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Mega pharma buyouts: more disruptive than productive

Balancing talent and business gains depends on how deals are structured

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Acquisitions bring with them uncertain times, as drug portfolios, research and people move from one company to another. And that season of mega buyouts seems to be here.

Last week, Novartis and GSK swapped businesses in a $23-billion deal. But even before details of this three-part global transaction could sink in, drug-major Pfizer said it is looking to acquire AstraZeneca for $100 billion and Valeant made a $47-billion offer for Botox-maker Allergan. Back home, too, Sun Pharma forged a $4-billion deal with Ranbaxy earlier this month.

Though details on these mega transactions and their local integration are still to become clear, industry insiders agree that crucial days lie ahead in terms of handling human talent and getting regulatory clarity.

Churn ahead

Experts caution of a possible churn as employees cope with the possibility of morphing into new roles required by the acquiring company. But, on the regulatory front, an interesting precedent could emerge on how the Foreign Investment Promotion Board (FIPB) and the Competition Commission of India (CCI) define their regulatory turfs in a deal like the Novartis-GSK one.

These regulatory authorities were in the spotlight some years ago when the Government sought to stem the tide of buyouts of local drug operations by foreign owners.

Disruptive deals

Deals, in general, are disruptive, not for businesses looking to pare cost and focus on strengths, but for human resource that are impacted top down, observes former Ranbaxy Executive Director Ramesh Adige. Employees may have aged parents, bank loans or other commitments, including school-going children, he says, adding that the situation needs sensitive handling.

Local integration depends on how the deal is structured here, says Kewal Handa, former chief of Pfizer-India, who has an inside track on acquisitions, having been part of Pfizer buyouts, including of Warner Lambert and Wyeth. If Novartis and GSK's local entities swap their businesses here, it may not need intense scrutiny, says Handa, as entire divisions (people and products) move from one company to the other. It is not difficult, he adds, referring to Pfizer's sale of a few consumer products to Johnson and Johnson.

The purposes of acquisitions may range from picking the research pipeline of the target company, entering emerging markets, to getting into categories such as biologics, says an industry consultant. An acquiring company may want just the brands, and may already have a team supporting that category. So, people supporting this product in the acquired company could be re-assigned to a different job or location, he explains.

Regulatory turf

Besides mapping human talent, Rajat Mukherjee, Partner with law firm Khaitan & Co, observes that mega deals could see the FIPB and CCI define their jurisdictional turf. The CCI would step in if a transaction makes any one company too large in a particular segment that could lead to anti-competitive practices.

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