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The new dynamics between the state, local ideals, and (anti-) corruption: an ethnographic study of the ethical practices of China's pharmaceutical industry

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ABSTRACT

The infamous GlaxoSmithKline (GSK) bribery case of 2013 led to the emergence of compliance management as a local strategic response to ensuring compliance with regulations in the transnational pharmaceutical corporations within China. However, China's pharmaceutical industry has a long history of practicing the corrupt customs of "drug-incentivizing medicine" (*yiyao buyi*) and "guanxi-based sales" (*guanxi xiaoshou*), which are, obviously, at odds with the highest ethical standards for compliance management as well as the principle of the anti-corruption campaign of the current Chinese administration. Based upon an in-depth ethnographic work from China's pharmaceutical industry, this article proposes a new framework to examine the complicated dynamics of interaction between the state's anti-corruption policy, corrupt long-standing customary industrial practices, local cultural practice, and global compliance management norms in post-socialist spaces. Different from some studies that focus on the resistance to global norms by local forces, this study suggests a reverse direction and focuses on the positive reconstruction of the old socialist ideals and corrupt practices by modern disciplinary institutions with the capitalist work ethic in the Chinese workplace.

KEYWORDS

China; transnational pharmaceutical corporations; compliance management; GSK event; drug-incentivizing medicine; *guanxi*

Introduction

Since introducing reforms and opening its economy starting in 1978, China has been portrayed as one of the most successful cases of socialist transformation in the world (Burawoy 1996). However, on its road to success, state socialism was also accompanied by certain unexpected contradictions and shortcomings (Dirlik 1989; Burawoy and Verdery 1999; So and Chu 2012; Naughton 2017). Most noteworthy, the increasingly intensified ethical dilemma between China's long-standing corrupt practices and the ethical standards initiated by the global economic order has attracted increasing attention from the academic community. Although the Chinese government has made great efforts to fight corruption in recent years, corruption is still a very common phenomenon in contemporary China. Facing such massive but complicated Chinese markets, the choice of most transnational corporations is generally to either stay outside the Chinese market or get in and become compromised. However, because the temptation is too big to be resisted, most transnational corporations have chosen the latter, accepting that bribery and other corrupt or ethically problematic behaviors are inescapable in dealing with the Chinese government and public sector

(especially the medical sector). Given the significance of corruption in China, I wonder whether (anti-)corruption could be developed as a wide range of concepts for Chinese research. Compared with most studies that take a structural approach or static analysis to consider Chinese (anti-)corruption practices (White 1996; He 2000; Yao 2002; Sun 2004; Wedeman 2004; Ngo 2008; Guo 2008; Ko and Weng 2012), this article proposes a multidimensional dynamic perspective to explore the interaction between the state's anti-corruption policy, corrupt long-standing customary industrial practices, local cultural practices, and global ethical norms in post-socialist spaces. In so doing, this article presents a new disciplinary management practice that emerged in the Chinese workplace for examining the extent of Chinese (anti-)corruption and its relationship with ethical practices in China's transformation, namely, the role of compliance management (*hegui guanli*).

In fact, the concept of compliance management is an entirely novel concept for the Chinese market. In a broad sense, the purpose of practicing compliance or compliance management is usually to ensure that business and management practices comply with an agreed set of laws, norms, and regulations (refer to ISO19600 2014; Lu, Sadiq, and Governatori 2008; Caldwell 2008; Tarantino 2008; Abdullah, Indulka, and Sadiq 2009, 2016). With the Foreign Corrupt Practices Act (FCPA) strengthening its anti-corruption efforts in matters of international trade, compliance management in recent years has become an indispensable global ethical norm for sustainable commercial development to protect organizations from various complex challenges, including financial risks, litigation issues, and government intervention at home and abroad (Biegelman and Biegelman 2008, 2010; Gunningham 2010). However, China is a special case where compliance management is a more complex process of ethical practices, which are conceived as involving several layers, not only the legal and normative dimensions. The related practices of compliance management, which I address in this paper, have three dimensions: (1) a response to laws and regulations external to a company, (2) a code of conduct or specific business ethics a company adheres to, and (3) a disciplinary power for scrutinizing the internal (field) informal practices and taking immediate action when identifying potential compliance violations in the workplace. In other words, compliance management in the Chinese workplace is committed not only to performing its functions, such as complying with laws and regulations or a code of conduct of enterprises but also to being practiced as a type of ethical workplace discipline (tactic) in the struggle against corruption. At present, there has been little academic research on compliance management practice in the Chinese workplace, except for three studies in which compliance (as opposed to compliance management) was regarded as a code of conduct in raising labor standards and the corporate social responsibility of a global production chain (Frenkel and Scott 2002; Sum and Pun 2005; Pun 2005). Based upon qualitative data from China's pharmaceutical industry, this paper attempts to fill the gap in the scholarly literature by capturing the complexity of the practices of compliance management with Chinese characteristics and intends to contribute to the scholarship by enriching the new experiences of compliance management in the fight against corruption in post-socialist China.

The present article begins with a detailed analysis of the social context and the political impact of the GlaxoSmithKline (GSK) Plc bribery scandal, which leads us to think about a political dimension to the introduction of compliance management into China's pharmaceutical industry. Furthermore, I will discuss how the practices of compliance management have restructured the relations between the "drug-incentivizing medicine" regime and the government's anti-corruption policy. Finally, the evidence provides insights into the changing scenarios, which mainly refer to how modern compliance management practices influence the cultural practice of *guanxi* in the Chinese workplace.

Political incentives for compliance management practices: a new anti-corruption movement

I was not even aware of the concept of compliance management previously. It was only after the arrest of the GSK that the companies in China, including ours, began practicing what is referred to as compliance management. I was just beginning to understand this new concept. Our company has since issued a series of policies and procedures that require all salespeople to conduct sales practices within the legal and ethical sphere. New terms such as compliance division, compliance officer, and compliance issues have appeared and are gradually becoming a part of our daily work practices. (The voice of a pharmaceutical sales representative interviewed in August 2017)

Before the multidimensional interactions of compliance management practices in China can be discussed further, it is necessary to explain why these practices have suddenly become popular in the Chinese pharmaceutical industry. The research data included in this study suggest that the proliferation of compliance management practices in China's pharmaceutical industry is significantly associated with the infamous GlaxoSmithKline Plc bribery scandal of 2013 (hereinafter the GSK event). It is noteworthy that the data provided here are based on ethnographic research conducted personally in mainland China during 2017-2020. This research included in-depth interviews and participant observation of pharmaceutical sales representatives, sales managers, and compliance officers working at six well-recognized transnational pharmaceutical corporations in China. In addition, China's official reports and the publications of pharmaceutical companies were used to enrich the collected data. Furthermore, the oral histories of a certain section of informants served as critical data for the investigation, providing further valuable and persuasive context to assist the readers in understanding the historical and social significance of the past. To some extent, these field studies would provide us with first-hand data to develop the "correct" concepts or theories that are more suitable for local realities (especially non-Western ones), rather than always relying on Western theories (Niranjana and Wang 2015).

As mentioned above, the concept of compliance management originated in the West. Over the past 20 years, the extant literature has principally taken place outside China, and most studies are limited to certain fields, such as finance, environment, software engineering, medical science, and information systems (Tarantino 2008; Abdullah, Indulska, and Sadiq 2016). In this research, new evidence sheds light on the latest development path of compliance management in China; importantly, its conceptional logic is completely different from that of the West. The term "compliance management" was first defined in China in *The Notification on Printing and Distributing Compliance Risks Management for the Banking Industry by China's Banking Regulatory Kickback* (Document No. 76) published by the Ministry of Law of the PRC in 2006. Interestingly, prior to the GSK event, the application of compliance management in China was confined mainly to the financial industry, and its main functions were also limited to legal and normative aspects and were not involved in management practices. Until 2013, the continuous fermentation of the GSK bribery scandal made compliance management the predominant management principle for transnational pharmaceutical corporations to deal with the crisis in the Chinese market. Since then, compliance management has gradually been constructed as a crucial management strategy to prevent corrupt practices in the workplace at the organizational level and even later developed into a new industry code of ethics in China's pharmaceutical industry. Different from the logic and practical experience of this institution in the West, compliance management practice could be considered a form of globalization. In this paper, however, it appears to be that an action taken by the state initiated this process.

The GSK event: a defining transition for China's pharmaceutical industry

In the summer of 2017, I started my fieldwork on compliance management in China's pharmaceutical industry. My fieldwork was completed with the assistance of some Chinese friends working in well-recognized transnational pharmaceutical corporations, who are now either district sales managers or regional sales managers of their respective enterprises. However, these friends also conveyed an important reminder that this was a quite difficult time for conducting such fieldwork given the "new round of anti-corruption campaigns led by the government." The cause, they said, could trace back to a large-scale news report titled "High-priced Drugs under High Kickbacks" published by China CCTV13 at the end of December 2016. The CCTV13 reporters secretly visited nearly 100 pharmaceutical sales representatives for approximately eight months, uncovering extensive details of the offering and accepting of bribes by doctors and pharmaceutical sales representatives.¹ Soon after the central media report, as it was referred to, health departments under local governments began a fresh crackdown on medical corruption that targeted large public hospitals and pharmaceutical companies. It was not normal times, as these acquaintances stressed, to carry out the fieldwork, but my curiosity was even more whetted by the "unusual" situation. According to these acquaintances, the turbulence and insecurity largely stemmed from the infamous GSK scandal. Since the incident, they have encountered increasing political pressure from the government.

While 2013 was bound to be an eventful year for China's pharmaceutical industry, a new round of health care reforms driven by the new Chinese government was projected as the curtain-raiser (Yip and Hsiao 2015). The scandal of 2013, which first appeared to involve only GSK (China), continued to engulf other well-recognized transnational pharmaceutical corporations in China. The investigation of the GSK bribery scandal in China began with an internal report that was published in early 2013 and was gradually corroborated by a series of reports by travel agents, sex videotapes, and business intelligence investigations. According to this case report, the relevant GSK salespeople were accused of illegal practices of offering bribes to the health officials in several regions of the country, with the suspicion that they had misused huge amounts of sales expenses to expand their drug sales volume and obtain a larger bonus. Such salespeople adopted "tunnel behavior" by forging reimbursement reports, invoices, and even academic conferences to justify the payments transacted for maintaining illegal interests with government officials, industrial specialists, hospitals, and doctors. The 14-month-long investigation of the GSK bribery scandal concluded with a hefty penalty of 3 billion RMB (490 million USD).² Since then, the GSK event has been synonymous with "medical corruption" in China. The GSK event undoubtedly created great uncertainty about the Chinese marketing strategy in the opinion of most of the transnational pharmaceutical corporations who considered China to be a market with the greatest potential.

During my field studies, the responses from sales managers at multinational pharmaceutical companies indicated considerable confusion about the trajectory of the GSK scandal. Mr. Ding,³ a district manager of a well-known transnational pharmaceutical company, explained:

When conversing about GSK, the management of our pharmaceutical company was also terribly shocked. I heard that initially, this issue was not even promoted to the government level, and rather auditors of GSK (global) were sent to China to investigate the internal financial problems. No one had expected that the government would soon be involved in this investigation. In fact, we often joked that it was just a stroke of bad luck that GSK was being targeted. Until the GSK scandal was exposed, all sales practices in China's pharmaceutical market were based on "bribery sales," not only in the case of local pharmaceutical companies but also in foreign pharmaceutical companies. Therefore, the sudden crackdown on GSK was quite puzzling for everyone in this industry. (Interview, June 2017)

Although industry insiders generally hold an attitude that the GSK event was an exception, if the underlying causes are analyzed in detail, it is observed that the GSK event was inevitable given the social and political context of that period. First, from a political perspective, the GSK scandal could be described as a new policy signal after Xi Jinping took office. In capitalist systems, the state is usually marginalized as a passive actor in the organizational environment, while in post-socialist countries, the role of the state goes beyond both the maker and supervisor of corporate regulations (Soulsby and Clark 2007). To be sure, state intervention has always played a big role in the socialist market economy. Take as a prominent example the case of the GSK event in China's pharmaceutical industry. In 2012, after President Xi Jinping came to power, combatting corruption was declared the top priority of the Chinese government. The GSK case emerged as a great opportunity for the Xi Jinping government to crack down on corruption and enact political and economic reforms. To investigate the reasons, we can think from the following aspects. China was once regarded as a country with whose corruption lay deep within its bureaucratic and political institutions (Gomez-Arias 1998), which not only had a very bad effect on China's national image but also on its economic environment. And in the meantime, in recent decades, there have been great efforts and achievements in combatting overseas commercial bribery by Western nations under the leadership of the United States and Britain (Windsor and Getz 2000; Hunter 2011), which in turn put China at a disadvantage in international cooperation and relationship on account of its nonfeasance toward anti-corruption practices. Against this background, the fight against GSK assisted the Chinese government in improving its international image, while it also empowered the Chinese authorities to resort to international cooperation against corruption as a means of advancing its economic fight against corruption in the homeland.

More importantly, the GSK case was, in part, related to the local social issue of "high expense and difficulties in medical care" (*kanbingnan kanbinggui*) (Gu, Gao, and Yao 2006; Ge and Gong 2007; Yip and Hsiao 2015). To alleviate this social contradiction and improve the well-being of citizens, the Chinese government issued the notification of *The General Office of the State Council of China on Printing and Issuing the Main Work Arrangement for 2013 on Deepening the Reform of the Medical and Health System*, which emphasized the importance of further strengthening public hospital reforms and resolving the issue of irrational drug pricing and incentives. It was coincidental that high kickbacks and high drug prices involved in the GSK case were the core issues of the new round of medical reforms in China. As indicated in the Chinese official case report, the amount paid in bribes by GSK was eventually transferred to the price of drugs in China, which disrupted market dynamics and led to drug prices so high that they were unaffordable for citizens. In this context, another crucial intention of the Chinese government in its fight against GSK was to ease the local social contradictions and show evidence that the government's policies were successful in advancing social protections and the redistribution of public goods.

As highlighted by some academics, the GSK case is not a simple case of economic crime (Shobert 2013; Jourdan and Ruwitsch 2014). Given the underlying cause, this event was actually a sign of the new Chinese regime's further control over public resources in the socialist transformation. The GSK event, therefore, has been addressed as an inevitable product of the process of China's political reform. If the GSK scandal had not taken place, another similar event would have occurred instead. In this historical background, transnational corporations have had to arrange a strategic response to Beijing's new political and regulatory orientation. To prevent another event similar to the GSK, all transnational pharmaceutical corporations established compliance management departments to deal with the commercial bribery issues prevalent in the Chinese market. According to the official publications of these transnational pharmaceutical corporations, compliance management mainly

focused on adherence to corporate policies concerning business and ethical conduct to ensure that all businesses met or exceeded both the FCPA and even local laws and regulatory requirements. Furthermore, in practice, they also regard compliance management as an important “management weapon” to discipline sales behavior in the workplace. In interviews, most of the sales managers acknowledged that regulating salespeople to work in a legal and ethical atmosphere is the most effective tactic for transnational pharmaceutical corporations to cope with uncertain and insecure scenarios in the current Chinese market. However, my study noted that related practices of compliance management are far more complex than the transnational corporations initially expected, most likely due to the influence of the old industry regime and the prevalence of *guanxi*-based sales practices in the local marketplace. Compliance management practices have developed a unique logic of action in China’s pharmaceutical market. In the next two sections, I will focus on analyzing the complex process of reframing the government’s anti-corruption policy, the “drug-incentivizing medicine” regime, *guanxi* culture, and compliance management practices in the workplace.

Does the “drug-incentivizing medicine” regime still matter: new forms, old realities

The empirical evidence obtained in the present study suggests that the compliance management practices adopted by transnational pharmaceutical corporations have partially changed the old rules governed by the long-standing customary industrial practices of “drug-incentivizing medicine” (*yiyaobuyi*), in which the original interest transmission mechanism of the pharmaceutical industry had become increasingly “hidden and legitimate” on the surface.

China’s pharmaceutical industry is typical in that it remains under state ownership and is subordinate to the centrally planned economy. This has had a profound impact on the industry since the introduction of 1980 reform (Yip and Hsiao 2015; Chen et al. 2019). In this context, state intervention in the distribution of public medical resources continues to be significant even to this day. With this industry structure dominating in China, Chinese public hospitals do not truly practice the policy of “Separation of Dispensing from Prescription” (*yiyaofenkai*). Most patients have to buy prescription drugs via hospital prescriptions only, enabling the hospitals to control up to 95 percent of the Chinese drug market supply (Sun et al. 2008). Although the current Chinese government has achieved great progress in certain aspects related to public health, numerous critical issues remain unresolved. The most prominent among these issues is the long-standing industrial practice of “drug-incentivizing medicine,” through which Chinese doctors have financial incentives to prescribe drugs (Gu, Gao, and Yao 2006; Ge and Gong 2007; Fang and Chen 2012).

In China, the compensation mechanism or the funding source for public hospitals usually comprises the following: financial appropriation, medical service revenue, and pharmaceutical sales revenue (Fu and Chan 2016). Of these, the proportion of financial appropriation of total hospital revenue has steadily decreased since the reforms and the opening up, with the current average financial appropriation across the nation being less than 10 percent (Yip and Hsiao 2015). To compensate hospitals for their low financial revenue and low-priced medical services, the Chinese state has empowered medical institutions to recover their revenue shortfalls by raising the price of drugs up to a certain limit. As a consequence, since the 1950s, “drug-incentivizing medicine” has been used as a compensation policy adopted by the Chinese government to compensate for insufficient financial funding of public hospitals (Fang and Chen 2012). Nonetheless, with the further transformation of the socialist market economy, this policy has gradually been overinterpreted beyond its original meaning of “drug-incentivizing revenues of hospitals” (*yiyaobuyiyuan*) and has

developed another meaning of “drug-incentivizing doctors’ income” (*yiyaobu yisheng*). This confers a double meaning to the term “drug-incentivizing medicine” (Zhu 2007). The compensation mechanism of “drug-incentivizing medicine” enables doctors to acquire a seemingly legal channel to attain personal profits by prescribing immoderate drugs, which consequently leads to rent-seeking behaviors by medical personnel and pharmaceutical companies, further developing a weakly regulated institutional space of perverse incentives characterized by “sales with a commission” (*daijin xiaoshou*) in China’s pharmaceutical industry.

“Sales with a commission” in the long-term industrial regime of “drug-incentivizing medicine”

When there is no accountability and only partial enforcement of formal rules, informal practices such as offering and accepting bribes and/or ethical lapses are inevitable in the public health sector, despite only a small proportion of such cases, including the GSK commercial bribery scandal, being exposed and/or punished thus far. While conducting the fieldwork for present research, I noticed that the pharmaceutical sales representatives would often state that “in China’s pharmaceutical industry, ‘no money, no prescription.’” Moreover, all the contacted frontline pharmaceutical sales representatives of transnational corporations explicitly admitted that they used noncompliant sales practices with commissions prior to the GSK event. The statement of one senior pharmaceutical sales representative, Ms. Wang, made an impression on me:

In recent years, the state has been rectifying the medical industry, which might reduce the gray transactions between pharmaceutical companies and the doctors to a certain extent. However, in the past (particularly prior to the GSK event), everyone would use money (sales with commission) in exchange for high sales. This is referred to as the play rule of China’s pharmaceutical industry. We are practically the cash cow for these hospitals and doctors; without us, it means they will lose their sources of high-income channels. (Interview, August 2018)

This is not the first time this situation has been mentioned. Data from years of ethnographic research demonstrate that prior to the GSK event, all pharmaceutical companies in China relied on “sales with a commission” to operate their businesses, whether transnational corporations or local corporations. The local companies used to completely settle the doctors’ monthly prescriptions with a preagreed upon commission rate, i.e. a preagreement on the number of drugs the doctor would prescribe per month multiplied by the commission rate to calculate the final commission.⁴ The transnational corporations, however, only offered doctors a flexible rebate, which was usually negotiated between pharmaceutical sales representatives and the doctor, eventually tagging the doctor with a “package price,” as it is referred to. For instance, Mr. Tan, who joined a well-recognized transnational pharmaceutical company in charge of two antibiotic products in 2010, confessed his experience to me:

I joined the company immediately after graduating from college in 2010. Since I had no work experience and no relevant background in pharmaceuticals, I was arranged to be trained by a senior sales employee who was the in-charge of the same target hospital that was assigned to me. In training, I was taught how to engage with doctors, how to collect the prescribing information of doctors, how to collect information regarding the competitor’s products, etc. However, these were not considered important, and the most important thing I was taught was how to pay the doctor for their prescription. Since product A, which I am in charge of, costs only 50 RMB, the doctors usually prescribe it in huge quantities every month. Therefore, according to the rebate ratio that the former colleague had negotiated with the doctor, I have to pay the doctor 1,000 RMB per month if he or she uses product A

in a quantity of over 200 units. In the case of product B, which is quite expensive, almost 2,000 RMB for one unit, if the doctor prescribes this drug, I have to pay him 1,000 RMB per patient. I paid all my clients under this rule until 2013. Afterward, compliance management was applied strictly, and I had to gradually change my way of paying. (Interview, July 2017)

This is just one example of how transnational pharmaceutical corporations pay doctors to use their products. In the fieldwork of the present study, interaction with other informants revealed that in the past, offering rebates to doctors was quite normal in each transnational corporation for all products. According to the industry regime of “drug-incentivizing medicine,” if a doctor prescribed the products of a corporation, the latter was bound to pay a certain amount to that doctor as a reward. Over time, hospitals and doctors have taken for granted the benefits they receive from pharmaceutical corporations. During the field study, and even today (2021), the deep-rooted notions of “drug-incentivizing medicine” and “sales with a commission” continue to dominate the Chinese pharmaceutical industry, although it is noteworthy that the gameplay of foreign corporations has undergone a few “tactful” changes because of the constraints of tight state control and new organizational norms.

“Academic promotion” as a plausible response strategy to further crises

As noted earlier, the GSK scandal was a significant signpost that marked the beginning of the anti-corruption campaign led by the Xi Jinping government, aimed especially at the medical field. After the GSK event, the Chinese government raided most of the well-recognized transnational pharmaceutical corporations, including Abbott, AstraZeneca, Novartis, Later, Roche, Eli Lilly, Pfizer, Merck Sharp & Dohme, Sanofi, and Novo Nordisk, to search for evidence of any commercial bribery. Ms. Mi, sales manager at transnational pharmaceutical company X, recalled the circumstances prevailing at that time in the following words:

At that time [2014], we were in a state of panic due to the government’s surprise inspections. We were afraid mainly because several of our company’s financial statements documenting bribes offered, particularly huge confidential financial data, were saved in our laptops. Therefore, if our laptops were seized, everything would be over. In that difficult period, whenever we received a phone call from our colleagues working in the department of government affairs, all of us in the office had to leave the office premises immediately along with our laptops to escape government scrutiny. Soon after, an intelligent door access control system was installed everywhere on the company premises to prevent unexpected government raids. (Interview, June 2017)

Furthermore, the critical space of medical corruption in public hospitals was also one of the targets of the Chinese government’s anti-corruption work. One of the interviewees recalled that in the crackdown on medical bribery shortly after the GSK event, “the Chinese government sent numerous police officers and inspectors disguised as individuals from the general public and dressed in plain clothes to hospitals to supervise and prevent potential acts of bribery between doctors and pharmaceutical sales representatives.” I personally witnessed a similar scene during fieldwork in the summer of 2017. As stated in the previous section, the CCTV news that was telecast on Christmas Eve of 2016 once again brought medical corruption issues to the forefront. When conducting fieldwork in hospitals for the present study, an atmosphere of tension and uneasiness was distinctly visible. I was usually asked to pretend to be a patient, and a clinic record book (*bingli ben*) was a must-have to cover my identity prior to visiting the doctors. Every time the pharmaceutical sales representatives and I waited for the doctors in the hospital, they all appeared flustered and remained vigilant as to whether there were any “suspicious people” nearby. When I talked to

pharmaceutical sales representatives, they all responded helplessly that such tense moments had become common since the GSK event, particularly in a critical situation that requires them to be careful or else they might be found to be involved in bribery cases.

Upon the adoption of a series of supervision and reform measures by the Chinese government, transnational pharmaceutical corporations began to actively adopt ethical business practices according to the principles of the global norms of compliance management, leading them to truly adopt the normative sales model of “academic promotion” (*xueshu tuiguang*) to deal with the uncertainty and crisis that had become prevalent in the Chinese market. The “academic promotion” strategy, in principle, requires all cooperation between salespeople and doctors to be based on the implementation of actual academic conferences. In the past, pharmaceutical sales representatives usually resorted to fake academic conferences to obtain reimbursements of sales expenses and then used the money to bribe doctors for prescriptions. With the uncovering of the GSK event, transnational corporations established compliance departments and had compliance officers in each sales region so that the false business behaviors associated with financial reimbursement for attending academic conferences could be severely punished according to compliance management policies. In the present study, my fieldwork data revealed that compliance management has served as a label for doctors to distinguish between local pharmaceutical companies and transnational ones, while “academic promotion” has already become a major sales and marketing approach in transnational pharmaceutical corporations in the Chinese workplace. However, it is interesting that even though the universality and authenticity of “academic promotion” under compliance management have improved significantly, the foundational purpose of compliance management practices has not been based on ethical and legal sales but rather uses seemingly legal strategies in response to Beijing’s new regulatory requirements.

Some examples from my fieldwork are as follows. One day in the winter of 2019, I accompanied a pharmaceutical sales representative, Mr. Lee, to his academic conference that was to be held inside a VIP room of a restaurant in the evening. Prior to the conference, Mr. Lee told me that the purpose of the stated conference was to invite the director of the department to lecture about the new knowledge of his product at the promotional information meeting. However, the whole process of the conference was much different than what had been stated about it. The real conference lasted only for approximately ten minutes, during which all the invited doctors sat around a table listening to the content of the conference. The director’s lecture included just a few opening remarks at the start of the conference, for which he was later paid 1,000 RMB. The next few minutes entailed a promotional lecture by the pharmaceutical sales representative regarding his product. After the short meeting, the next few hours of the “conference agenda” were essentially for socializing, which the pharmaceutical sales representative and the doctors spent eating, toasting, playing games, etc. These kinds of academic conferences were also arranged in the conference room of the inpatient departments, where pharmaceutical sales representatives would usually borrow doctors’ mealtime, order boxed lunches for them, and in the end, have a simple “lecture” that concluded within ten minutes. Likewise, the doctors were paid for their prescriptions under the guise of attending an “academic conference.”

As indicated by the above-described first-hand ethnographic data of this study, although the anti-corruption policies by the Chinese government have, to a certain extent, suppressed the explicit practices of “sales with a commission” under the old regime of “drug-incentivizing medicine,” the nature of profit-seeking from the related interest groups still remains unchanged. Unless the Chinese state implements a radical transition in its monopoly over resource allocations, neither the existing regime of “drug-incentivizing medicine” nor the motivation of hospitals and doctors

to pursue profits will be eradicated. To deal with the complexity of multiple arrangements of socialism, the alteration of “academic promotion” is a result of the intentions of a plausible modification by the transnational corporations in a specific historical context. In this sense, all these modified tactics not only satisfy the interests of doctors but also protect enterprises and individuals from the risks of illegality and noncompliance.

Tracking the agency of cultural practice: briber-offering *guanxi* and emotion-driven *guanxi*

As stated by Xardel (1993), sales rely heavily on direct emotional bonding between individuals, which is, in turn, based on individual emotional experiences rather than the principles of instrumental rationality. Similarly, this logic applies to pharmaceutical sales in China. According to my ethnographic data, whether it is the “sales with a commission” of the past or the “academic promotion” of the present times, “developing and maintaining a close rapport with client” (*keqing guanxi weihu*) is always deemed as a vital business instrument in the Chinese pharmaceutical industry.

Although scholars have fully demonstrated the dominance and pervasiveness of the *guanxi* phenomenon in China’s socioeconomic activities (Walder 1983; Gold 1985; Hwang 1987; Bian 1994; Yang 1994; Luo 1997; Chen and Chen 2004; So and Walker 2006; Yang 2011; Chan 2012), few studies have focused on the characteristics of *guanxi* practices in the dynamic process of Chinese pharmaceutical sales, especially the nuanced changes in *guanxi* practices that have taken place in the course of the recent anti-corruption campaign in China’s pharmaceutical industry. The ethnographic data of this study demonstrate that under the new trend of increasingly academic and professional sales practice of China’s pharmaceutical industry, the unscrupulous *guanxi* practice that had the main purpose of delivering illegal payments to the doctors has gradually ended. The *guanxi* practice in the current environment has shed its mantle of being an explicit bribe and has been replaced by positive emotional exchanges aimed at gaining doctors’ trust and goodwill. It is important to note that I do not intend to emphasize the conceptual specificity of *guanxi* in the context of the pharmaceutical industry but rather to capture the “tone” of *guanxi* dynamics and examine how *guanxi* practice works and changes before and after the transformation of the Chinese pharmaceutical industry.

Briber-offering disguised as *guanxi* practice: a highly universal practice in serving material/instrumental goals

Unlike personal networks in the West, *guanxi* practice in China is described as high in “materialistic” and “utilitarian” exchanges, in which gifts, dining, and entertainment are considered necessary means for managing *good guanxi* relationship (Yang 1994; Luo 1997). However, banquets invitations and gift-giving in Chinese business practices are sometimes not for the pure purpose of emotional exchanges; indeed, some of the unique benefits derived from the excessive use of these practices are sometimes considered unethical behaviors leading to commercial bribery (Park and Luo 2001; Su and Littlefield 2001; Fan 2002). This argument is supported by my data with the assertion that the overuse of *guanxi* practice in China’s pharmaceutical industry appears to encourage medical bribery.

Before the GSK scandal case, the use of *guanxi* practice was one of the unwritten laws of pharmaceutical product promotion for transnational pharmaceutical companies. In my fieldwork, most

pharmaceutical sales representatives from transnational pharmaceutical companies admitted that prior to the adoption of strict compliance management practices, they often gifted the doctors expensive items or invited them to high-end restaurants to bribe them covertly. The main reason for this is that transnationals cannot compete with local companies in terms of sales expenses but have been forced to depend upon *guanxi*-based sales to deal with the problem of insufficient sales expenses. As Mr. Zhang, the sales manager of a transnational corporation, once expressed:

In the old days, when the practice of “sales with a commission” was common, foreign companies would be unable to compete with the local companies in terms of the amount of money they spent on sales expenses. Kickbacks they offered to the doctors were much higher than what we could offer them, and therefore, we instead had to adopt a more cost-effective approach of playing the relationship card to get some extra prescriptions. As a consequence, the salespeople were always asked to do whatever they could to build close *guanxi* networks with their clients to reduce sales costs and increase flexibility. (Interview, July 2018)

Ironically, compared with the other industries in which *guanxi* practice is generally a temporary assignment (Yeung and Tung 1996), the utilitarian nature of *guanxi* practice in the pharmaceutical industry is not reflected in one transaction but is rather referred to throughout the entire process of drug sales. In the mind of pharmaceutical reps, “Maintaining relationships with doctors is a constant need and the most important task of their jobs.” Likewise, Mr. Du, a senior pharmaceutical sales representative, talked about such experiences:

In comparison to the heavy and professional academic promotion currently, work in the past was quite simple. Normally, the salespeople would be required to reach the hospital by 8 am and leave after 6 pm each day, which implied they had to remain at their respective target hospitals for the whole day. Despite the longer stay, I feel that prior to the implementation of academic promotion, my daily work in the hospital was completed faster, and I was also happy most of the time. Honestly, my daily work was just to visit the hospital to “please” and “chat” with my clients. At certain times, I would just have a casual chat with them for a while, while at other times, I would bring them small gifts or food items, make a deliberate effort to run errands for them, or just wander around different departments to do other similar seemingly trivial and unimportant tasks. This was all I had to do most of the time previously. It was based on these “*guanxi* practices” that I could often obtain private information of patients and the prescription information of doctors, which are usually maintained as confidential by the hospital and cannot be acquired by outsiders. In particular, during those difficult times when I could not meet my sales targets, the clients who have a close relationship with me could give me more prescriptions without asking for anything in return. (Interview, December 2018)

Moreover, through the clever instrumental use in pharmaceutical transactions, another valuable addition of *guanxi* practice lends more meaning than its monetary value in the specific context. A pharmaceutical sales representative shared her experience as follows:

In the past, most of our sales expenses, except for a certain amount reserved for kickbacks to be offered to doctors, were used to buy gifts or entertain doctors to maintain the relationship with them. Sometimes I would mix these ways to thank my client for providing me the required prescription. By means of giving some expensive gifts that they like or entertaining them in fancy places, I could get twice the result with half the effort. For instance, one of my previous clients was quite fond of an expensive brand of handbags, although she appeared to have no time to go shopping due to her busy work schedule. After I noticed this, I would visit this shop whenever I had free time on the weekends to check for any new product arrivals. As it was her favorite brand, this client would be quite happy each time since I gifted her this branded handbag. As a consequence, she increased the number of prescriptions for my products. However, this has a premise, if I buy her a bag, it means I don’t need to give her any kickbacks that month. In general, the price of these gifts that I chose was definitely cheaper than

kickbacks I should have given her. Indeed, I would “customize” the suitable ways for payment based on the flexible *guanxi* practices. (Interview with Ms. Chen, July 2019)

Guanxi practice returned to the cultural context: a “token” of developing the necessary interpersonal familiarity

As discussed in the previous section, before the anti-corruption movement in China’s pharmaceutical industry, the purpose of *guanxi* practice was purely utilitarian-driven rather than emotion-driven. What’s more, the implicit logic of *guanxi* practice revealed an even further illegal implication of continual rent-seeking behaviors in pharmaceutical sales practices (Su and Littlefield 2001). However, after the large-scale implementation of ethical practices in transnational pharmaceutical enterprises, the *guanxi* practice designed to make an emotional connection has taken precedence over the illegal use of briber-offering of the past.

Today, pharmaceutical sales representatives are extremely busy with their daily work schedule, which involves holding all kinds of academic conferences and collecting the academic information requested by corporations. With the institutionalization of compliance management, transnational corporations require salespeople to get in the pharmaceutical sales practice of self-worth and the upgrade. The work of salespeople is required to be transformed, in essence, from building relationships or providing material benefits to providing useful academic information and medical services to doctors. In view of this, transnational corporations adopted various compliance measures to prevent salespeople from siphoning cash out of sales expenses, such as by the non-reimbursement of gift fees, specifying a certain limit for the reimbursement of expenses for meals and expensive restaurants, and auditing the authenticity of conferences. With the establishment of such a strict audit and supervision system, pharmaceutical sales representatives of transnational corporations have left eventually with no gray institutional space to transfer material benefits to doctors.

Under such circumstances, *guanxi* practice is gradually returning to the traditional beneficial and cultural practice in transnational pharmaceutical corporations. Unlike so often in the past, the everyday function of *guanxi* practice has returned to its primal purpose of emotional exchanges in terms of “trust” (*xinren*) and “human feeling” (*renqing*), which are often regarded as beneficial behaviors consistent with Chinese moral standards (Hwang 1987; Yang 1994; Chen and Chen 2004). In the current Chinese pharmaceutical market, it is no longer possible for salespeople of transnational to use *guanxi* practice to bribe doctors given the constraints of compliance management, because this type of expense cannot be reimbursed at all. In an interview with Ms. Zhang, one of the newly employed pharmaceutical sales representatives, she confirmed this in the following statements:

Currently, it is no longer the old era of *guanxi*-based sales. Although we wish to use *guanxi* as a tool even today to achieve our sales performance, what can we offer doctors now? If there is no certain monetary support to maintain *guanxi* networks, it would only end up in the doctor rejecting our offer, leading to no prescriptions for our products. Despite the continuous crackdown on medical corruption by the state in recent years, the essence of the pursuit of material benefits has remained unchanged among doctors. The doctors would not be willing to work with us if we did not have any resources. Fortunately, many large academic platforms of our foreign corporations are quite competitive, due to which local enterprises are unable to defeat us. We provide doctors with good academic resources and academic prestige through these platforms. Therefore, now we spend most of our time in the hospital communicating regarding these things associated with academic conferences, along with occasional leisure times spent in assisting the doctors in running their errands, as unpaid labor to promote our relationship. (Interview, November 2020)

Given the new situation in the industry, Chinese doctors also seem to have abandoned their old ideologies focusing on the overemphasis on the importance of money, but have turned to explore a variety of flexible cooperation with pharmaceutical companies, such as getting money from local companies and obtaining academic resources from transnational companies. Nonetheless, what should be highlighted here is although most of the work of transnational companies currently involves the collection or communication of academic information, interpersonal relationships with doctors should not be underestimated. *Guanxi* practice which involves building and maintaining trust (*xinren*), affection (*ganqing*), and obligations (*jiaqing*) remains necessary for pharmaceutical sales practices in the current Chinese pharmaceutical industry. As for reasons, a statement from a pharmaceutical representative revealed the mystery:

China's pharmaceutical industry is known for its low-trust culture. Because there are lots of dirty secrets in the industry, doctors often keep wary and distant when dealing with newcomers or people with whom they are not familiar from pharmaceutical companies. In order to establish a partnership with doctors as quickly as possible and enable them to prescribe more of our products, building a good relationship with them and gaining their trust is the foundation of all of our work, whether past or present. In fact, there is now a higher demand for the ability of pharmaceutical reps to maintain *guanxi* with customers. In the past, we could rely on material means to build or maintain a relationship with the doctor, but nowadays, the *guanxi* practice without material support requires more emotional intelligence and social skills. This is actually an art and knowledge in the eyes of our Chinese people. (Interview with Mr. Sun, July 2020)

Conclusion

With the diffusion of the Chinese government's anti-corruption campaign in recent years, this article addressed the role of the disciplinary function of compliance management in post-socialist China to explore the complex dynamics between the state's anti-corruption policy and the corrupt customary industrial practices involving bribery and academic activities, legal and illegal domains, and material and emotional exchanges. Although some progress has been made in the study of China's (anti-)corruption, there is still a lack of research on current anti-corruption effects, especially in ethnography research. In this paper, I present an ethnographic project that I conducted for several years to show the various methods of (anti-)corruption practices in the field of the pharmaceutical industry in China. Different from some studies that focus on Chinese corruption from a social censure perspective, this study suggests a reverse direction and focuses on the positive reconstruction of the old socialist ideals and corrupt practices by modern disciplinary institutions with the capitalist work ethic in the Chinese workplace.

In China, the function or governance of business systems with "Chinese characteristics" is critically reliant on the combination or integration of formal rules and informal norms/practices. Even though the Xi Jinping government launched a widespread anti-corruption campaign in 2013, questions about the predominance of state ownership over all other institutions, the institutional defects of the public sector in seeking self-interest, and the instrumental nature of China's *guanxi* practices are still major obstacles to a market economy governed by the rule of law and dominated by free/private enterprises. In this sense, the functional evolution of compliance management in China's industrial practices exactly reflects the particularity of Chinese society and the socialist transformation that China has been undergoing. In response to China's new anti-corruption trend and China's unique political system and cultural traditions, transnational pharmaceutical corporations have shifted their illicit business practices, such as "sales with a commission" and "*guanxi*-based

sales with bribery intention,” to a seemingly professional and ethical business strategy of “academic promotion” with the clever use of the disciplinary mechanisms of compliance management.

For the time being, the most transnational pharmaceutical corporations seem sympathetic toward this new trend of ethical practice, and the most unexpected finding from this study is that even a few large local pharmaceutical companies have begun to follow the example of transnationals to regulate the informal practices of their sales staff with compliance management. It is important to draw a conclusion from these facts that the post-socialist workplace during the post-2013 period prefers to take a more inclusive and non-confrontational attitude to foreign ethical norms, and the Chinese workers are also evolving toward a new Homo Economicus who has been expected to take ownership of the capitalist work ethic within the Chinese workplace. Yet it is worth discussing that although the ever-increasing popularity of the modern disciplinary institutions has somewhat curbed the medical corruption phenomenon in China’s pharmaceutical industry, there are still great controversies about some pharmaceutical sales practices in the workplace during these years. To address these issues, more detailed ethnographic investigations are still needed to further conceptualize the pharmaceutical-related questions of the Chinese pharmaceutical industry in future studies.

Notes

1. Refer to CCTV.com. News headline: “High-priced Drug under High Kickbacks.” 24 December 2016. http://tv.cctv.com/2016/12/24/VIDEmBKxzLZsGh6_uLk4aAE4q161224.shtml.
2. Refer to BBC NEWS. “GlaxoSmithKline Fined \$490 m by China for Bribery.” 19 September 2014. <https://www.bbc.com/news/business-29274822>.
3. As the topics of this article involve many sensitive issues in the industry, I have used pseudonyms to protect the interviewees and the companies.
4. It should be emphasized that since this article focused more on the investigation of transnational pharmaceutical enterprises in China, the behaviors of the local pharmaceutical companies involved were not much discussed.

Special terms

hegui guanli	合规管理	bingli ben	病历本
kanbingnan kanbinggui	看病难看病贵	xueshu tuiguang	学术推广
yiyaobuyi	以药补医	keqing guanxi weihu	客情关系维护
yiyaofenkai	医药分开	xinren	信任
yiyaobu yiyuan	以药补医院	renqing	人情
yiyaobu yisheng	以药补医生	ganqing	感情
daijin xiaoshou	带金销售	jiaqing	交情

Notes on contributor

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