# Returns Social Development Initiatives of MNEs: Issues and Perspectives

Suraksha Gupta

**Abstract**

The objective of the 8th MDG is to promote global partnership between Multinational Enterprises (MNEs) and domestic firms with or without intervention of a subsidiary. Addressing the particular needs of developing countries, such as capability enhancement or poverty reduction by managers of MNEs in a global setting becomes very complex. Investments by multi national enterprises (MNEs) in developing countries are driven by return on investments they provide and linkages they create for developing competence required for MNEs to survive successfully in a competitive market Need for an inclusive, accountable and effective cooperation for development of least developed countries urges academics to develop business models for managers of MNEs that can guide their thoughts and actions towards social development while holding on to the business targets.

**Keywords: MNE, Branding, Returns on Investments, Social Development, Capability Enhancement and Poverty Reduction.**

## Introduction

The strategy used by a pharmaceutical MNE to identify its route into the drug market depends upon the health support available to patients and the dynamics of the market. Countries without a health support system such as that available in developed countries, are generally developing countries (Arnoldi et al., 2014). MNEs in developing markets strategize their business operations based upon the trade-off opportunity assessed by them in the target market and the risk involved in entering a developing market (Jones, 2010). Linkages enable managers in home countries to understand the trade-offs they can make in the developing markets. The linkages build capability of MNEs to penetrate and improve performance in the foreign market. Thereafter, spill over effects of all these linkages are both direct and indirect for the MNE, the local market, local firms and consumers. Although influence of spillovers is studied extensively, knowledge about ability of expansion of MNE operations through local linkages in a developing country to meet social challenges is now known. Help from institutions provided to MNEs at the macro level as support for capacity building initiatives, or for removing trade-restrictive measures, or by eliminating export subsidies and trade-distorting support given to agricultural exports becomes very important for social development in developing markets. Although bilateral and multilateral agreements increase the management burden on recipient countries on the one hand and raise need for coordination on issues for the donors and lenders on the other. Simultaneously, cost benefit analyses of entering developing markets to either improve production capacity or to conduct research and development activities at low cost or to obtain new technology or to increase profit from sales, aims to improve the positioning of the MNE in the global market.

The global market for pharmaceutical MNEs manufacturing medicines as assessed by PricewaterhouseCoopers (PwC) will be 1.5 trillion USD in the year 2020, and according to a report by BCC Research, the size of the segment consuming generic medicines will experience the highest growth rate. These forecasts by PwC are based on recognition of an aging population and growing life expectancy in countries like India, China, Brazil, Russia and Mexico. As indicated by the MDG task force, PwC and BCC research: access to essential and affordable medicines is a critical MDG to be achieved through global partnership because if medicines are expensive, people will have to make catastrophic payments in order to achieve a higher status of health. FDIs by pharmaceutical MNEs in developing countries are guided by international trade policy monitored by the World Trade Organisation (WTO) and World Health Organisation (WHO) monitors global health policy. While WTO aims to establish free trade and commercial practices across the globe, the goal of WHO is to facilitate timely diagnosis and access to medicines for all. WTO encourages the entry of R&D based pharmaceutical MNEs from developed markets into developing markets and WHO promotes the demonstration of good citizenship by these MNEs through participation in making essential medicines affordable and accessible (Flynn, 2014). Integration of objectives of MNEs, WTO and WHO when referring to access to medicines reflects on the role of national governments and public institutions operating in countries being targeted by them. Therefore, strategies that can be adopted by MNEs from developed countries to provide access to medicines in developing countries, merit investigation.

Despite an increase in international trade in medicines by MNEs and efforts of the World Health Organisation (WHO) to safeguard the health of people in its member states, one-third of the population in developing countries still does not have access to affordable essential medicines. A report published by the United Nations, New York, in 2015 on progress of the Millennium Development Goals in relation to developing countries suggests that availability of medicines through private facilities in these countries is higher in comparison to public health facilities. This report also reflects on the lack of availability of initial diagnostic test facilities required for prescribing the right medicines by medical practitioners. Using survey data collected from households of sub-Saharan Africa during 2012 to 2014, a WHO report suggests that only 20% of children suffering from fever received a diagnostic test. Influence of lack of such medical interventions combined with non-availability of medicines pushes WHO to engage the international private sector and promote public-private partnerships at the national level. Inflow of FDI by MNEs can be determined by the policies of government in the host country (Dunning, 2014). Policies formulated by the government in Ghana allow pharmaceutical MNEs and their subsidiaries to benefit from incentives like tax exemption for the first ten years of operation, tax rebates and Free Zones Enclave (Summit, 2014). Other incentives including a zero corporation tax for setting up manufacturing plants in identified locations reduce the overall expense incurred for production, thereby giving MNEs an opportunity to reduce the price of medicines in Ghana (Summit, 2014). The government in Brazil also offers exemption from tax for up to three years but requires companies to invest a percentage of their profits in research and development through institutions or universities, and the government of India provides an environment that offers growth through research and development to MNEs (Flynn, 2014).

Martens et al. (2011) conceptualized a framework linking globalization and the health related requirements of future populations. With population health being the central focus, the framework of Martens et al. (2011) explains the formative nature of various contextual, distal and proximal determinants to influence population health. The study presents five features

that influence global dynamics, i.e. 1) global governance structures, 2) global markets, 3) global mobility, 4) cross-cultural interactions and 5) global environment. Investigation conducted by Martens et al. (2011) highlights the ability of four of these features to drive four distal determinants - health policy, economic development, knowledge and social interactions, and ecosystem goods and services. Next, the model underlines how population health during globalization depends upon dynamic interaction between various factors such as health related policies that influence health services and the effect of social environment on lifestyle. For example a high or low fat diet depends upon the knowledge gained and social interactions between actors. This research reflects a need for MNEs to step aside from a commercial agenda as a usual business attitude and aim to provide sector-based solutions with short-term remedies. Considering the complexity of multi-dimensional and multi-level causation of population health, Martens et al. (2011) highlight the need for both state and non-state actors to actively feel responsible for participation in the global health agenda. Authors have explained that the last MDG, i.e. "global partnership for development", is feasible and the goal can be achieved with the engagement of the private sector at the global level, i.e. MNEs.

A study conducted by Jones (2010) reviewed the opportunities and risks faced by multinational strategies in developing countries during three different eras of globalization, namely 1) the global economy from 1850-1929, 2) the de-globalization period from 1929-1978 and 3) the second global economy from 1978 onwards. He explained that the trade-off is determined by MNEs based on three very different but related factors, i.e. policies of both the host country and the home country, the target market and resources available in the host country and the competitiveness of local firms in the host country. As discussed by Jones (2010), the performance of an MNE in a developing country is an outcome of its strategies that are based on its internal capabilities that enable it to respond to opportunities and threats existing in the host country. This research reviewed investments made by MNEs in developing countries from the year 1914 till 2007. The findings reveal that MNE investments in developing countries during the year 2007 were less than 50% of the value of investments in the year 1914. The author also reveals that throughout the three eras, social and infrastructural development of target markets has consistently been an integral part of the FDI strategy of MNEs. The WHO framework for providing access to medicines recommends the incorporation of four main factors in their strategies: 1) rational selection and use of medicines, 2) affordable prices, 3) sustainable financing and 4) reliable health and supply systems. The following sections present a discussion on the incorporation of these aspects into strategies adopted by pharmaceutical MNEs for developing countries.

**MNEs in a Global World**

Globalization facilitates efficient sourcing of raw material and production, as well as providing opportunities of huge sales (Porter, 2000). Higher sales have a ripple effect on cost of production and raw materials, making businesses more profitable for MNEs but they pose risks like counterfeiting (Chandler, 1959). Therefore, MNEs use patents to protect their innovations, brands to introduce their innovations and trademarks to protect their brands (Allred and Park, 2007). The World Trade Organisation (WTO) made an attempt to protect local industry in developing countries from price-based strategies adopted by MNEs, by obliging them to reduce their prices and create competition for the local industry (Ford et al., 2007). Simultaneously, to safeguard the interest of patients with low ability to pay, World Health Organisation (WHO) recommended the engagement of local governments for improving conditions related to access to essential medicines at affordable prices (Ford et al.,

2007). These recommendations encouraged governments in developing countries to build or improve infrastructure at public health centres for the provision of medicine manufactured either locally or by MNEs (Sallis et al., 1998). Availability of infrastructure as resources in a market with a high potential for business encourages MNEs to consider creating a base for their company in the market by making financial investments (Porter, 2000). A country with the necessary infrastructure is expected to attract higher FDI (Porter, 2000). Linkages created in the host country by a pharmaceutical MNE through a local subsidiary can have both direct and indirect influence on local firms, local population and the MNE (Figure 2). Therefore, the focus of this study is on benefits received by local firms from their engagement with MNEs in the form of capability enhancement, local population gains from poverty reduction due to improved health conditions and facilities. A reward for the MNE in such a setting is conceptualized to include increase in brand value and brand reputation.

**FDI by MNEs**

Demonstrating direct and indirect effects of FDI by MNEs, governments permit FDI in both green-field as well as brown-field projects. But, a reform is required to facilitate healthcare and access to medicines for poor patients in the developing world who depend mainly on generics and cannot afford to pay for branded medicines. Efforts of voluntary organisations such as Global Alliance for Vaccine and Immunization (GAVI) and UN Compact are also not able to ensure engagement of pharmaceutical MNEs in development through sustainable access to essential medicines. In Brazil, MNEs create links with local firms and appoint a custodian institution registered with the Brazilian Securities Commission (Torres Filho et al., 2014). The linkages developed enable MNEs to optimise investments made and make use of the benefits provided like tax exemption by host countries (Flynn, 2014). In order to set up linkages in host countries, MNEs adopt various routes like a joint venture or an export channel or a subsidiary or a distribution channel (Dunning, 1999). State governments in Brazil compete with each other to host MNEs by autonomously offering benefits like support in the creation of linkages, while central government regulates the repatriation of MNE profit (Sundaram, 2014). Anecdotes indicate that governments in developing countries support the health sector with sustainable financing using a percentage of the country's GDP and by controlling prices of selected medicines identified to be essential by experts. These controls restrict pharmaceutical MNEs from putting a mark-up and charging a premium price, thereby restricting the availability of their products in the developing country.

**Marketing Strategies of MNEs**

The market for medicines or drugs can be divided into 1) prescribed patented or non-patented drugs and 2) non-prescribed over the counter drugs (Paris and Docteur, 2007). The non-patented and over the counter drug market is being served with branded generics or unbranded generics in both the developed and developing countries by local manufacturers or MNEs (Sundaram, 2014). The efficiency of state-provided health support services in developed countries encourages drug manufacturing MNEs to supply generic medicines at low cost. However the business dynamics and governance prevailing in the markets of developing countries makes MNEs push branded generics as high quality products (Ravindran, 2014). Branded generics allow MNEs to charge a high price and increase their profits from people whose paying capacity is much less (Rosenthal et al., 2003). A review by Ailawadi et al. (2001) of value-based pricing strategy adopted by Procter and Gamble highlighted that the price paid by consumers is negatively associated with market share, and price cuts allow stronger market penetration because steep price cuts motivate buyers to focus on promotion instead of on brand, and special promotions can influence consumer

preferences at the point of purchase. The other alternative suggested by scholars such as Raulinajtys-Grzybek (2014) is, cost-based pricing calculated on the basis of costs incurred by the manufacturer to produce the product.

The cost-based pricing methodology uses costs to identify a cost range that provides minimum and maximum prices for a specific product or service. As indicated by previous researchers, if the market conditions are such that the going competitive price is very low, the company may price its products at the minimum possible amount (Hill et al. 2014). But, adopting this strategy for pricing is difficult in developing countries due to asymmetry in information about either the market or the patient in developing countries (Hill et al. 2014). Therefore, the demand for medicines and healthcare for developing countries is identified by the assumptions of physicians or pharmacists (Arnoldi et al., 2014). Thus the concepts of brand awareness, brand credibility, association and reputation for pharmaceutical MNEs are all focused on the relationships of manufacturers with chemists and doctors (Ahmad and Sattar, 2014). Representatives appointed by manufacturers also find it difficult to acquire complete medical information. Hence, different types of incentives are passed on to actors involved in promoting the branded generics, using various unethical trade practices (Rose-Ackerman and Tan, 2014). As generics are often thought to be sub-standard and the choice of medicine does not lie with consumers, patients end up paying higher amounts for branded medicines that could have been easily purchased at a much lower price if generics were bought (Sundaram, 2014). Adoption of market based pricing policy as an effort to reduce the cost of essential drugs, by making them affordable for national governments, and by launching patent-protected drugs at a very low price in comparison to the global price, has generally not yielded improvement in issues related to access to medicines.

### Acquisition for Control

Evidence of acquisition as a strategy adopted by firms wanting to expand can be found in the pharmaceutical industry with cases such as Ranbaxy, an Indian company that took over 30% stakes in Vorin Labs to benefit from its strong hold in the market because of products such as Ciprofloxacin, Enrofloxacin and Indinavir. Acquisition via FDI allows MNEs to get immediate access to local linkages through a fully operational business (Meyer, 1995). MNEs operating across multiple countries reduce their transaction costs by expanding their production capacity through acquisition of local manufacturers to benefit from economies of scale (Dunning, 2014). These MNEs also increase the size of their product portfolio to address needs of different categories of customers at every point of purchase to benefit from economies of scope (Buckley and Ghauri, 2004). Efficient production and marketing capabilities enable MNEs to exploit complementarity between their product segments and to establish their dominance in the global market as market leaders by serving customers in different countries (Dunning, 2014). Developing production capabilities requires vertical integration but improving marketing capabilities requires horizontal integration (Dunning, 1999). Vertical integration improves business efficiency and acquiring competing businesses as a horizontal integration strategy enables firms to increase their market share and grow their business in the global market.

### Technological Efficiency

Dahan et al. (2010) explored new business models for developing markets and recommended that building a reliable medicine supply system in a developing country required engagement of the private sector. Certain state governments in developing countries such as India have made attempts to develop their own mechanisms to provide access to medicines, but they

have failed owing to lack of information required to efficiently manage a supply chain. Another issue that led to the failure of the efforts of state governments in India was the duplication of schemes run by the state, the centre, the hospitals etc. While there are many examples of such failures, the state of Tamil Nadu in India has created an exceptional medicine procurement and distribution system, which other states are trying to replicate. The success of the private sector and government of Tamil Nadu in efficiently managing supply of medicines can be credited to the information support they received from the use of technology. The state government of Tamil Nadu and the public sector are monitoring the inventory and delivery of medicines through public health facilities using technology based state of the art enterprise resource planning systems that facilitate ordering and delivery of medicines transparently using first in, first out rule with minimum stock levels. A study conducted by Meyer (1995) investigated the role of issues such as energy, natural resources, pollution and waste in building economic competency to explain how corporations can gain competitive advantage by managing variables related to ecological health. The findings of the research conducted by Meyer (1995) reflected on technological orientation as a tool for competitive advantage and explained how organisational processes, when managed using technology, can enhance the competitiveness of a firm. A management strategy that incorporates use of technology for efficiently providing access to medicines will therefore, improve the performance of MNE in the target market.

## Greenfield Investments

MNEs' contribution to the development of the local economy in the form of efforts related to improvement in health facilities, job creation, skill development, infrastructure to promote sanitation or education, promotion of renewable energies, can all be percieved as green-field investments (Agwu, 2014). Studies by scholars like Rush et al. (2014) also discuss outcomes of MNE initiatives to support local firms whose resources enable the MNE to build local capabilities, absorptive capacity and market positioning through production and employment creation, and these need to be considered. Developing market administrators classify these initiatives into Greenfield or Brownfield investments and explain existing trends as being based on the focus of MNEs on driving shareholder value. A report on FDI in the pharmaceutical sector by the Rajya Sabha Secretariat in India shows that out of 67 FDI investments up to September 2011, only one was a Greenfield project, while all the remaining FDI has come in brownfield projects.

The selection of Greenfield i.e. initiating a new startup versus Brownfield i.e. acquisitions as an investment strategy by MNEs is driven by competition intensity, experience of operating in a foreign country and technological efficiency (Meyer and Estrin, 2001). High costs involved in production and process management of drug manufacturing have encouraged various pharmaceutical companies from developed countries to outsource their manufacturing processes to developing countries (Mascarenhas et al.. 1998). Unfortunately, the outsourcing of these activities by MNEs from developing countries has been generally restricted to areas where resources are available, and has not contributed to building of infrastructure in areas that lack resources and facilities (Agwu, 2014). Alternate investments of MNEs reviewed by Dunning and Lundan (2008) also have been towards development of a distribution network useful to MNEs for marketing and sales of their products in areas with high sales potential. These studies emphasize that managers of MNEs consider investments in favour of strengthening their supply network to compete and survive in the market instead of promoting distribution into the areas that need development and lack infrastructure required to provide access to medicines (Labonte et al., 2005). Non-availability of a medicine retailer or a pharmacy or a hospital in a remote area with very low business potential but high

poverty directly highlights the problems related to access to medicines for the poor, making healthcare very expensive for them (Labonte et al., 2005).

The autonomy enjoyed by subsidiaries of MNEs allows them to create linkages for efficient functioning of regular business activities like marketing, purchasing and recruiting (Ho, 1998). The spill over effect of subsidiary activities that enables MNEs to identify opportunities of Greenfield investments in rural underdeveloped areas of developing countries can improve access to medicines and simultaneously increase share of the market for the MNE (Meyer, 1995). An investigation of inward FDI on labour markets of developing countries by comparing the differences between productivity of local and foreign firms in host countries was carried out by Agwu (2014). Based on the findings that the overall influence of increase in productivity is ultimately translated into regional development and job creation, Agwu (2014) recommended that Greenfield investments instead of brownfield investments would improve productivity, and thereafter, the competitiveness of the MNE in the host country.

## Innovation

High costs and the risk involved in production and consumption of medicines pushes MNEs to outsource their research, development and production to developing countries (Buckley and Ghauri, 2004). Developed countries are able to provide skilled staff and infrastructure with the production specific assets required to innovate, apart from maintaining and monitoring high quality standards of procedures and operations throughout the production and delivery process (Dunning, 1999). Efforts related to research and development of pharmaceutical MNEs for innovation conducted in the developing countries have been restricted to process chemistry and reverse engineering capabilities, and have negligibly served the needs of the target market (Liu and Buck, 2007). Another feature noticed in FDI inflow for R&D in developing countries has been that of 'out licensing', where the company in the host country leads in the pre-clinical stage and the MNE will possess the right to market, if drug clears all the required tests (Chien, 2003). The companies conducting research for pharmaceutical MNEs in developing countries are paid for passing each stage of clinical trials and compound approval. Another issue noticed regarding R&D is the increasing collaboration between MNEs and local firms for unethical clinical trials of patients in phase III (Submitter et al., 2011). Research on clinical trials conducted by Submitter et al. (2011) highlighted unethical practices of using a vulnerable non-traditional trial population in poor regions of developing countries by contract research organisations without giving them access to the innovation resulting from the research and development.

## Branding

Perceptions of actors in the pharmaceutical industry are also affected by the marketing activities but, unlike other industries, pharmaceutical industry regulations require companies to receive legal authorization for marketing their drugs (Fingstein, 1996). Parameters prescribed by WHO regarding qualification of drugs for marketing authorization entail the engagement of local governments for registering and publishing names of drugs registered, using their international non-proprietary names with or without their brand name. The acquisition of non-patented branded products enables MNEs to rapidly gain a share of the domestic market. Volumetric sale of branded products results in higher profits and availability of a marketing budget (Kim and Chung, 1997). A brand enables MNEs to sustain their market share by efficiently marketing and communicating about their products in order to build awareness among naïve consumers (Ghauri and Usunier, 2003). Consumers perceive the knowledge provided about the products and hazards of overconsumption or non-

consumption through brand communications as brand value, and this moderates brand credibility in remote locations (Shaw et al., 2006). Restrictions imposed on the marketing of drugs encourage pharmaceutical MNEs to use their company name as a corporate brand that can strengthen their market penetration capability (Dunning, 1999). While MNEs acquire a business due to their interest in originator drugs, they use patents as a main strategy to curb competition (Ghauri and Usunier, 2003). Other strategies used to address competition at the micro level are celebrity endorsements and expert advice as marketing techniques to attract customers and to persuade them in a competitive market (Ang et al., 2000). Developing a capability to drive consumer behaviour requires pharmaceutical MNEs offering therapeutic drugs to create recognition amongst the consumer segment (Ailawadi et al., 2001). Use of a brand enables an MNE to reflect on its philosophies, such as reciprocity and sensitivity to stakeholder needs, and build its credibility across geographical boundaries (Shaw et al., 2006). Branding facilitates utilization of marketing techniques and tools across all consumer and business-to-business segments, making creation of linkages easy for MNEs (Ghauri and Usunier, 2003).

### Quality Assurance at POP

The medicines supplied at public health centres are generic medicines procured by the state government through a tendering or bidding process that requires medicines to qualify on prescribed quality and financial parameters (Chaudhury et al., 2005). As MNEs' prices include high mark-ups for marketing and logistics cost, they fail to match the prices offered by manufacturers offering products without labels, thereby getting disqualified from the bid (Ghauri and Usunier, 2003). Medicines offered by manufacturers without any label lack recognition by buyers about the quality of product and high standards of procedures adopted during production (Chaudhury et al., 2005). Hence, generic medicines fail to assure buyers about quality of the product at the point of purchase (Hurwitz and Caves, 1988). Therefore, the purchasing behaviour of patients while buying medicines at pharmacy stores or hospitals is driven by MNEs offering branded generics that are bioequivalent or off-patent products sold using a brand name. The quality of drug depends on the active pharmaceutical ingredient (API);the bulk drugs for both the generic and branded generic markets are sourced from small-scale industry (Rai, 2008). But, the supply chain expertise of MNEs and lack of trust on generics and non-availability of generics all influence the purchasing behaviour of customers and hinders the fulfilment of demand for generic medicines in the remote areas of developing countries (Hurwitz and Caves, 1988). Branded generics are promoted as reliable medicines to retailers, pharmacists and to doctors by MNEs along with high sales incentives (Rosenthal et al., 2003). Promotion of branded generics by retailers and doctors creates a perception of low quality regarding generic medicines (Hurwitz and Caves, 1988). A study conducted by Ahearne et al. (2007) explains the importance of perceptions of quality when shared by promoters or sellers, i.e. doctors and retailers in the case of medicines, while buyers at the point of purchase can have an indirect effect on the performance of the firm (Ahearne et al. 2007).

### Transparency in Operations

The agreement on Trade-Related aspects of Intellectual Property Rights (TRIPs) agreement provides flexibility to local governments for application of non-voluntary authorization of use of patents as compulsory licenses in conditions related to public health, i.e. for diseases like HIV/AIDS (Rai, 2008). However, the international business environment today is apprehensive about the lack of transparency in the practices of MNEs in areas such as revealing the cost of a patented drug or justification of holding on to patents even after the expiry of the drug by tweaking the composition of the drug (Joseph, 2003). Another unhealthy trend observed in the international platform is that pharmaceutical MNEs take over

local pharmaceutical companies in developing countries at a very high price (Joseph, 2003). Sometimes, in order to recover payments made for acquisition, MNEs concentrate on manufacturing and marketing of costly branded products and use the marketing and distribution networks of the acquired company to push their expensive patented and branded medicines, thereby displacing generic products from the market (Chandler, 1959). Introducing branded products without displacing non-branded drugs transparently can improve stakeholder perceptions of MNEs (Rai, 2008).

### Need Based CSR

The use of a subsidiary in a foreign country for identification of an appropriate initiative can the improve market position of the MNE (Dunning, 1999). The nature of the global pharmaceutical industry encourages MNEs to concentrate / focus on the 8$^{th}$ MDG that requires participation of global partnerships for providing access to medicines. To regulate the supply of medicines by drug manufacturers from developed countries, the WHO promotes Ethical Criteria for Medical Drug Promotion to encourage the rational use of drugs by everyone across the globe. WHO reports indicate that 85% of the global pharmaceutical companies that dominate the drug market are based in the USA, UK or Japan. The figures reported by WHO also highlight that the marketing spends of these companies is one-third of their total sales revenue and twice the budget allocated by them to research and development (R&D) related activities. The marketing initiatives of MNEs are focused on drugs meant for the mass market, due to anticipated high returns in terms of sales revenue. R&D investments are motivated by the paying capacity of purchasers, thereby ignoring the needs of patients whose paying capacity is low. These practices reflect the conflict of interest of the drug manufacturers' approach towards the needs of stakeholders in a foreign market. Annual reports of top drug supplier MNEs were reviewed to understand their social responsibility driven initiatives and their focus on marketing objectives (Table 1). As shown in Table 1, investments of the 9 companies reviewed towards CSR initiatives do not address the issues of the local area i.e. providing financial aid to patients with low or no paying capability and building of infrastructure that will allow higher trade and availability, therefore, lead to local development. Identification of CSR initiatives based on the need of the local market can improve ability of stakeholders to differentiate between brands and be loyal to a brand that is satisfies their needs.

### Distribution for Penetration

An anticipated increase in future consumption of medicines and conditions of markets in countries with high business potential for sales of drugs both require pharmaceutical MNEs to understand causes and patterns in developing countries (Sundaram, 2014). In-depth knowledge with a business strategy can help a company to penetrate a foreign market (Dunning, 1999). The current market in developing countries is generally made up of a large number of suppliers and retailers (Buckley and Ghauri, 2004) and at every exchange between these actors there is a mark-up applied to prices (Ghauri and Usunier, 2003). As a result, manufacturers compete with each other through salesmen and retailers by manipulating the supply chain and stocks available in the marketplace (Gupta et al., 2008). Drugs recommended by suppliers are based on profitability from each sale, and retailer recommendations are driven by their relationships with the manufacturer (Sundaram, 2014).

As shown in Figure 2, the acquired company supports an MNE to spread its network using such linkages as its subsidiary. MNEs use their brand to promote products through a network of distributors, medicine retailers and hospitals that provide deep access into the remote markets (Gupta et al., 2010). Pharmaceutical MNEs promote branded medicines also by engaging medical practitioners through their local linkages (Grace, 2004). Staff at the health

centres or hospitals, doctors or pharmacists act as representatives of MNEs in their local market and provide assurance about the quality of raw materials used and processes adopted by MNEs during production using marketing techniques like relationship marketing and brand knowledge (Gupta et al., 2008). Engagement of actors in the distribution network with MNEs results in development of their technical and sales skills (Gupta et al., 2008). Training provided by MNEs to these individuals indirectly enables them to qualify for superior jobs and improve their life-style and social status. Such initiatives taken up by brands build a positive reputation and improve recognition of the value offered by the brand in its target segment (Gupta et al., 2010).

The distribution network of MNEs provides resources required by an MNE and its subsidiary to develop its credibility and to establish the legitimacy of its actions in the developing country (Buckley and Ghauri, 2004). The centralization of procurement and decentralization of distribution of medicines by states has improved the situation relating to access to medicines in India. Centralized procurement of drugs in such cases has also led to reduction in prices of drugs due to the volumes being purchased, thereby encouraging independent retailers of medicines to promote low cost generic medicines (Grace, 2004). The centralized procurement and decentralized system of distribution of medicines adopted by these states in India have received criticisms from MNEs because these activities are performed through agencies appointed by state government using a bidding system. Bidding allows state governments to assess the technical and financial capabilities of the suppliers (Chaudhry et al., 2005). Most often MNEs score highly on the technical parameter identified but owing to their marketing spend, they fail to compete at the price point, thereby, losing the business (Chaudhry et al., 2005). Hence, appointing independent self-employed pharmacists or medicine shops outside hospitals as members of distribution network and incentivizing the superior performers can provide access to medicines for consumers and benefit the MNE with superior recognition and higher profits (Lee, 2012). Use of a brand for adoption of this model becomes important to create recognition for rewards and incentives to members of distribution networks.

### Public-private partnership

Access to medicine as defines by WHO is dependent on four pillars, namely 1) Rational Use, 2) Affordable Prices, 3) Sustainable Financing, and 4) Reliable Supply System (Schustereder and Jütting, 2008). While rational use of medicines and sustainable financing are considered to be the responsibility of government, MNEs can aim to improve availability of medicines at affordable prices with a reliable supply system while taking care of their profit margins, and gain an increase in their market penetration while diversifying their product lines etc. (Allred and Park, 2007). A study conducted by Ozgediz and Riviello (2008) explains that a lack of infrastructure in rural areas of developing markets makes thr supply of essential drugs difficult for public-partnerships. Healthcare infrastructure in rural areas of developing countries built by local governments can create an opportunity to provide healthcare in remote areas. Maintaining a stock of essential medicines through government managed public health facilities and supplies made at minimal cost from pharmaceutical firms will facilitate public private partnerships for the provision of instant medication and generic medication to the poor (Ozgediz and Riviello, 2008). The government of Tamil Nadu in India has been able to successfully build an efficient health and supply system by facilitating public-private partnership to provide access to medicines. The success of the government of Tamil Nadu is based upon cooperation between political leaders, industry and administrative services and has been able to attract public support required for reformation. The aforementioned cooperation was driven by managerial skills and management frameworks and resulted in identification and deployment of resources required to improve the network of

health facilities in Tamil Nadu. The success story of Tamil Nadu in India was reviewed by Muraleedharan et al. (2009), who explained how adoption of government run health care institutions by industrialists, making philanthropic contributions via maintenance and upkeep of hospitals and health care centres, can improve access to medicines

## Market Based Pricing

FDI in the pharmaceutical sector should result in lowering of drug prices through improvement in supply and increase in sales of drugs (Ghauri and Usunier, 2003). But expenses incurred by MNEs in the creation and promotion of their brand to create recognition, apart from costs of supplying medicines across national boundaries, push managers of MNEs to charge a premium for their drugs. To provide access to medicine for everyone, WHO recommends the creation of a list of certain important medicines as essential drugs and making patients aware of a price at which these should be sold, so that poor consumers do not have to spend exorbitantly? Governments in developing countries also attempt to address such issues through sustainable financing in the form of a fund as a percentage of its GDP or by publishing a list of essential medicines. Therefore, essential medicines when sold under a price cap in developing countries are not considered as profitable by MNEs (Pederson, 2011). The inability of pricing policies of MNEs and price controls levied by national institutions or governments in developing countries to ensure access to essential medicines for the poor was highlighted by Scherer and Watal (2002). Pricing practices of 150 Norwegian multinationals were investigated by Pederson (2011), by reviewing the current literature on transfer pricing and by conducting a survey of 150 transfer pricing advisory consultants in Nigeria. The findings of Pederson (2011) explain that the current academic understanding of transfer pricing reflects on its use for strategic optimization of management control and taxation in the host country, indicating that tax legislation of the host country plays an important role in pricing for MNEs. Hussein and Kachwamba (2011) studied the combined influence of globalization, purchasing power of the buyer, inadequate institutional participation, information asymmetry and unstructured distribution networks on product quality. As noticed by Hussein and Kachwamba (2011), unfair competition in developing markets due to inadequate institutions and uncoordinated distribution result in unethical practices which work as a catalyst for MNEs to increase the prices of their products and makes price conscious consumers trade product quality and product performance for cheaper prices. Hence, market based pricing was suggested as a strategy to be adopted by MNEs for improving their performance in developing countries.

## Reciprocity

The task force monitoring the progress of MDGs highlighted official development assistance, market access and debt sustainability as important indicators useful for evaluating engagement of MNEs in the achievement of the 8$^{th}$ target. They recommended cancellation of bilateral debts and inclusion of tariff and quota free access for providing access to medicines for all the patients. Research studies conducted by scholars such as Gugler and Shi (2009), from an international marketing point of view, report that the success of MNEs in developing markets depends upon their engagement in addressing social issues prevailing in the target market. Social engagement strategies created by MNEs are constrained by moral obligations imposed by the stakeholder community. International trade literature like Wade (2003) reflects on the role played by agreements such as TRIPS (Trade-Related Aspects of Intellectual Property Rights) that are monitored by organisations like the World Trade Organisation (WTO) regarding MNE engagement in developmental activities in developing countries. Wade (2003) examined how international regulations restrict the development policy options available to MNEs and the restrictions they impose on local governments in developing countries. This study discusses how two of three main agreements, i.e. TRIMS

on investment measures and GATS on trade in services, limit the authority of local government in constraining the choices available to MNEs in developing countries. The third agreement TRIPS further pushes local governments to protect property rights of MNEs from infringement by local firms. These three agreements as explained by Wade (2003) demotivate governments in developing countries from focusing on development of their local industries and push them to support MNEs from developed countries in generating wealth by penetrating their markets. Wade (2003) explains how these three agreements are removing the possible opportunities of superior performance provided by globalization for local firms in developing countries, therefore, they are bad for the development of developing countries. The author puts emphasis upon integrating a social agenda for development of developing markets with a commercial agenda of MNEs to drive the performance of a firm.

The benefits of acquisition, branding and distribution as a market entry strategy for control, marketing and penetration by pharmaceutical MNEs have been recognized in the academic literature (Meyer, 2004) but returns on these initiatives for the MNEs have not been recognized by the marketing scholars up to now. Few scholars such as Venkatraman and Ramanujam, (1986) have tried to develop scales for evaluating the efficiency of firms or the organisational effectiveness as business performance. As these studies have been conducted in different settings, indicators of performance used by these researchers are different in each case. Ten different approaches were reviewed by Venkatraman and Ramanujam (1986) using two dimensional classification schemes, i.e. a financial versus operational scheme and primary versus secondary data based scheme, to understand the measurement of business performance. Selection of these two basic but different dimensions was considered to be important for measuring business performance by Venkatraman and Ramanujam (1986). Bassioni et al. (2005) also attempted to construct a conceptual framework for measuring business performance of firms operating in the construction industry using balance scorecard and business excellence models, by means of case studies and expert interviews. Marr and Schiuma (2003) made an attempt to explore business performance models developed by difference academic researchers working in the field of accounting, human resources, operations and marketing. A citation analysis conducted by Marr and Schiuma (2003) reflected upon the appropriateness of balance scorecard model for measuring performance. The performance of 156 food franchisors operating in the Korean franchising industry were studied by Lee et al. (2015) through examination of relationships between top management factors, franchisor market orientation and competitive strategy. The findings of Lee et al. (2015) reveal that top management factors such as management emphasis and risk aversion can lead to market orientation, which will influence differentiation and costs to improve business performance. Recommendations made by Austin and Seitanidi (2012) propose that organisational orientation to the target market in a developing country towards inclusive practices in business relationships can lead to poverty reduction.

## RETURNS ON INVESTMENTS FOR DEVELOPMENTS BY MNEs

The superior performance of MNEs when understood from a marketing perspective explains the returns received by MNEs from internationalisation as direct or indirect returns (Aaker, 1996). Isobe et al. (2000) reviewed the performance of investments made by MNEs into joint ventures to understand their market entry strategy, resource commitment and level of technology transfer. The findings of Isobe et al. (2000) reflected on various direct and indirect returns received by an MNE from its entry strategy, such as perceived economic performance, local control and availability of resources in the target market. Other studies such as Austin and Seitanidi, (2012) explored the benefits of superior performance for an MNE from an industrial perspective and discussed stakeholder value or competitiveness as direct returns. Scholars like Valentine (2011) proposed the use of technology for increasing

the mix of direct and indirect benefits such as market share, differentiation and competitiveness for MNEs. However, from a return on investments point of view, these benefits should be studied separately.

### Indirect Returns for MNEs

A study conducted by Rugman (1980) used the general theory of direct investments to denote different activities like production or sales related activities of MNEs as individual benefits provided by each target market. The findings of Rugman (1980) reflect upon the overall structure and operational benefits provided to MNEs for building their competitiveness through brand identity and brand equity for shareholder value. Prahlad (1994) recognized the need for a shift in focus of MNEs competing in international markets from shareholder value to stakeholder value. Creation of stakeholder value as explained by Prahlad (1994) depends upon four areas in which MNEs compete with each other. Those four areas identified by Prahlad (1994) are 1) markets with potential for investments, 2) markets with consumers with purchasing ability, 3) markets that provide skilled labour required to perform business and 4) markets that provide a network of sellers to facilitate penetration with or without the help of technology. Using stakeholder views of MNE performance in these areas and considering intellectual capital as a resource used by MNEs in developing countries, Riahi-Belkaoui (2003) tried to understand the benefit of control exercised by an MNE on its assets. He noted that stakeholder value in line with a resource-based view of a firm when used to control brand management indirectly improves competitiveness of the brand in the target market. Meyer (2004) noticed that individual firms in host countries become the initial catalyst for enhancing the understanding of MNEs about stakeholder value by leading the interaction between MNEs and the local environment. Austin and Seitanidi (2012) reviewed literature on corporate social responsibility and collaborative value creation to explain how value created for the stakeholder increases with every increase in performance as a direct benefit.

Global brand equity of MNEs was studied from the stakeholder viewpoint by Torres et al. (2012) using panel data ranging from year 2002 till 2008 of 57 global brands from 10 countries. They aimed to understand the brand policies for satisfying community interests through reinforcement of credibility of the socially responsible nature of the brand among its stakeholders. The findings of the research conducted by Torres et al. (2012) explain why managers seeking returns from global branding management practices should combine their global marketing strategies formulated to create brand value with the needs and interests of the local community as CSR initiatives adopted for different stakeholders. As explained by Torres et al. (2012), different initiatives when designed individually for different communities can have a positive influence on global brand equity of the MNE. Atilgan et al. (2009) focused upon different dimensions and measurements of global brand equity to understand the differences between economically and culturally different markets. Using a brand equity model, Atilgan et al. (2009) explained why brand trust is becoming a more important construct for international penetration in comparison to brand awareness, and revealed that global brand equity can be directly measured on four dimensions, i.e. 1) perceived quality 2) brand loyalty 3) brand association and 4) brand trust.

A review of brand performance and market share of multi-national and local brands in transition economies was performed using a resource-based view by Gao et al. (2006) to understand the impact of brand competitiveness, market environment and duration of existence of a brand in the market. Arguments made by Gao et al. (2006) about sustainable competitive advantage of a brand are based on the availability of valuable, rare and non-reproducible resources available to a brand in a competitive market. As explained by this

research, the strength of MNEs is based on the use of management philosophies to develop competitiveness in comparison to the use of local infrastructure, local information, local support and local resources by local brands. Drawing upon the analysis of responses received from senior executive of 408 brands operating in 52 product categories in the Chinese market, Gao et al. (2006) have explained why brand level factors indirectly influence performance and competitiveness of a brand in a market. In line with findings of other studies like Porter and Kramer (2002), Gao et al. (2006) explained that brands with stronger local advantages in the form of market knowledge and local resources will be more competitive and will be able to gain a higher share of the market. The competitive advantage based on strategic philanthropy has been explained as a vague or tenuous connection between the contributions made by the company to a social cause and the business performed by the company (Porter and Kramer, 2002). This study recommends integration of social and economic objectives to build brand competitiveness in international markets.

## Indirect returns for MNEs are Stakeholder Value, Brand Equity and Brand Competitiveness

**Direct Returns for MNEs**

Fahy and Smithee (1999) identified credibility of a brand as an invisible asset useful for building core competencies needed to survive in a competitive market. Another study conducted by Sweeney and Swait (2008) investigated the role of brand in managing retention of customers in relational services in a retail setting and proposed that credibility of the brand underlies the role played by a brand in retaining customers in a competitive market through relationships, satisfaction and service quality. The findings of Sweeney and Swait (2008) indicate that brand credibility defends the actions of the brand by increasing its word of mouth publicity and customer retention. The argument presented by Sweeney and Swait (2008) is based on the assumption that the link between role of brand and customer retention is mediated by customer satisfaction and commitment. Considering these concepts for MNEs attempting to provide access to medicines to people in remote rural areas with high price sensitivity, a study conducted by Erdem et al. (2002) was useful. Erdem et al. (2002) reviewed both tangible and intangible attributes to understand if consumer price sensitivity is in any way linked with brand credibility, i.e. will the impact of product price on consumer utility be moderated by brand credibility? The findings of research conducted by Erdem et al. (2012) indicate that brand credibility decreases price sensitivity. However, these results of Erdem et al. (2002) also explain that the magnitude of a brand credibility's link with consumer choice and price sensitivity varies across product categories. Cost-based strategies of MNEs were analysed by Aulakh et al. (2000) to understand their performance and to highlight the returns they received from exports of branded products to developing markets. As explained by Aulakh et al. (2000), awareness of the performance of brand informs consumers about brand differentiation and enables MNEs to clarify confusions in their minds related to the brand. Authors such as Laurent et al. (1995) recognized aided, spontaneous and top of the mind as measures of brand awareness and explained that superior performance of MNEs in a developing market provides a direct return in the form of brand credibility. Performance of a brand reflects on its capabilities and enables its audience to differentiate between competing brands. Using data on 269 subsidiaries of MNEs in 27 countries, Surroca et al. (2013) explained that MNEs' responses to the expectations of stakeholders require

managerial attention towards corporate social responsibility and socially responsible behaviour of firms. Surroca et al. (2013) applied institutional theory to propose that the building of stakeholder value in the host country increases pressure on the home office wherein managers in the corporate office have very little knowledge about challenges faced by stakeholders in the host country. Such a situation pushes managers in corporate settings to seek support from linkages created with or without a subsidiary to make recommendations for investments in social development or to resolve social issues being faced by customers in the target country. Decisions in such cases are made on behalf of the brand or the MNE by either its subsidiary or local linkages and responsible actions taken by a brand build its reputation in an international market and make pushing the products down the supply chain easy for brand managers. From the point of view of access to medicines, and MNE's performance indicates its capability to improve stakeholder value, its market share and competitiveness of the brand to provide access to medicines. Simultaneously, acknowledgement of superior performance of a brand in a developing market in terms of access to medicines will spread awareness about its credibility, and enable patients to differentiate between generic, branded generic and branded medicines. Recognition of these features of a pharmaceutical brand will create a reputation of being socially responsible for the brand of the MNE.

**Direct returns for MNEs are Brand Credibility, Brand Differentiation and Brand Reputation**

**RECOMMENDATIONS**

***Focus on building a corporate brand*** to demonstrate the company's innate character as it provides distinct returns such as protection from competitors, and enables brand managers to create and communicate credibility of their organizational actions across borders without focusing on the product related activities. Particularly for MNEs that invest in developing markets for opportunities of growth, satisfying the social needs of the target market becomes very important. These requirements of developing markets require participation of the private sector in resolving their social issues. Hence, it is important for brand managers to progress from creation of a corporate brand to creation of a brand identity so that the investments made in the fulfilment of social responsibilities imposed by developing countries can be communicated as mission, vision and values of the brand.

***Integrate poverty reduction into the corporate agenda***: When poverty reduction becomes an agenda of the top management, managers are encouraged to integrate it as an organisational goal into every business activity performed by staff performing different functions in different departments.

***Use technology to engage stakeholders in value creation***: Technology has empowered organisations to collect and benefit from information about stakeholders. Simultaneously, technological advancements have also enabled stakeholders to raise their concerns related to actions taken by companies. Therefore, engaging stakeholders to identify opportunities of value creation becomes easy with the help of technology.

***Incorporate capability enhancement into industrial practices***: Use of industrial networks for distribution of branded products requires ensuring rational benefits for each member in the supply chain.

***Engage distribution network into CSR initiatives***: Members of the supply network of MNE brands are generally small and medium sized firms or micro level entrepreneurs or individuals as retailers who understand the needs of the market they cater to. Hence, engaging such alliance firms in foreign countries into business strategy and using their infrastructure to adopt strategies developed and improve performance can have both direct and indirect returns for channel partners of an industrial distribution network.

***Use research techniques to identify CSR investments***: Although CSR has become an important agenda for all businesses, decisions of CSR investments are not informed decisions because there is no information available that could assist to develop strategies that will satisfy need based CSR. Therefore, use of research techniques will enable MNEs to identify their CSR investments.

***Production innovation for the host country***: Stakeholder observations about the use of developing markets as testing grounds of new medicines being developed, simultaneously pushing these innovative drugs into countries where the purchasing capability of customers is very high raises concerns about the use of innovation only for production purposes.

**Conclusion**

The flow of FDI by MNEs to developing countries with changes in ownership and expansion of businesses raises concerns that such takeovers could lead to 'an oligopolistic market' where a few companies might end up deciding the prices of essential medicines, adversely impacting the interest of public health. A contrary view refers to the growth of the industry in the host country due to the entry of MNEs. In 2010, the OECD reported benefits and costs related to FDIs linked with the development of developing countries. A large share of FDI flows in recent years towards developing countries using different routes. Simultaneously, the challenges posed by business environment, industrial dynamics and governance issues like corruption and red-tape-ism in countries like India, China or Africa push MNEs to hold back their controls in the home office and use brands to position themselves appropriately in a foreign market. Brand based communications require synchronization of every activity related to the MNE or its products with the company's mission, vision and values apart from ensuring stakeholder engagement and value creation.

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**Figure 1: Conceptual Framework**

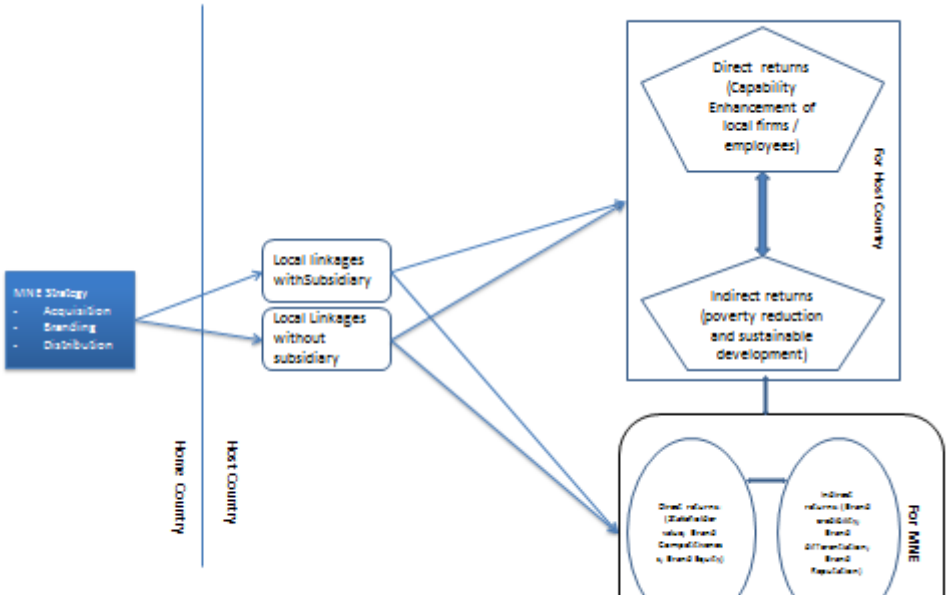


Figure 2: Role of Linkages

| CSR Projects | Sanofi | GSK | Pfizer | Abbott | Novartis | Merck | AstraZeneca | Janssen | MSD |
|---|---|---|---|---|---|---|---|---|---|
| Patient access programs | ✓ | ✓ | ✓ | ✓ | ✓ | ✖ | ✖ | ✓ | ✓ |
| Infrastructure | ✓ | ✓ | ✖ | ✖ | ✖ | ✖ | ✖ | ✓ | ✖ |
| Environment | ✓ | ✖ | ✖ | ✓ | ✖ | ✓ | ✖ | ✓ | ✖ |
| Education and Awareness | ✓ | ✓ | ✖ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Financial assistance | ✖ | ✖ | ✓ | ✖ | ✖ | ✖ | ✖ | ✖ | ✖ |

Table 1: CSR Initiatives of top 9 Pharmaceutical companies in India