



## Structuring a Pharmaceutical Parent Company Organization: A Value-Based Approach, The Case of TPICO

Sanaz Peyrovan<sup>a</sup>, Mehdi Mohammadzadeh<sup>b,\*</sup>, Mohammad Reza Saeedi<sup>c</sup>, Hossein Dadfar<sup>d</sup>

<sup>a</sup>Department of Marketing and Sale, Daru Pakhsh Pharmaceutical Company, Tehran, Iran

<sup>b</sup>Department of Pharmacoeconomics and Pharmacy Management, Faculty of Pharmacy, Shahid Beheshti Medical Science University, Tehran, Iran

<sup>c</sup>Department of Management and Engineering, Institute of Technology at Linköping University, Linköping, Sweden

<sup>d</sup>Department of Management and Engineering, Institute of Technology at Linköping University, Linköping, Sweden

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### Abstract

Today, the parent company has a great role in managing and monitoring subsidiaries and companies in promoting their industrial activities. But, the main problem for pharmaceutical parent companies is the lack of clarity and confusion of responsibilities between units. Successful parenting needs to create the element of 'fit' between the ways parent operates – *parent characteristics* – and its business characteristics. However, the main parent characteristic is the parent structure, and restructuring is the main challenge in unstable pharmaceutical market. In fact, the parent strategy should determine how value can be added to every organizational structure and parent structure should be proportionate to its dominant value creation strategy. The value drivers are very different in pharmaceutical industry regarding the fast changing technology. The aim of this study is to explore an appropriate value-creating structure for the largest pharmaceutical parent company in Iran, Tamin Pharmaceutical Investment Company (TPICO). This study concentrates on the sources of value in this special domain and restructuring the parent company by considering the dominant value-creating strategy and pharmaceutical value drivers.

*Keywords:* Corporate strategy; Parent company structure; Pharmaceutical parent company structure; Value creation.

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### 1. Introduction

When the corporate achieves the parenting advantage, it will create more value than rival

parents [1, 2]. Fit between characteristics of the parent and characteristics of the business can play the main role for achieving parenting advantage. The parenting role depends heavily on its value-added activities and value-added parenting differs in pharmaceutical context. It is possible for parent companies affect value

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\*Corresponding author: Dr. Mehdi Mohammadzadeh, Department of Pharmacoeconomics and Pharmacy Management, Shahid Beheshti University of Medical Sciences, Tehran, Iran.  
Tel. (+98)9121349356  
E-mail: mehdi381@yahoo.com

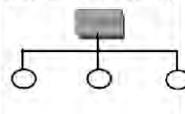
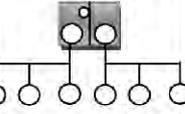
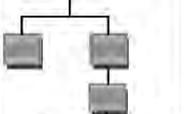
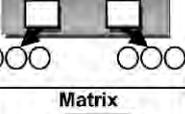
with negative or positive influences. In addition, pattern of parent companies are different between broad ranges of countries including Iran.

A pharmaceutical parent company is an inter-dependent, hands-on parent because all of its subsidiaries are active in a similar field and the overlap of their activities is the main challenge. The authors looked at Tamin Pharmaceutical Investment Company (TPICO) as a single case in pharmaceutical industry. By value-creating approach for parent restructuring, this article focuses on a key question as following: "what is the appropriate structure for TPICO as a pharmaceutical parent company?". Therefore, a case study has been selected as a suitable research strategy in this study to carry out the answer to the research question. However, this study helps to identify the value creation strategy and value creating activities in pharmaceutical context which leads to finding an appropriate structure for TPICO. There are several strategies as the main sources for value creation but finding dominant parent strategy provides a structure which has effective responses to environment challenges. The structure needs to be filled with the right contents which are indeed value-creating activities in expected organizational structure.

2. Literature review

Most of researchers have strong desires to generalize their findings about organization structure in order to produce an ideal structure and success formula [3]. The organization theory considers the whole organization characteristics as one unit, and the level of analysis is groups and environment [4, 5]. It offers a lens or way of thinking about how organizations can be designed and managed in more effective ways [6]. Recently, researchers argue that there is a tight interdependence between structure and "strategy" [7, 8], and organization restructuring is the administration and

Table 1. The characteristics of parenting operational structures.

Parenting Operational structure	Characteristics
<b>Simple Reporting</b> 	<ol style="list-style-type: none"> <li>1. Suitable for stand-alone strategy</li> <li>2. Monitors and controls existing businesses performance</li> <li>3. Hierarchy also has authority to make decision</li> <li>4. Formalization is high</li> </ol>
<b>Contact Executives</b> 	<ol style="list-style-type: none"> <li>1. Suitable for stand-alone strategy</li> <li>2. Jobs and tasks are different and are subdivided to single level</li> <li>3. Concerns existing businesses</li> </ol>
<b>Duplicated</b> 	<ol style="list-style-type: none"> <li>1. Suitable for stand-alone and linkage strategies</li> <li>2. Span of control in intermediate parents is narrow therefore the hierarchy is tall</li> <li>3. Tasks are repeated in different layers and specialist groups</li> <li>4. Complexity is high</li> </ol>
<b>Shared Responsibilities</b> 	<ol style="list-style-type: none"> <li>1. Suitable for linkage, central function and services strategies</li> <li>2. Control influences and provides various central services</li> <li>3. Centralization and formalization is moderate</li> <li>4. Parenting tasks in two layers but with different split of responsibilities</li> </ol>
<b>Existing Businesses vs. Development</b> 	<ol style="list-style-type: none"> <li>1. Suitable for corporate development</li> <li>2. A different way of splitting parent's tasks into existing businesses and corporate development</li> <li>3. Span of control is expanded</li> <li>4. Centralization is low and formalization is moderate</li> </ol>
<b>Matrix</b> 	<ol style="list-style-type: none"> <li>1. Suitable for corporate development</li> <li>2. Centralization and formalization is low</li> <li>3. Specialist groups are active for different purposes</li> <li>4. Development is dominant</li> </ol>

execution of the strategic plan. According to Mullins *et al.* [9] definition, "strategy is a fundamental pattern of present and planned objectives, resource deployments, and interactions of an organization with markets, competitors, and other environmental factors". It is useful to analyze corporate strategies in

**Table 2.** The degree of value-creating strategies contribution.

		Number of respondents = 30			
	Variables	Number of questions	X Existing	X Expected	Rate of Non-respondents
Strategy	Stand alone influence	8	3.17	2.50	Zero
	Linkage influence	7	2.86	3.10	Zero
	Central function and services	3	2.85	1.90	Zero
	Corporate development	8	2.35	3.90	Zero

terms of four main sorts of value creation by the parent:

- (1) *Stand - alone influence*: by enhancing the stand-alone performance of the business units.
- (2) *Linkage influence*: by enhancing the value of linkage between the business units.
- (3) *Functional and service influence*: by providing functional leadership and cost effective service for the business units.
- (4) *Corporate development activities*: by altering the composition of the portfolio of business units [1].

Strategy and structure influence each other, although strategy has an overall stronger influence on structure [10]. Therefore, in parent companies every organizational structure should be proportionate to its dominant value creation strategy. For instance, the appropriate structure for corporate development strategy is organic while as stand-alone strategy fits to mechanistic structure.

Goold and Campbell have studied different types of parent structures and they have defined the parent organization as “an entity which lies outside the business units and directs them at the top” [1]. Based on their studies, there are three main parent structures: a) simple reporting; b) divided parenting; c) duplicate parenting.

Corporate *strategy* should determine how value can be added by the corporate parent.

The *value-added parenting role* of the corporate centre is very important. Different companies concentrate on very different sources of parenting value-added. For example, Pfizer as a pharmaceutical company spends heavily on corporate R&D, and new

products development. Parent values should change by the time and life cycle systematically [11-16]. Other sources of corporate values are: *shareholder value* [17-19], *stakeholder interests* [20], *customer value* [21], and the *environmental sustainability*.

In order to fit a suitable parenting structure with corporate strategy, understanding the characteristics of parenting organizational structures is required. Therefore, authors have analyzed each parenting structure based on the given descriptions. The results have been demonstrated in Table 1. The table also defines the appropriate structure concerning each type of corporate strategies.

### 2.1. Value Creating Activities (VCA) in pharmaceutical parent company

The pattern of parent companies is different in different countries. Parent company plays three different activities: minimum corporate parent role, value-added parenting role and shared services role.

- (1) Minimum corporate parent role such as obligatory, legal, and regulatory requirements
- (2) Value-added parenting is related to organization strategy and its way of value creation
- (3) Shared services provides centralized services to the businesses [22].

VCA (value creating activities) will be used as the content of parent structure in order to design the appropriate structure (AS) for the parent company as the center of excellence. The essence of value-creating parenting is to create the element of '*fit*' between the way parent operates – *parent characteristics* – and the improvement

opportunities which the parent addresses. To be particularly good at creating value, the parent must focus on some opportunities to be distinguished comparing to others. In another view, corporate centre can add value in two main ways [23]:

1) *Definition of the business portfolio*: the centre defines and prioritizes the company’s businesses and it cannot be delegated to business units.

2) *Co-ordination of businesses*: the center co-ordinates businesses by determining actions and decisions at business unit level. According to Goold and Campbell, parent structure is one of the most important parent characteristics which together with other parenting characteristics (mental maps, people and skills, functions, central services and resources and decentralization contracts) serves a proficient tool to fulfill parenting advantage and to create value for subsidiaries[1]. The appropriate structure is the main result of this study and it should be evaluated through applying “Nine tests” [13]. Nine tests are useful tools for evaluation of new organizational structures. These tests can assess resulted structure, appropriate structure (AS), by expert’s evaluation (E).

### 3. Methodology

Since the main purpose is finding an appropriate structure for pharmaceutical parent company regarding the case, TPICO, qualitative approach will be more favorable. The reasons for selecting this approach is deeper understanding of factors influencing organizational structure where empirical data is not easy to describe in numbers. This study is an applied research type from the result point of view. In addition, this study aims at describing a phenomenon so it can be seen as mainly descriptive. From the purpose point of view, since the problem is well known and structured, a descriptive research could be more suitable. Case study was selected as a suitable research strategy in this study .The

**Table 3.** Summary of value-creating activities (VCA) and corresponding grouping in TPICO's expected structure.

Parenting Role	Value-creating Activities (VCA)	Grouping
Minimum corporate parent role	<ol style="list-style-type: none"> <li>1. Legal and regulatory affairs</li> <li>2. Internal audit</li> <li>3. Preparing annual reports, financial reporting, submitting tax returns, basic control</li> </ol>	
Value-added parenting role	<ol style="list-style-type: none"> <li>1. Business development: new products and patents, new projects, new technologies, new markets in active pharmaceutical ingredients (API) and finished products (FP)</li> <li>2. Existing businesses parenting (API, FP)</li> <li>3. Security management and financing</li> <li>4. Selecting and recruiting qualified managers(HRM)</li> <li>5. International marketing and market expansion</li> <li>6. Portfolio and product management</li> <li>7. Vertical coordination</li> <li>8. Planning and control</li> <li>9. PESTEL analysis and adaptation to external environment</li> <li>10. Selecting the best portfolio (acquiring new businesses, buying or selling businesses), risk management and seeking strategic alliances</li> </ol>	<ol style="list-style-type: none"> <li>1. Legal office</li> <li>2. Financial and economic department</li> <li>3. Business development division</li> <li>4. API division</li> <li>5. FP division</li> <li>6. HR department</li> <li>7. Strategic planning department</li> <li>8. IT department</li> <li>9. Governmental and public relation</li> <li>10. Core resource unit (R&amp;D)</li> </ol>
Shared service role	<ol style="list-style-type: none"> <li>1. Information systems</li> <li>2. Training</li> <li>3. Research and Development</li> </ol>	

case study approach is often associated with descriptive or exploratory research without being restricted to these areas [24].

#### 3.1. Data Collection

Since case study should rely on multiple sources of evidence, both primary and secondary data have been used. This study focuses on two of the six sources of data collection, namely documentation and interviews [25]. The data is gathered in different ways depending on the characteristics of each part of the research framework.

In order to determine value-creation

strategy, a separate questionnaire was sent to respondents and the dominant parenting strategy was identified according to their response. The questionnaire contained closed questions with given alternatives and had to be answered in two different situations: existing and expected.

For determining value-creating activities (VCA), face-to-face interview has been applied with TPICO respondents. They were the most important experts in TPICO (30 respondents) who had an average of more than 10 years of active experience in pharmaceutical industry. The authors conducted in-depth interviews with 30 respondents in TPICO. Seven questions were asked from each respondent:

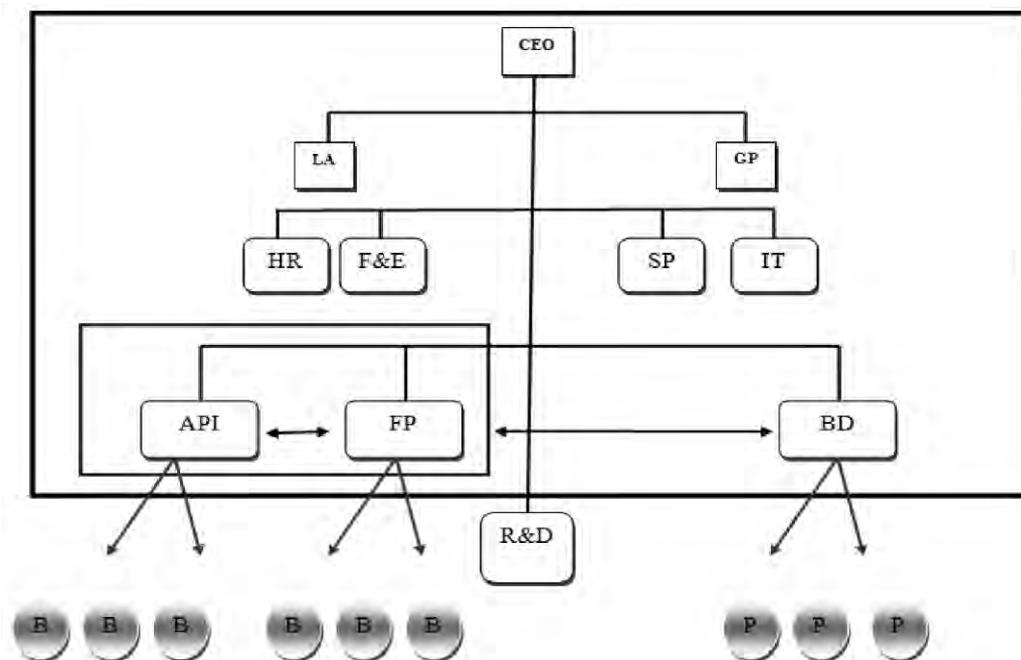
- 1) What is the main existing problem of TPICO's organizational structure?
- 2) What is the heartland of TPICO?
- 3) Which activities can add value to TPICO?
- 4) Which main departments (based on value-creative activities) should TPICO consider for grouping?

- 5) What kinds of services does TPICO share among its subsidiaries?
- 6) How should be the nature of TPICO's vertical coordination?
- 7) How should be the nature of horizontal coordination among TPICO members?

For final decision-making on the appropriate structure, an experts' panel was hold by the presence of TPICO's senior managers (12 peoples), using Goold and Campbell's 'Nine Test' of well-designed organization.

### 3.2. Single case (TPICO)

Tamin Pharmaceutical Investment Company (TPICO) located in Tehran (Iran), was founded in December 2003, and it was governed by Shasta (Social Security Organization Investment Company, the main parent company with 10 specialized parents in different fields such as gas, oil, health, shipping and tourism industry). The mission of TPICO is adding value by directing its pharmaceutical companies and developing



**Figure 1.** “Expected organizational chart of TPICO”. LA: legal affairs, HR: Human resources, SP: Strategy planning, API: Active pharmaceutical ingredient division, FP: Finished Product division, F&E: financial and economic department, BD: Business development division, B: Business unit, R&D: Research and Development, P: Project, IT: Information Technology, and GP: government and public relation.

health related business territories (manufacturing pharmaceutical products, cosmetics, medical equipments) faster and better than competitors. The strategy includes: new product development and constant innovation, quality improvement, market expansion, development and implementation of marketing plans, information technology, export, internationalization, improvement of human resource motivation system for further efficiency and profitability.

There are 29 companies under TPICO influence and its next level (TAPIC, PDCO, DPCO). TAPIC is the investment parent company specialized in pharmaceutical raw materials. In addition, PDCO (Pars Daru Company) and DPCO (Daru Paksh Company) are active in pharmaceutical finished products. However, there is another company (Tofig Darou specialized in R&D) which is supervised by TPICO directly. TPICO has more than 43% and 60% market share of finished and API's products, respectively in Iran. TPICO consists of two layers of parent companies according to its organizational chart. The upper parent level is responsible for corporate development and provides parenting influence and control on their parents and business units. On the other hand, the next level repeats the role of parenting for their business units at the same time. Therefore, different levels of parents are active on the same sources of value creation (duplicated parents).

## 4. Findings

### 4.1. Finding the dominant value-creation strategy

Based on the parenting-related theories, there are four types of parenting strategies for parent companies leading them to value-creation [1]. The results in Table 2 include the average of resulted data in existing and expected situations. Researchers have measured the degree of establishment of any of these four strategies in TPICO in both existing and expected situations. These data

indicate the position of all parenting strategies in TPICO. In this table X is the average score given for each parenting strategy in TPICO.

Each strategic dimension has been ranked from "1" to "5" in which "1" indicates the least important and "5" means very important. The existing value-creation strategy of TPICO is the combination of four strategies but the dominant strategy is stand-alone influence. In contrast, the expected situation is more close to a corporate development strategy.

### 4.2. Value Creating Activities (VCA) in the parent company

In this study, the contents of parent structure are value creating activities and for determining value-creating activities, the authors conducted in-depth interviews with 30 respondents in TPICO. According to results, the main value drivers were summarized as follows:

- 1) Entering to new businesses: new molecules, patents, new technologies, new market for raw materials and finished products.
- 2) Developing existing businesses: producing generic products and mass production.
- 3) Improving strategic research in parent company including research and development for active pharmaceutical ingredients and finished products.
- 4) Emphasizing on following activities: effective human resource training, financing, selecting and recruiting qualified managers, internal audit, international marketing (searching strategic alliances) and market expansion, selecting the best portfolio (acquiring new businesses, buying or selling businesses) and risk management.
- 5) IT improvement
- 6) Increasing synergy between subsidiaries beside influencing on subsidiaries and vertical coordination using the modern view of Peter Kontes for parent value grouping. This study extended the value approach in departmental grouping in TPICO as the center of excellence [26]. After identifying value creating activities

in pharmaceutical business and determining the dominant value-creating strategy, the appropriate groupings are suggested in Table 3. Before drawing an organizational chart, the Nine Tests of Goold and Campbell has been performed in an experts' panel in order to ascertain that the organizational design so far is both “**Fit**” and “**Good**”.

#### 4.3. *The heartland of TPICO*

Based on the data, the heartlands of TPICO were the healthcare-related businesses and new product development in different areas such as: active pharmaceutical ingredients (API's), pharmaceutical finished products (FP), distribution, cosmetics, fine chemicals, nutritional supplements, biotechnology products, herbal products, additives, and medical equipments.

#### 4.4. *Visualizing resulted appropriate structure*

An organizational chart is a pictorial representation of a company's structure and reporting relationships. According to TPICO grouping and value-creation strategy, there are three main divisions API's, FP, and business development. API's and FP divisions have the parenting responsibility for the existing businesses. These two divisions focus on pharmaceutical active ingredients and finished products subsidiaries as the sources of their value creation. The third division is business development which has responsibility for new products and market development besides leading the new projects, and it is compatible with the expected strategic direction as corporate development strategy.

Vertical and horizontal coordination can be achieved through mentioned divisions. There are supportive functions such as human resources, IT, strategic planning, finance and economic departments which focus on different tasks in parent company for creating value as the center of excellence. In addition, government and public relation and legal affairs offices have been established for doing

other parenting roles. In new structure of TPICO, a core resource unit (R&D) has been considered to create competitive advantage in TPICO subsidiaries. It reports to TPICO directly to avoid the long chain of decision making and having more freedom in scientific area. TPICO structure has been presented in the organization chart (Figure 1).

To answer the main research question, the authors identified the value-creating activities and designed the relevant grouping of these activities based on the desired parenting roles. On the other hand, parent structure is only an empty shell, or a format, and suitable grouping of activities fill it as the contents of an appropriate structure. Finally, researchers formed a focus group as a final data resource provider in a particular occasion. The tool used in this stage was the *nine tests* of Goold and Campbell for evaluation of the suggested organizational structures. Through this meeting occasion, the final structure of TPICO has been evaluated and they have accepted the proposed organization chart based on “*nine tests*” [13].

For TPICO restructuring to succeed, managers need to get involved using their expertise to achieve *fit*. All employees should encourage participating for achieving the center of excellence at the top. The first priority is fit for purpose and the constraints should be recognized and removed.

## 5. Conclusion

An organizational chart is a pictorial representation of a company's structure and reporting relationships. The authors suggested three main divisions for pharmaceutical parent company by using organizational chart: API, FP, and business development. API and FP divisions have the parenting responsibility of the existing businesses. These two divisions create *fit* between TPICO headquarter and subsidiaries in order to achieve the parenting advantage. In this study, the parent restructuring was outlined by conceptualiza-

tion of related theories considering value approach. In addition, an organization chart was presented to reflect the parent structural *fit* through using value-driver factors and value creating strategy. The parenting advantage can be possible through applying value approach which provides the context of considering the parent as “the center of excellence”. For this purpose, the parent restructuring framework was conducted on TPICO as the biggest pharmaceutical parent company in Iran. In-depth interviews with top managers provided meaningful results considering the value-drivers in pharmaceutical field.

The study has two main advantages: 1) considering the dominant value-creation strategy which has the main influence on the parent structure; 2) applying value drivers as the main contents for visualizing the parent structure. The study delivers the formula for success by management support in each organization.

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