities were to focus on the off shoring of Manufacturing, IT Services and Clinical Development Programs. In addition, Merck was introducing the "*Plan to Win" initiative. The plan to win* consists of several key elements all critically linked together (Strategy Realization Office at Merck, 2006).

- Customer value –drives the strategy – integrating the needs of customers into decision making
- An efficient and effective business model – driven by end-to-end processes, internal and external innovation and collaboration and a fully optimized product portfolio – will allow us to continue to invest for the future.
- The new model will be powered by lean and flexible operations, global data, processes and systems and a collaborative, high-performance culture

There were nine strategic initiatives or (projects) that comprised the plan to win. The projects ranged anywhere from lean manufacturing, global procurement savings goals, delivering a new commercial model – developing our drugs more efficiently and getting them to patients quicker, pursuing new growth opportunities by focusing on emerging markets, deriving a pipeline of innovative and differentiate products through drug development and discovery, delivery of a common platform through enterprise resource planning (ERP) software globally for Merck, and creation of a high performance workplace globally (Strategy Realization Office at Merck, 2006). Moving away from our soloed organization structure and becoming a true global organization.

All of this was a major change for the organization. There has never before in Merck's history been a job loss so large. Merck has never closed so many plant sites; in fact, quite the contrary, Merck was used to plant site growth, not closure. In the past, Merck believed that we "needed to do everything ourselves" (Merck Sigma, 2009). Zero defects were the culture of the organization for many years and Merck did not let go of control to anyone. We in-sourced everything from the making of our own water at our sites, to packaging and labeling. Also, the nine strategic initiatives were very overwhelming for employees to understand or adopt as these initiatives were all being developed and delivered at the same time. In order to manage the change, Merck adopted the Connor Partners methodology of change execution and introduced Lean Six Sigma concepts across all of the divisions. All employees, regardless of what you did in the organization, were introduced to the new tools **(**Merck Sigma, 2009).

- Lean Processes - to eliminate waste and increase speed, while looking at the process from the customer's perspective
- Six Sigma - to identify and eliminate root causes of problems and decrease variation on existing processes in order to meet customer needs
- Design for Six Sigma - to create new customer focused products and processes
- Kaizen events - an element of the LEAN Methodology that is a focused, short duration "event" during which intense thought and activity are devoted to waste reduction and cycle time improvement.
- Change Execution Methodology - to manage the appropriate intent, people, and, delivery risks associated with realizing transformational change.
- Enterprise Process Management - to realize process intent, through architecting the company as a system of coordinated, end to end processes focused on customers; assigning ownership and managing process performance.

The Change execution methodology was implemented as a way for employees to manage through major transformational change and was deployed globally. Culture differences varied on the success of the methodologies deployment because the "one-size" fits all approach was delivered with minimal consideration to cross culture differences (Merck Sigma, 2009).

Merck already under a lot of pressure to change itself, its culture, the way they interact with customers and patients, its vendors and most importantly its employees announced March 9, 2009, that Merck and Schering Plough would merge (Merck, 2009b). The merger is to take effect 4Q 2009 and upon the close of the transaction, Merck shareholders are expected to own approximately 68 percent of the combined company (Merck, 2009b). Schering-Plough shareholders are expected to own approximately 32 percent (Merck, 2009b). This was a shock to the employees who for years were told by senior leadership (previous CEO's) that Merck would never entertain a merger with another pharmaceutical company. The Merger will provide for complementary product portfolios and pipelines focused on key therapeutic areas (Merck, 2009b). Merck and Schering-Plough together have high-potential early-, mid- and late-stage pipeline candidates. The transaction will double the number of potential medicines Merck has in Phase III development, bringing the total to 18 (Merck, 2009b).

While Merck employees understand the reason for the merger and the merger seems to benefit Merck more than it does Schering Plough, it comes at a very turbulent time for the organization. The organization has been working hard at re-branding themselves for years. Employees are concerned about:

- Workforce reductions
- Will there be more plant closures?
- How are my benefits packages impacted – my stock options, my pension?
- Culture differences – how do we manage?
- What are our core competencies – where should we focus our efforts?
- What products will we focus on, what products will we not focus on?
- What does our R&D portfolio look like – how will this merger affect bringing our products to market sooner?
- How is our plan to win initiatives impacted due to the merger – what happens to the plan to win?

While Merck does not have all of the answers to these questions, there is a need now, more than ever, to ensure minimal disruption to employees as we work through the details of the merger. Since the introduction of the plan to win strategy, the senior leaders have been monitoring employee, as well as, organizational capacity to handle any more change or disruption to their business. The number of initiatives within the plan to win portfolio reduced from nine to just five in 2007 due to complaints from the divisions that they were unable to handle any more change. Merck introduced employee resilience programs across the divisions and gave employees tools and resources in order to become resilient during major transformational change. They have also increased staffing and availability of their employee assistance programs (EAP) to assist employees during high times of stress and uncertainty. In addition, the company has also enabled more work-life balance opportunities within the organization for employees. An integration website has been developed which communicates to employees frequently re: status of the merger, as well as, to answer employee's questions and concerns.

As managers during times of uncertainty such as the merger, we need to communicate frequently, lead by example, keep our employees focused on our goals and objectives, display resilience characteristics ourselves, manage change effectively, speak-up when our capacity to accept any more change affects our business objectives and be there to mentor and build on our employee's strengths.

As employees, we should be empowered to seek clarification and answers. We should speak up when we cannot accept any more change. We need to keep ourselves informed on changes that impact us. Be resilient to change, stay focused on our goals and objectives and manage against those goals and objectives.

Recommendations to Management

Merck's management is certainly on the right track in their approach to including employees in the transformation process, however, they need to expand their approach if they are going to be able to keep employees engaged and excited about the change. The keys to a successful transition are going to be acknowledgement, communication, and education.

Merck, along with Schering Plough, will need to first realistically recognize and acknowledge the conflicts and problems than have arisen and will arise as this merger moves forward. This is the most imperative element of the solution because if management does not acknowledge the problems that exist, they will be unable to formulate a plan of action that addresses the real needs of the employees. There are a couple of approaches to gathering the information needed. One is to use the existing web site devoted to the merger and illicit feedback from employees via a web poll or a "concerns" email address that employees can write to. Give employees a "safe" way to express their opinions and fears, and management can respond and prevent the rumor mill from becoming the gospel. Another way to approach the acknowledgement phase is to hold small group sessions that include employees from all departments and levels. This will give management a cross-section of their staff and ensure they are addressing the concerns of everyone. Once the companies involved in the merger have sought out and received feedback from the employees, they can acknowledge the concerns and deficiencies in their approach and move to the communication phase of the solution.

Communication is often the catch all solution for many corporate issues, however, the method of communication is often what needs to be changed, not the verbiage being communicated. Merck has taken a heads-on approach to communication by setting up a website with current merger information. This is great because it allows for maximum distribution and access. However, what the website is lacking is the personal touch that many employees need to feel secure in this time of uncertainty. By adding a monthly face to face session or even a broadcast via webcam, management could fill some of the void employees feel when it comes to security. An honest monthly assessment of where the merger is going and what employees can expect at a series of preset milestones could help ease some uncertainty.

The final phase of the solution for Merck to ensure resiliency as the culture of their organization transforms is education. They have already made great strides in this area by laying out a set of joint objectives and goals. By ensuring employees know what the ultimate goals are, Merck has the potential to have a corporate rebirth and thus is beginning the socialization process for its employees as well as the employees of Schering Plough. Merck needs to ensure that not only are the goals and objectives clear, but the methodology to achieving the goals is also clearly defined. An example of this is the company's decision to include Lean Six Sigma as a key element of their transformation. Employees need to be provided training and access to training to ensure that they understand the processes involved in Lean Six Sigma analysis and how their work can affect the analysis and be impacted by the results. Additionally, Merck could benefit greatly by providing employees of both merging partners a defined layout of their roles as well as little historical information to ensure that each knows what the other is bringing to the table. The more confident employees are in the abilities of their counterparts the more likely they are to trust them and build productive teams.

Conclusion

Mergers can be both exciting and nerve-racking for everyone involved. Unfortunately, with the current state of our economy, they are becoming a necessary evil in keeping businesses operational and profitable. The process of merging not only the business but the culture of two companies can be complicated but it doesn't have to be painful. The key to a smooth transition is going to include: awareness and acknowledgement of the problems that could arise, effective, personal communication, and education. When these key elements are combined, the possibilities for the merged companies are endless.

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