

PHARMAKON DRUG COMPANY

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William Aphrodite, senior vice-president of research, development and medical (R, D & M) at Pharmakon Drug Company received both his Ph.D. in biochemistry and his M.D. from the University of North Carolina at Chapel Hill. Upon completion of his residency, Dr. Aphrodite joined the faculty at Harvard Medical School. Dr. Aphrodite left Harvard after five years to join the research group at Merck & Co. Three years later, Dr. Aphrodite went to Burroughs-Wellcome as director of R, D & M and, after eight years, Dr. Aphrodite joined Pharmakon in his current position.

Pharmakon concentrates its research efforts in the areas of antivirals (with a focus on HIV), cardiovascular, respiratory, muscle relaxants, gastrointestinal, central nervous system, and consumer health care (that is, non-prescription or over-the-counter medicines). Dr. Aphrodite is on the Board of Directors of Pharmakon and the company's executive committee. He reports directly to the Chairman of the Board and CEO, Mr. Jarred Swenstrum.

William Aphrodite has always been highly respected as a scientist, a manager, and an individual. He has also been an outstanding leader in the scientific community, particularly in the effort to attract more minorities into the field.

During the previous eight years Pharmakon experienced tremendous growth: 253% overall with yearly growth ranging from 12% to 25%. During this period Pharmakon's R, D & M budget grew from \$79 million to \$403 million and the number of employees rose from 1,192 to 3,273. (See Table 1.) During the previous two years, however, growth in revenue and earnings had slowed considerably. Moreover, in the current year Pharmakon's revenues of \$3.55 billion and earnings before taxes of \$1.12 billion were up only 2% from the previous year. Furthermore, both revenues and earnings are projected to be flat or declining for the next five years.

The cessation of the tremendous growth of this period and the likelihood of future decline have been brought about principally by two causes. First, a number of Pharmakon's most important patents have expired and competition from generics has begun, and would continue, to erode its products' market shares. Second, as new types of health care delivery organizations evolve, pharmaceutical companies' revenues and earnings will in all likelihood be adversely affected.

In response, the Board of Directors has decided that the company must emphasize two conflicting goals: increase the number of new drugs brought to market and cut back on the work force in anticipation of rising labor and marketing costs and declining revenues.

Accordingly, Dr. Aphrodite has been instructed that he must cut costs significantly and that he needs to reduce his workforce by 15% over the next six months.

Dr. Aphrodite called a meeting with his management team to discuss the reduction in workforce. One of his managers, Leashia Harmon, argued that the layoffs should be made "so that recent gains in minority hiring are not wiped out." The percentage of minority employees had increased from 2.7 percent eight years ago to 8.3 percent in the previous year. (See Table 1.) The minority population in communities in which Pharmakon has major facilities has remained over the years at approximately 23 percent. Approximately 20 percent of the R, D & M workforce have a Ph. D. in a physical science or in pharmacology and another 3 percent have an M.D.

Dr. Harmon, a Ph.D. in pharmacology and head of clinical studies, is the only minority on Dr. Aphrodite's seven member management team. Dr. Harmon argued that R, D & M has worked long and hard to increase minority employment and has been a leader in promoting Pharmakon's affirmative action plan (see Exhibit 1). Therefore, she asserted, all layoffs should reflect this commitment, even if it meant disproportionate layoffs of non-minorities.

TABLE 1
Pharmakon Employment

Attribute/ Years Ago	1	2	3	4	5	6	7	8
Total employment	3,273	3,079	2,765	2,372	1,927	1,618	1,306	1,192
Minority employment	272 (8.3%)	238 (7.7%)	196 (7.15)	143 (6.0%)	109 (5.7%)	75 (4.6%)	53 (4.1%)	32 (2.7%)
Revenue (\$ million)	3,481	3,087	2,702	2,184	1,750	1,479	1,214	986
Profit (\$ million)	1,106	1,021	996	869	724	634	520	340
R,D&M budget (\$ million)	403	381	357	274	195	126	96	79

Dr. Anson Peake, another member of Dr. Aphrodite's management team and Director of New Products, argued that Pharmakon's R, D & M division has never discharged a worker except for cause and should adhere as closely as possible to that policy by

terminating individuals solely based on merit. Dr. Rachel Waugh, Director of Product Development, pointed out that the enormous growth in employment over the last seven years — almost a trebling of the workforce — had made the company's employee performance evaluation system less than reliable. Consequently, she contended that because laying off 15% of her group would be extremely difficult and subjective, she preferred to follow a system of seniority.

Dr. Aphrodite immediately recognized that any system of reducing the workforce would be difficult to implement. Moreover, he was concerned about fairness to employees and maintaining the best qualified group to carry out the area's mission. He was very troubled by a merit or seniority system if it could not maintain the minority gains. In fact, he had even thought about the possibility of using this difficult situation to increase the percentage of minorities to bring it more in line with the minority percentage of the communities in which Pharmakon had major facilities.

EXHIBIT 1

Pharmakon Drug Company Equal Employment Opportunity Affirmative Action Program

POLICY

It is the policy of Pharmakon Drug Co. to provide equal employment opportunities without regard to race, color, religion, sex, national origin, sexual orientation, age, disability and veteran status. The Company will also take affirmative action to employ and advance individual applicants from all segments of our society. This policy relates to all phases of employment, including, but not limited to, recruiting, hiring, placement, promotion, demotion, layoff, recall, termination, compensation, and training. In communities where Pharmakon has facilities it is our policy to be a leader in providing equal employment for all of its citizens.

RESPONSIBILITY FOR IMPLEMENTATION

- A. The head of each division is ultimately responsible for initiating, administrating, and controlling activities within all areas of responsibility necessary to ensure full implementation of this policy.
- B. The managers of each location or area are responsible for the implementation of this policy.
- C. All other members of management are responsible for conducting day-to-day activities in a manner to ensure compliance with this policy.