



ELSEVIER

Contents lists available at ScienceDirect

Critical Perspectives on Accounting

journal homepage: www.elsevier.com/locate/cpa

Bio-pharma: A financialized business model

Tord Andersson^a, Pauline Gleadle^b, Colin Haslam^{a,*}, Nick Tsitsianis^a^a Finance and Accounting Research Group, University of Hertfordshire, Hatfield, UK^b Accounting and Finance Research Unit, Open University, Milton Keynes, UK

ARTICLE INFO

Article history:

Received 16 December 2009

Accepted 8 June 2010

Keywords:

Bio-pharma

Financialization

Business model

Shareholder value

ABSTRACT

In this paper, we construct a complementary financialized business model of SME bio-pharma that reveals how the product innovation and development process conjoins with speculative forces in capital markets. To conceptualise this descriptive business model we employ three organising elements: *narratives* about pipeline progress that may (or may not) lead to additional funding from equity investors or other investing partners, *capital market conditions* that impact on the supply of funding and market valuations and the *variable motivations of equity investors* who are not in a development marathon but a relay race anxious to pass on ownership and extract higher returns on invested capital through realised market value. Bio-pharmas are, in effect, constituted as investment portfolios of innovations where products in pipeline and firms trade for shareholder value. In this speculative innovation, capital market liquidity business model complementary narratives and favourable capital market conditions are required to keep it all going.

© 2010 Elsevier Ltd. All rights reserved.

1. Introduction

Investment in the creation of knowledge based assets through innovation and a high level of R&D spending is generally viewed as the key to maintaining relative corporate and national competitiveness, often summarised as closing the ‘innovation gap’. The critical literature on financialization is concerned with how the demands of the capital market modify strategic priorities and corporate governance in an era of shareholder value creation where management and shareholder interests align (Andersson et al., 2007; Froud et al., 2003; Lazonick, 2008). This literature exposes tensions and contradictions between the ‘expectation’ that innovation can transform corporate, industry and national economic performance, and ‘outcomes’ that tend to be more disappointing. Lazonick (2008) argues that in a financialized economy the short-run priorities of the capital market hold sway over productive and financial transformation because firms are encouraged to maximize their short-run returns to shareholders rather than re-invest in innovative new product development for future competitiveness. Froud et al. (2006) are concerned with how, in a financialized economy, the role of management becomes that of structuring narratives that flatter the outcomes of R&D spending to maintain the confidence of analysts and investors, and thus improve market valuations of firms’ equity on the stock market in the absence of financial transformation.

Lazonick and Tulum (2008) develop their general financialized account of ‘downsize and distribute’ more specifically in their paper on the US Bio-pharma (BP) industry.

* Corresponding author.

E-mail addresses: t.andersson@herts.ac.uk (T. Andersson), M.P.R.Gleadle@open.ac.uk (P. Gleadle), c.j.haslam@herts.ac.uk (C. Haslam), n.tsitsianis@herts.ac.uk (N. Tsitsianis).

Since the 1980s the US business community, the BP industry included, has embraced the ideology that the performance of their companies and the economy are best served by the ‘maximization of shareholder value. . .’

It is an ideology that, among other things, says that any attempt by the government to interfere in the allocation of resources can only undermine economic performance. In practice, what shareholder ideology has meant for corporate resource allocation is that when companies reap more profits they spend a substantial proportion of them on stock repurchases in an effort to boost their stock prices, thus enriching first and foremost the corporate executives who make these allocative decisions (p.4).

Froud et al. (2006), in their case study of GlaxoSmithKline (GSK) observe that the pharma business model has less to do with R&D and product innovation and more to do with defensive mergers, corporate restructuring and narratives promising research productivity that ‘has not yet come through in the numbers’ (p.11). Gleadle and Haslam (2010) note that narratives, in an R&D intensive medical diagnostics firm, are concerned with how R&D ‘must pay for itself’ and generate a return on investment to support analyst opinions about the share price.

The objective of this paper is to construct a complementary financialized account of the bio-pharma business model. Our approach departs from a ‘downsize and distribute’ argument developed by Lazonick and Tulum (2008) and extends the perspective on financialization taken by Froud et al. (2006). Specifically, we argue that bio-pharma is an industry dependent on the capital market for funding because it is cash hungry until, and if, products in pipeline¹ become commercially viable and generate positive cash flow from revenues. The productive phases of drug development run from conception, laboratory stage, clinical development, patient testing (phases I–III) towards final regulatory approval. In this business model, R&D spending (expensed or capitalized) is deployed to meet agreed milestones, for example, completing development, obtaining results from patient clinical testing and submitting a product for regulatory approval and possible commercialisation. Favourable milestone reports about product in pipeline will help increase the chances of securing additional funding which may be crucial not only for continued survival but also positively influencing analysts’ opinions about stock market valuation for equity investors and incidentally helping to boost executive bonuses tied to the value of stock options. These options are more likely to be ‘in the money’ if a drug’s development does progress from one phase to the next and towards final regulatory approval for the market. Positive milestone reports move products along the pipeline towards regulatory approval reducing the risk of failure and mitigating investor losses on their equity investments.

Milestone reports are also (but not always) opportunities for a firm’s existing investors to exit and new investors to enter because market values tend to adjust favourably after milestone announcements creating better conditions for buy and sell side transactions to be executed. As a result, individual investors tend to focus on different pipeline phases for their portfolio investments. Venture capital investors, for example, can exit via an initial placement offer (IPO), which results in a public listing on the stock market or they may sell on to a partner, such as a Big-Pharma² or a private equity partnership seeking a potential return on investment. In this financialized business model, the investor is not participating in a marathon but instead, competing in a relay where handing the baton on to the next investor secures a (possible) realised gain on invested equity funds. Bio-pharma investment is a speculative bet on scientific discoveries and is similar, in this respect to oil, gas and mineral exploration where Federal Drug Administration (FDA) regulatory approval is like striking oil or finding the seam.

In this paper we employ an innovation, capital market liquidity conceptual framework to organize our understanding of the Financialized bio-pharma business model. This conceptual framework emphasises how complementary narratives about pipeline progress conjoin with capital market conditions and demands. Favourable milestone reports coupled with capital market liquidity help to inflate analyst’s expectations about market valuations and promote entry and exit opportunities for equity investors looking to extract a positive return on speculative investment. We explore the operation of this financialized business model in three UK small, medium enterprise (SME) bio-pharmas.

2. Constructing a financialized bio-pharma business model

Both government policy documents and the academic literature identify the potential of the creative and innovative sectors to transform economic growth and national competitiveness. (Barney, 1991; Carpenter et al., 2003; DCMS, 1998, 2001; Lazonick, 2008; Lazonick and O’Sullivan, 2000; Mazzucato and Dosi, 2006; Porter, 1990; Prahalad and Hamel, 1990). The general argument is that productive investment in innovation can strengthen corporate financial performance and thus transform industry and national economic competitiveness. Investment in knowledge development and commitment to high levels of R&D spending are essential to maintaining competitiveness and closing the ‘innovation-gap.’

Investment in research, leading to innovation and productive benefit to the economy, is a major concern for governments around the world, and a high priority for the European Union. Currently, the EU has considerable strengths, yet invests about a third less than the US and the innovation-capital market gap has not narrowed in recent years.

¹ Pipeline here refers to how pharma products progress from laboratory into clinical development and testing (known as Phases I–III) towards final regulatory approval and commercialization.

² By Big-Pharma, we mean the international pharmaceutical giants such as Pfizer, Merck and GSK. This is in direct contrast to much smaller bio-pharma companies, the focus of this paper.

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات