MARKETING CHALLENGES INFLUENCING STRATEGIC PERFORMANCE OF PHARMACEUTICAL COMPANIES IN NAIROBI KENYA

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ABSTRACT

Marketing is intricately linked with the economy of virtually all nations of the world. The main objective of the study was to determine the marketing challenges influencing strategic performance of pharmaceutical companies in Nairobi Kenya. The study was guided by the following specific objectives: to investigate the effects of market exchange rate risk on strategic performance of pharmaceutical companies in Nairobi Kenya; to establish how marketing staff competence affects strategic performance of pharmaceutical companies in Nairobi Kenya. The scope of the study was 156 registered pharmaceutical companies in Nairobi Kenya as at the end of the year 2014. Agency theory, human capital theory, resource based theory and theory of constraints was used in the study. Various studies done on marketing challenges and their findings have been reviewed. Literatures on various studies done on the marketing challenges and strategic performance were explored. A cross sectional survey approach was adopted since the study is investigating the marketing challenges influencing strategic performance of pharmaceutical companies in Nairobi Kenya. Stratified sampling was used where sample of 40 firms were selected for this study.The study established that most pharmaceutical companies have been in existence for long duration of time in Nairobi Kenya and therefore understand the dynamics of the industry and the marketing challenges, medical representatives meet their sales budget most of the time and are innovative, franchising agreements restrict the operations, restricts distribution of other pharmaceutical company products and marketing decision making of the company's and most of the pharmaceutical companies had reserves adequate resources for marketing activities, invested adequately in research and development and produces adequate marketing materials for its distribution channel. The study recommended that the companies should implement appropriate processes of identifying the customer needs and harnessing strategies in order to face the challenges from the uncertain business environment and should adopt strategies that will not strain the operations of the company but rather those which will ensure that the company achieves competitive advantage.

Key Words: *marketing challenges, strategic performance, pharmaceutical companies, Nairobi, Kenya*

INTRODUCTION

This chapter presents the introduction of the study where it presents the conceptual and contextual arguments on the topic of study. It has outlined the statement of the problem, objectives of the study, research questions, significance, scope and limitations.

Marketers are facing the re-evaluation of marketing strategy, applying new tools and sophisticated techniques in the new millennium, where changes are of a constant nature.

Ultimately, the firms who take the greatest care of their customers' interests are the ones most likely to maintain their competitive edge in a cut-throat world (Blyth, Hodgson, Lewis and Steinmo, 2011). It could be generalized that marketing in the 21st century presents many new postmodern challenges which include shrinking markets, which in effect implies fragmentation and decentralized subjects (Brown, 2008), followed by increasing market complexity and market globalization, green issues, more marketing ethics and social responsibility (Kotler & Armstrong, 2008). There is more demand for marketing efficiency and effectiveness, speed to market and aggressive innovations (Bishop, 2009). Advancements in technologies in the digital age, including the internet, commoditization, communications, internet marketing development increasing availability of innovative marketing technologies, engagement and connection to the customer through service quality enhancement has brought both opportunities and challenges in today's marketing functions (Blyth, Hodgson, Lewis & Steinmo, 2011).

This study aimed at investigating the marketing challenges influencing strategic performance of pharmaceutical companies in Nairobi Kenya. According to Kinyua (2014), pharmaceutical firms are in constant rivalry and competition to show the superiority of their products in the disease area they have invested in so that they get an edge over rivals and secure their position in the market place. Therefore managers of these companies have to be imaginative in conceiving competitive strategies to win customer favor. By doing so they will build brand loyalties and get approvals & recommendations by the global healthcare bodies and this will eventually see their products sales and profits grow.

Changes in the global environment are presenting organizations with both new opportunities and challenges. Rapid advances in technology, increasing international trade and investment, growing wealth and affluence across the globe, and a convergence of consumer tastes and preferences are compelling businesses to expand their globalization strategies and tactics (Javalgi, Dixit and Scherer, 2009). In essence, the global economy is forcing organizations to adapt to a new international order (Czinkota & Ronkainen, 2009).

STATEMENT OF THE PROBLEM

According to Bowe (2014), the pharmaceutical industry is at a crossroads as patents expire, public policy changes and budgetary challenges, changes in how patients access medicine. Statistics indicate that major pharmaceuticals recorded a 9% drop in their financial strategic performance as more generic drugs are manufactured and produced by competitors. The level of competition is increasing meaning that the market share of companies is reducing at a fast rate. Globally, the number of new molecular entities approved each year still remains at disappointingly low levels, and the industry has been affected negatively by several issues such as drug safety and patent expiries of top-selling drugs. In the year 2014 alone, US$16 billion of revenues on marketed products was lost to patent expiries (Bowe, 2014). These effects have been heavily felt on the Kenyan market as 76% of pharmaceuticals consumed by the Kenyan market are imported. The marketing companies have grown in number supplying different products all meant to cure similar ailments.

Several studies have been done in the pharmaceutical industry. For example Ningala (2014) in a study on competitive rivalry noted that competition among local pharmaceutical companies is increasing in intensity due to the decline in customer purchasing power, the threat of parallel importation increasing importation of cheaper generic drugs and decline in government as the major buyer of drugs due to a slowdown in donor funding. Habib and Alam (2011) point out those pharmaceutical companies especially in developing countries are bogged down by various problems which not hinder their capacity, both financially and human resource wise. These problems make it difficult for marketing to grow and prosper in developing economies. Consequently the economy of most developing countries has not been better off because of the poor development of marketing as the bedrock for improving the economic prospect of contemporary economies. On his part, Simba (2012) studied strategic responses by multinational pharmaceutical firms to challenges posed by generic drugs in Nairobi Kenya and found that the corporations employ various strategies to fight these challenges posed by competition from generic drugs. Mboloi (2007) in his study investigated the challenges facing the pharmaceutical industry franchising in Nairobi Kenya focusing on the franchisee’s side. However, very limited studies have been done on the marketing challenges influencing strategic performance of pharmaceutical companies in Nairobi Kenya. This lack of research in that area has created a research gap.

OBJECTIVES OF THE STUDY

1. To determine the effects of market exchange rate and interest rate on strategic performance of pharmaceutical companies in Nairobi Kenya

2. To establish the effect of staff competence in marketing on strategic performance of

LITERATURE REVIEW

Theoretical Review

The specific theories covered include agency theory, human capital theory, resource based view theory and the theory of constraints.

Agency Theory

Basic agency paradigm was developed in the economics literature during 1960s and 1970s in order to determine the optimal amount of the risk- sharing among different individuals (Brown, Evans & Moser, 2009). However, gradually the domain of the agency theory was extended to the management area for determining the cooperation between various people with different goals in the organization, and attainment of the goal of congruency (Mustapha & Ahmad, 2011). In 1980s, agency theory was also appeared extensively in managerial accounting to determine the optimal-incentive contracting among different individuals and establishing suitable accounting control mechanisms to monitor their behaviors and actions (Namazi, 2013).

Agency theory explains the situation where one individual (called the agent) is engaged by another individual (called the principal) to act on his/her behalf based upon a designated fee schedule. Since both individuals are assumed to be utility maximizer and motivated by pecuniary and non-pecuniary items, incentive problems may arise, particularly under the condition of uncertainty and informational asymmetry. That is, the objective function of the principal and the agent may be incompatible, and therefore, the agent may take actions which will jeopardize the principal's benefits (Namazi, 2013).

Human Capital Theory

Human capital theory distinguishes between human capital development in general-usage and firm-specific skills. In his seminal work, Storper and Scott (2009) argues that employers will not be willing to invest in general training when labor markets are competitive. However, they are willing to invest in specific training because it cannot be transferred to outside firms. This is drawn from the assertion that while the returns to specific training can be realized only in an ongoing relationship with the training firm, general training increases the productivity of a worker in many firms besides those providing it.

Becker‟ s theory separately addresses these phenomena and draws two main conclusions. First, employers will share the returns and the cost of investments in firm-specific skills with their employees. Second, in a competitive labor market firms will not invest into general skills of their employees due to their inability to collect the returns from such investments.The human capital theory represents an attempt to modify the basic neoclassical model ofsupply and demand in the labor market, which is based on wage levels and the relative benefits of work compared with non-work. It recognizes that differential education, training, and experience levels produce differential costs/earnings in many different labor markets. Wage levels are directly related to the profitability of the products in those markets and to the level of skills, which are developed through training and experience inorder to produce those products.

CONCEPTUAL FRAMEWORK

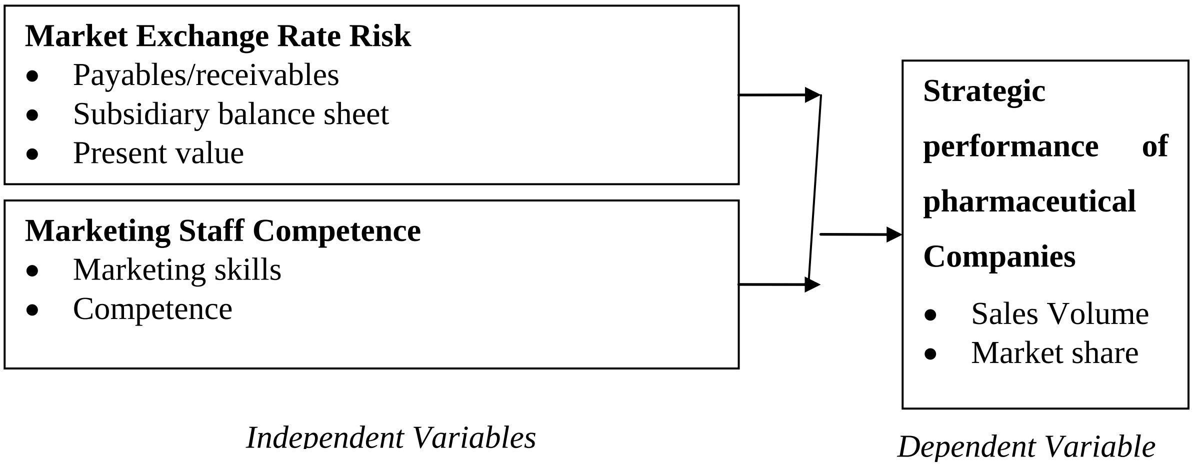

Figure 1: Conceptual Framework

Market Exchange Rate

Berman, Martin and Mayer (2012) defines exchange rate risk as the possible direct loss as a result of an un hedged exposure or indirect loss in the firm's cash flows, assets and liabilities, net profit and, in turn, its stock market value from an exchange rate move. Exchange rate risk constitutes one of the most common forms of risk that firms in the international arena encounter. Exchange rate risk management is an integral part of every firm's decisions about foreign currency exposure (Reboredo, 2012). Through exchange rate risk management strategies, organizations can improve the strategic performance of theory firms. Some of the common exchange rate risk management strategies include hedging. Currency risk hedging strategies entail eliminating or reducing this risk, and require understanding of both the ways that the exchange rate risk could affect the operations of economic agents and techniques to deal with the consequent risk implications (Verdelhan, 2010).

There are three types of exchange risk that can face a firm. One is transaction risk which is basically cash flow risk and deals with the effect of exchange rate moves on transactional account exposure related to receivables (export contracts), payables (import contracts) or repatriation of dividends. The second is translation risk, which is basically balance sheet exchange rate risk and relates exchange rate moves to the valuation of a foreign subsidiary and, in turn, to the consolidation of a foreign subsidiary to the parent company's balance sheet. Thirdly, economic risk reflects basically the risk to the firm's present value of future operating cash flows from exchange rate movements. In essence, economic risk concerns the effect of exchange rate changes on revenues (domestic sales and exports) and operating expenses (cost of domestic inputs and imports) (Ostry, Ghosh & Chamon, 2012). Large volatilities in nominal exchange rates have from time to time characterized Kenya financial market (Reboredo, 2012).

To avoid exchange rate risk in the short term, firms are required to hedge of their currency exposures. Hedging involves taking of a position, by obtaining a cash flow, an asset or a contract; including a forward contract that will rise in value and offset a fall in the value of an existing contract. In the long run, economic policies aimed at stabilizing the exchange rate should be put in place by the government to cushion firms involved in international trade (Mwangi et al, 2014). From the perspective of the early models of invoicing, domestic-currency invoicing allows to eliminate transaction risk, much like hedging with an exchange-rate forward. Invoicing is then a substitute to derivative hedging, and firms would be expected to opt for the one or the other depending on the relative cost of these strategies.

Marketing Staff Competence

Human resources are people recruited in the organization and treated as the prime mover and an important element for success of any organization (DeCenzo & Robbins, 2005). Like other industries, pharmaceutical industry also believes that the human resources are most valuable asset for the organization. Pharmaceutical industry is making considerable investments in attracting and developing competent professional human resources. Pharmaceuticals not only foster entrepreneurship, but also consciously encourage entrepreneurship in their organizational environment. This leads to innovation and creativity transformed into new products, services and new ways of doing things (Jayasuriya, 2010).

To get most efforts from human resources, pharmaceutical industries implement programs like decentralization, job enrichment and job rotation. The extent of empowerment enjoyed by people at various levels of the organization enables each employee from the very bottom to the top, to contribute to the overall momentum of the companies. Pharmaceutical industries are continuously striving to explore the necessary competences of the employees, especially the marketing executives to face the challenges of the competitive environment. They arrange different types of learning programs which are enforcing as a motivation too to upgrade necessary knowledge and skills of their employees (Habib & Alam, 2011).

RESEARCH METHODOLOGY

In this research, a cross sectional survey approach was adopted since the study is investigating the marketing challenges influencing strategic performance of pharmaceutical companies in Nairobi Kenya. This is because the respondents were required to give a description of how the situation has been without manipulating it. The population of interest in this study comprised pharmaceutical companies involved in marketing, and distribution of pharmaceutical products in Nairobi Kenya. According to the Kenya Medical Directory of 2014/2015, there are a total of 156 pharmaceutical firms involved in the manufacturing and distribution in Nairobi Kenya. 70 are manufacturers while 86 are distributors, operating as franchisees, for both local and international companies. The companies were divided into two categories; international franchises and those locally owned and export their products. Random sampling was used to pick 25 (17%) firms from the first category and 15 (10%) firms from the second category to make a total of 40. For convenience, all these firms are based in Nairobi.

A structured questionnaire used to collect primary data. The questionnaire was preferred in this study because respondents of the study are literate and quite able to answer questions asked adequately. According to Mugenda and Mugenda (2008), questionnaires are commonly used to obtain important information about a population under study. The questionnaire was designed carefully and tested with a few members of the population for further improvements. This will be done in order to enhance its validity and accuracy of data to be collected for the study. The questionnaires was dropped and later picked.

In order to analyze collected data, Creswell (2012) observed that a researcher needs to have the following information about the statistical data analysis tools namely: descriptive, inferential and test statistics. Quantitative data collected were analyzed by the use of descriptive statistics using SPSS and presented through percentages, means, standard deviations and frequencies. The information were displayed by use of bar charts, graphs and pie charts and in prose-form. This will be done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives and assumptions through use of statistical package for social sciences (SPSS). Gill and Johnson (2010) explains that SPSS is a comprehensive, integrated collection of computer programme for managing, analyzing and displaying data. The qualitative data will be coded thematically and then analyzed statistically.

In addition, the study used inferential statistics that involved multiple regression analysis to determine the marketing challenges influencing strategic performance of pharmaceutical companies in Nairobi Kenya.

The multivariate regression equation was;

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Whereby: Y = Organizational Strategic performance
X1 = Market exchange rate
X2 = Marketing staff competence
X3 = Marketing Franchising agreements
X4 = Marketing budget
$\beta_{0,}$ $\beta_{2,}$ $\beta_{3,}$ β_0 = Coefficient

ε = Error term/Erroneous variables

The study conducted the analysis of variance (ANOVA). ANOVA helps in identifying factors that are influencing a given data set. The variance was used to determine market exchange rate risk, market franchising agreements, marketing staff competence and marketing budget have an effect on strategic performance.

RESEARCH RESULTS

This study sought to establish the company information as well as that of the respondent for the purposes of getting to understand the companies' operations better so as to link them with the marketing challenges and strategic performance.

90% of the pharmaceutical firms in Nairobi Kenya have been in operation for more than 10 years. This is an indication that the pharmaceutical firms have engaged in various marketing strategies for more than 10 years and have meet several marketing challenges which are useful for this study. Majority of the respondents 40% were operations managers, 23% were accountants, 20% were medical representative and the least 17% were lab Technologist. These depicts that most of the opinions in the study come from operation managers in pharmaceutical distributors who were greatly involved in day to day marketing activities.

Marketing Challenges

Research results indicated that, in order to protect the company against exchange rate fluctuations, the Company runs accounts in local Banks where it sells had the highest mean of 4.129 with a standard deviation of 0.862 followed by high fluctuations in exchange rates affects our company profitability with a mean of 4.029 and a standard deviation 0.762 and customers pay the full cost of the products in foreign currency had a mean of 3.824 with a standard deviation of 0.997. Firm distributes its products outside Kenya had the least mean of 2.620 with a standard deviation of 1.258. These shows that the pharmaceutical companies were to a great extent affected by the changes in the market exchange rate as companies have to evaluate the risks of doing business on an international level. The mean values for the finding ranges from 2.620-4.129 which shows that the respondents were in agreement with the statements and this concurs with the finding of Reboredo (2012) that exchange rate risk management is an integral part of every firm's decisions about foreign currency exposure.

Marketing Staff Competence

The respondents were asked the extent to which they agreed on the statements on how marketing staff competence influences the strategic performance of pharmaceutical companies in Nairobi Kenya. Medical representatives meet their sales budget most of the time had the highest mean of 4.129 with a standard deviation 0.762 followed by medical representatives are innovative with a mean of 4.029 and a standard deviation of 0.667 and marketing staff are provided with adequate necessary working equipment had a mean of 3.851 with a standard deviation of 0.806. Company has adequate medical representatives for the market had the least mean of 2.620 with a standard deviation of 1.258 and medical representatives are regularly trained on how to improve their strategic performance which had a mean of 2.670 with a standard deviation of 1.268. This indicates that medical representatives and marketing staff needed to be competent, innovative and devoted more resources to overcome market challenges. It also indicates that they were inadequate and needed more skills.

The mean values for the responses ranges from 2.62-4.129 an indication that the respondents agreed with the statements. This finding is in line with that of Jayasuriya (2010) that pharmaceutical industry is making considerable investments in attracting and developing competent professional human resources. Pharmaceuticals not only foster entrepreneurship, but also consciously encourage entrepreneurship in their organizational environment. This leads to innovation and creativity transformed into new products, services and new ways of doing things.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.893	0.797	0.784	0.102

Table 1 shows a model summary of regression analysis between four independent variables and dependent variable company strategic performance. The value of R was 0.883; the value of R square was 0.797and the value of adjusted R square was 0.784. From the findings, 79.7% of changes in the company strategic performance were attributed to the four independent variables in the study. Positivity and significance of all values of R shows that model summary is significant and therefore gives a logical support to the study model.

Table 2: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	18.906	4	4.7265	2.663	0.003
Residual	44.357	25	1.7742		
Total	63.263	29			

ANOVA statistics of the processed data at 5% level of significance shows that the value of calculated F is 2.663 and the value of F critical at 5% level of significance was 1.96 Since F calculated is greater than the F critical (2.663>1.96), this shows that the overall model was significant.

Table 3: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.824	1.300		0.042	.0016
Market Exchange Rate Risk	1.332	0.218	1.025	0.048	.0018
Marketing Staff Competence	1.452	0.185	1.353	0.029	.0016
Marketing Franchise agreements	0.573	0.213	0.424	0.028	.0020
Marketing budget	1.549	0.190	1.266	0.036	.0036

From the regression findings, the substitution of the equation:
($Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4$) becomes:

$$Y=3.824+1.332X_1+1.452X_2+0.573X_3+ 1.549X_4$$

Where Y is the company strategic performance, X_1 is Market Exchange Rate Risk, X_2 is Marketing Staff Competence, X_3 is the Marketing Franchise agreements and X_4 is the Marketing budget.

From the findings of the regression analysis, marketing budget had the highest β= 1.549, followed by marketing staff competence with β= 1.452, market exchange rate risk had β= 1.332 and marketing franchise agreements had β= 0.573. This shows that marketing budget had the most effects on the strategic performance of the companies followed by marketing staff competence and the least was marketing franchise agreements. All the variables were significant as the P-values were less than 0.05 an indication that all the factors were statistically significant.

CONCLUSIONS

From the study, it was clear that different companies faced different market challenges. The commonly market challenges according to the rating were marketing budget and marketing staff competence. However, other challenges like market exchange rate risk and marketing franchise agreement were also moderately faced. It was also noted that most companies were faced with more than one market challenges.

The study also concluded that if a proper mechanism is put in place with regard to investment in marketing by pharmaceutical companies operating in Nairobi Kenya, pharmaceutical companies will gain competitive advantage in the market thus encountering market challenges. Training of pharmaceutical staff, capital advancement and in reasonable terms, good business operating environment and good business practices, the pharmaceutical industry will contribute increase in their market share in Nairobi Kenya and beyond.

RECOMMENDATIONS

The study established that the market challenges in the pharmaceutical industry has driven the companies to implement strategies that will enable them compete effectively in the industry. It is therefore recommended that the companies should implement appropriate processes of identifying the customer needs and harnessing strategies in order to face the challenges from the uncertain business environment.

The study further established that the marketing budget being made by the companies had an effect on market challenges and it is recommended that the companies should adopt strategies that will not strain the operations of the company but rather those which will ensure that the company achieves competitive advantage.

It is also recommended that management of pharmaceutical companies should consider forming alliances especially in order to compete effectively and efficiently in foreign markets to explore the full benefits of globalization to businesses. The organizations should also pay attention to the challenges they face and seek ways of mitigating the risks that come with the challenges.

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