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Ranbaxy's fall from grace

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Not long ago, it was one of India's iconic companies. Ranbaxy, which is now a subsidiary of Japanese giant Daiichi Sankyo, has taken a fall from grace. In May, it took a $500 million hit in the form of fines to the US FDA and pleaded guilty to fudging drug data. This came as a shock not only to the industry but also to the nation.

Built with a vision to be an Indian MNC, Ranbaxy was India's pride in the global pharma industry, and was feted in media and various forums for being so. This was a company whose reputation was built on painstaking work spanning over three decades under the leadership of late Dr Parminder Singh. At any given point of time, it employed the best available talent and rode on the fast growing generics market.

In 2008, when its promoter, Mr Malvinder Mohan Singh, sold the family stake to Japan's Daiichi Sankyo for $4.6 billion, the pharma industry in India was literally stupefied with disbelief. Not just at the valuation they got, but more so at the fact that they actually sold it. Everybody thought that a company, which had a fairly enviable list of first-to-file pipeline, was sitting on a goldmine, given that the generics opportunities were multiplying.

However, the reality was a bit different - as has been confirmed now. I had met the young CEO, Mr Malvinder Mohan Singh many months before it became a subsidiary of the Japanese major, Daiichi Sankyo. MMS, as Singh is better known, shared that the competitive pressures are very high and margins are thin. In order to maintain profitability, being the "first-to-file" was the key and the company pursued that aggressively.

It is evident now that in this process, Ranbaxy took short cuts, knowing the risks that were involved. And MMS managed it with much Ã©lan exiting Ranbaxy to build the family's other business of a hospital chain. However, through all this, brand Ranbaxy, brand India and even brand Asia has been dented. And a good measure of accountability rests with the leadership team that led Ranbaxy at that point.

Its majority-stake owner, Daiichi Sankyo that is now crying foul, and intends to sue Ranbaxy's original promoters for willful concealment of information and misrepresenting facts, has itself failed in its due diligence in 2008. So, enamored was this company with Ranbaxy's potential that it erred and Daiichi Sankyo is paying the price for its hurried acts.

One major fallout of all this is that all of India's generics exporters to US will now face closer scrutiny, which in the overall context is actually a good thing. The US FDA's improved GMP monitoring for Indian manufacturers will ultimately ensure high overall quality. However, India's pharma exporters need to brace up for this.

Although the key issue of ethics in business remains, how far can one go to gain competitive advantage? Self-policing is a plausible solution, but stronger accountability for leadership and a punitive action in case of wrongdoing is a must to drive home the point. And this is the responsibility that the Drug Controller General of India (DCGI) should rise up to. DCGI's office is guilty of a mild response on the case, stating that no violation of laws at home turf has happened.

Ranbaxy's damage control exercise is emphasizing on putting in mechanisms to bring in transparency and contain malpractices. The iconic company can emerge stronger from this and the pharmaceutical industry, where such malpractices are likely to be more rampant than we all are willing to believe, should take an alternative view and actively foster a business culture that values ethics and responsible behavior. It's in everybody's interest. Yes, it is in shareholders interest as well!