

Is Guanxi Ethical? Evidence from Medical Reps in China

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Abstract: As a typical feature of traditional Chinese Confucian culture, guanxi continues to play an essential role in modern society. This study analyses the morality of guanxi from the perspective of modern business ethics, combining the theories of ethical absolutism and relativism. In addition, based on the relevant cases of Chinese pharmaceutical representatives, it explores how guanxi induce wrongdoing step by step in a commercial society. Finally, the research makes specific recommendations for maintaining the legitimacy of guanxi in terms of improving legislation and supporting whistleblowing.

Keywords: Business ethics, Guanxi, Ethical absolutism, Ethical relativism.

1. Introduction

In China, people tend to use guanxi to get more help and convenience when doing business, such as more efficient processing, more reliable information, more attention and a higher success rate.[1] For instance, in a Chinese enterprise, if the person in charge of a project is a friend of one of the shareholders, the advantageous resources will be tilted towards him to ensure the success of the project; or, if a client is a relative of an investor, the company will give priority to working with him and satisfy his requirements as much as possible. The reason why they could receive special care is not based on the matter, but because of human feelings (renqing) and face (mianzi) dictated by guanxi. This seems to ignore rules and fairness to a certain extent, allowing those with guanxi to take priority by cutting in line.[2] So at times like this, the issue is raised: is it really ethical to do this? And does this induce wrongdoing?

This research would firstly analyse the nature of guanxi in terms of cultural institutions and how it relates to business ethics at a theoretical level. Secondly, focusing on the Chinese pharmaceutical industry, the study will analyse how guanxi gradually generates unethical behaviour and induces wrongdoing in actual business activities, based on several cases of medical reps. Finally, recommendations are made to ensure the legitimacy of guanxi, such as improving legislation and supporting whistleblowing.

2. Guanxi: The Choice of Chinese Institutions

Throughout its thousands of years of development, Chinese society has been deeply influenced by Confucianism culture and the concept of clan, resulting in a unique cultural context and social structure.[3] Specifically speaking, it is over-emphasis on social networks consisting of close relatives, distant relatives, friends and acquaintances in order of interpersonal distance and trust, which has led to guanxi playing a crucial role in social interactions in China (see Figure 1).[4] Especially in the business world, guanxi is considered essential for doing business successfully in China, and has a profound impact on the survival, operation and development of enterprises.[5] In addition, as a product of the Chinese cultural institution, it has a complex and dynamic meaning, and has been defined differently from different

perspectives in different periods.[6] In this study, guanxi is considered to be a special relationship between social members established through a large number of long-term interactions, usually with trust as the psychological basis and emotion as the implicit contract.[7]

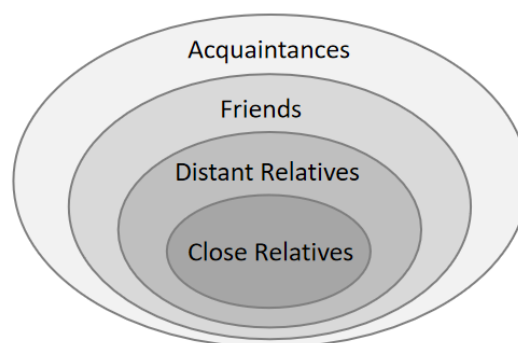


Figure 1. Chinese Social Network

Source: Chen et al., 2013

The formation of a stable guanxi is a lengthy process that requires a significant mutual investment of energy and time.[8] A large number of researches have shown that gift-giving is the most common and effective catalyst for establishing guanxi quickly in Chinese business.[9] This is because in the Chinese cultural institution, giving an acceptable and appropriate gift is a reciprocal activity that promotes emotional exchange, which could produce inner emotional attachment (ganqing) for ongoing mutual support.[10] However, due to the lack of governance by formal institutions, such as laws and regulations, combined with the complexity of China's socialist mixed market, guanxi could easily result in ethical dilemma.[11] This is mainly manifested in the exchange of gifts and power, that is, self-interest is achieved by giving high-value gifts to the person in power in exchange for favors of his power.[12] This poses a great challenge to the ethics of guanxi, and therefore further analysis needs to follow.

3. Is Guanxi Ethical?

There has been great controversy over the ethical status of guanxi.[13] There are a number of arguments that guanxi is synonymous with corruption, and is responsible for fostering

crony capitalism.[14] Although grudgingly agreed upon in terms of values, it is bound to be condemned by ethics and justice.[15] In contrast, some studies support the ethics of guanxi, arguing that it is a positioning strategy and moral resource in Chinese business, and it is “no more equivalent to corruption than social drinking is to drunkenness”.[16] Therefore, this research attempts to analyse the relationship between guanxi and ethics from the perspective of pluralism, i.e. absolutism and relativism.

Firstly, from the perspective of ethical absolutism, although its standards and manifestations vary markedly across different contexts, such as countries and cultures, its core values should be highly consistent.[17] That is, there is sufficient emphasis on the requirements for social members which generate relationships to observe a range of good virtues such as integrity, fraternity, loyalty and trustworthiness among each other and to maximise their common interests.[18] This is highly consistent with the basic ethical principles of Confucianism, like benevolence (ren), righteousness (yi), reciprocity (li) and trustworthiness (xin).[19] The earliest guanxi has maintained “Confucian norms of interpersonal relationships” through the construction of social networks.[20] As a consequence, guanxi is fundamentally in line with the requirements of ethical absolutism.

Secondly, ethical relativism emphasises that ethics is culturally determined and highly subjective, so it can not be judged from the perspective of other cultures.[21] Guanxi is an extension of Confucianism with a strong and distinctive imprint of Chinese cultural.[22] Many western scholars have a large number of negative evaluations of guanxi because they are guided by the contractual conventions and legal constraints of western society.[23] According to ethical relativism, guanxi needs to be examined from the perspective of Chinese society, and Feng (1996) has describes that there is a general perception in China of the potential benefits and positive effects of guanxi.[24] Most notably, guanxi allows for more human kindness in a law-based society.[25] Specifically, guanxi constructs a human society that is operated by Chinese people using the principles of trust, obligation and reciprocity to do business, which are in line with human virtues and moral norms.[26] Moreover, it allows individuals the flexibility to adapt their rules within the principles as appropriate to the current state of business. In other words, “guanxi is based on eastern principles, and can be as ethical as any western system”.[27] Consequently, guanxi is fundamentally different from bribery -- guanxi is a normal interpersonal relationship, whereas bribery is an illegal transaction.[28] Primarily, bribery is driven by profit and is more direct and specific than guanxi, and cares more about gaining or losing interests and lacking emotional communication.[29] Therefore, guanxi does not equate to an unethical network of relationships per se.[30]

However, a large number of wrongdoing, such as unfair competition, corporate fraud, corruption and white-collar crime, are inevitably associated with guanxi in actual reports of Chinese media.[31] Based on an investigation conducted by Fu and Zhu (1999), 96.3% of 275 Chinese executives interviewed believed that guanxi contributed significantly to wrongdoing.[32] Furthermore, a normative analysis of guanxi revealed that there is a significant gap between its ethical performance in practice and in theory because guanxi is centered on people and highly subjective. That is, people use guanxi to regulate norms of behaviour with a high degree of

autonomy and variability.[33] As a result, the specific meaning of guanxi can easily and substantially change with the evolution of the context, institutions and business conditions.[34] In today's Chinese business environment, guanxi is more regarded as a strategic resource used to develop and maintain business. This has led to guanxi gradually evolving into a “gate” that is extremely exclusive and provides benefits only to certain members of the network.[35] Therefore, benign guanxi gradually becomes a channel and means of benefit exchange, whose aim to receive special treatment from those in power to gain access to more resources and benefits. Whereas, such transactions blur the line between guanxi and bribery, which are highly likely to cause unethical or even illegal behaviour. For example, the bribe-giver bribes the person in power with heavy money and manipulates him to achieve own purposes. Because of this, guanxi in today's business environment could easily induce wrongdoing.

4. Discussion: Guanxi's Path to Blackening

In 1988, medical reps officially appeared in China for the first time and developed rapidly over the next three decades, causing a series of social issues that are roots in guanxi.[36] Medical reps are those who promote relevant medicines for pharmaceutical manufacturers, and forming good guanxi with key clients, such as doctors and agents, is essential to facilitate business partnership.[37] Initially, through a virtuous circle of legitimate guanxi, some high-quality medicines were able to be promoted. For instance, in the 1990s, the promotion of some kind of anti-inflammatory medicine in China could be difficultly achieved without the operation of guanxi. At that time, the market generally favoured the previous generation of medicine. In order to promote the new medicine that was underestimated by the market, the medical reps spent a lot of effort to channel guanxi to executives of a number of pharmaceutical companies, and eventually gained support. Following the mass production of new medicine, their widely recognised better efficacy and fewer side effects proved that the medical reps' efforts to construct guanxi were not in vain. This suggests that guanxi is not unethical inherently.

However, as the industry became increasingly competitive, in order to compete for limited market resources, medical reps gradually resorted to giving kickbacks to clients in exchange for the production and marketing of medicines.[38] This is when the nature of guanxi shifted from emotional ties to benefit exchange, which eventually led to many bribery scandals (see Figure 2). One of the most typical cases was in 2010, a former president of certain pharmaceutical company was exposed to scrutiny for suspected bribery. In order to sell medicines to this company, the medical reps of several pharmaceutical manufacturers agreed to kick back to the former president an average of 20% of the medicine sales profit (see Figure 3), which amounted to more than 51 million yuan. This has led to a squeeze on the production costs of pharmaceutical manufacturers, resulting in the use of inferior ingredients to deceive and harm patients. In fact, this former president has always had a good reputation. After the scandal came to light, he regretted saying that the initial normal guanxi with medical reps over business dealings gradually evolved into illegal money and power transactions. A large part of the reason is that guanxi in business is often highly purposeful and needs to be sustained and driven by profit, and

the legitimacy of guanxi relies heavily on self-imposed ethical restraints.[39] In consequence, individuals, especially those

in power, are likely to be tempted by profits and do wrongdoing.

Year	Enterprise	Scandal
2007	A	Two of its subsidiaries paid bribes amounting to 12.31 million yuan
2009	B	Involving in 12 bribery scandals in several provinces
2011	C	Chairman repeatedly exposed to bribery scandals
2012	D	Bribery has been exposed from the chairman to staff
2015	E	More than 3 bribes exposed
2017	F	Former vice president takes bribes and pays 3 million yuan for subordinates to take the blame
2019	G	The chairman and a number of executives paid over 14.75 million yuan in bribes
2020	H	Over 30 million yuan in bribes to medical staff

Figure 2. Pharmaceutical Industry Bribery Scandals

Name of Medicine	Sales Price	Kickbacks	Percentage of Sales Price
Sevoflurane	700/120ml	90/120ml	12.9%
Dexmedetomidine HCl Injection	120/2ml	20/2ml	16.7%
Benzenesulfacil Cisatracurium	46.9/5mg	9/5mg	19.2%
Bupropion	36.5/1ml	6/1ml	16.4%
Levobupivacaine	20/5ml	5/5ml	25.0%

Figure 3. Kickbacks Received for Some Medicines

Item	Current Amount (¥000)	Percentage of Total Sales Expenses
Marketing Expenses	7,526,459	88.29%
Travel Expenses	908,883	10.66%
Equity Incentive Expenses	88,341	1.04%
Other Expenses	1,284	0.02%
Total	8,524,967	100%

*Note: Marketing expenses mainly include academic promotion, medical research and development, etc.

Figure 4. Specific Components of Sales Expenses

In contrast to these apparent wrongdoing, the ethics of some guanxi seems difficult to define. In 2013, certain pharmaceutical reps were reported to have paid 1.69 million yuan to 503 doctors in 79 hospitals in the name of clinical research grants. In the aftermath, these reps insisted that the payment to doctors was a normal guanxi maintenance as clinical monitoring tests are commonly required after the release of new medicines, and most doctors also agreed that this was not bribery. This is because there has not been a clear line between normal gift-giving and bribery in guanxi, and it is widely accepted in the current business environment that a certain amount of commission could not be punishable by law or ethically reprehensible.^[40] However, a survey shows that over 80% of respondents believe that so-called research grants are essentially disguised kickbacks, since these costs are ultimately passed on to the patients, resulting in high medical costs for them. This violates the most important criterion of guanxi ethics, which is to benefit some at the expense of the majority. Therefore, the way in which such guanxi is maintained is problematic, but it is not punished because of the institutional loophole in the governance of guanxi. That is, certain disguised manifestations of commercial misconduct are not clearly defined and thus exploited by some. It is for this reason that such scandals of medical reps offering disguised kickbacks have been exposed one after another over these years in a number of well-known pharmaceutical companies, but did not attract undue attention

due to the lack of a legal basis. It was not until 2020 that a pharmaceutical company was scrutinised for its huge “sales expenses”, and was eventually identified as commercial bribery (see Figure 4). This practice of improper guanxi in the name of academic promotion, medical research and development, and travel expenses gradually evolved into vile wrongdoing, and was eventually severely punished.

Combining the above cases, it can be found that guanxi is ethical by nature and benign guanxi even has a positive impact on society. However, guanxi could easily take on an unethical aspect under the influence of the external environment of business and the inherent role of human beings. Specifically, because fierce market competition forces individuals or organisations to compete for limited resources, it is difficult to maintain the legitimacy of guanxi by relying solely on self-imposed ethical constraints. Especially in the absence of institutional regulation, there is a strong possibility that people may be tempted to adopt improper ways, such as bribery, to maintain guanxi in exchange for benefits, which leads to serious wrongdoing such as corruption, white-collar crime, etc.

5. Recommendation: How to Keep Guanxi Clean?

According to the previous analysis, fierce social competition, the temptation of great profit and the lack of

institutional regulation could all make guanxi degenerate in practice and induce wrongdoing. As a result, recommendations need to be made to address these three factors. Firstly, from the perspective of the external environment, developing the economy, increasing opportunities and balancing power could reduce the importance of guanxi, thus allowing people to rely less on guanxi in their business activities. With the gradual rationalisation of Chinese society, a better external environment would reduce the occurrence of improper guanxi.[41] Secondly, from an internal personal perspective, it is necessary to raise self-ethical awareness and clarify the ethical boundaries of guanxi to prevent being manipulated by interests. The most intuitive criterion is that once the reciprocity of guanxi is found to be based on the abuse of power and the damage to the rights of the majority, it should be terminated in time to avoid making a big mistake.

However, above recommendations are difficult to fundamentally ensure the ethics of guanxi, so it is most important to govern guanxi through formal institutions, such as the mandatory constraints of laws and regulations.[42] On the one hand, legislation is improved to institutionalise guanxi. This means formalising guanxi into laws and regulations in order to have clear criteria to assess the legitimacy of guanxi, and to nip problematic guanxi in the bud.[43] This could help to avoid some practices that exploit legal loopholes. In fact, the practice of disguised kickbacks by medical reps of these offending pharmaceutical companies could be stamped out early, and not eradicated only when it develops into a social cancer. On the other hand, the authorities need to encourage individuals and organisations to monitor and whistleblow improper guanxi in business activities, and to deal with them fairly, openly and positively.[44] While rewarding whistleblowers and protecting their privacy, penalties for violators should be increased and a zero-tolerance policy would be adopted to severely crack down on wrongdoing such as bribery and kickbacks. These tend to create a positive social trend and serve as a good deterrent and warning to those who follow to avoid repeating the same mistakes.

6. Conclusion

Guanxi has a long history in China socially and culturally, and has a significant impact on business activities. At its root and essence, guanxi is not an unethical interpersonal relationship. However, as time evolves, it is subject to environmental and human influences that could easily turn it into a tool for trading power and money and exchanging interests, resulting in unethical behaviour and even wrongdoing, such as bribery and corruption. As a consequence, guanxi needs to be governed from a number of angles, the most important of which is the mandatory regulation of the formal institutions to ensure that it retains its ethical character while maintaining the human bond.

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