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]

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,
caus[36] ing a series of social issues that are roots in guanxi. Medical reps are those who promote relevant medications 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
anti-inflammatory medicine in China could be difficulty 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
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. 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

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### Figure 2. Pharmaceutical Industry Bribery Scandals

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

### Figure 3. Kickbacks Received for Some Medicines

<table>
<thead>
<tr>
<th>Name of Medicine</th>
<th>Sales Price</th>
<th>Kickbacks</th>
<th>Percentage of Sales Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sevoflurane</td>
<td>700/120ml</td>
<td>90/120ml</td>
<td>12.9%</td>
</tr>
<tr>
<td>Dexmedetomidine HCl Injection</td>
<td>120/2ml</td>
<td>20/2ml</td>
<td>16.7%</td>
</tr>
<tr>
<td>Benzene sulfonacil Cisatracurium</td>
<td>46.9/5mg</td>
<td>9/5mg</td>
<td>19.2%</td>
</tr>
<tr>
<td>Bupropion</td>
<td>36.5/1ml</td>
<td>6/1ml</td>
<td>16.4%</td>
</tr>
<tr>
<td>Levobupivacaine</td>
<td>20/5ml</td>
<td>5/5ml</td>
<td>25.0%</td>
</tr>
</tbody>
</table>

### Figure 4. Specific Components of 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.*
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.

References


