

# The Importance of Leverage in GlaxoSmithKline's China Engagement: A Revelatory Case Study

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## Abstract

This article critically examines multinational corporation (MNC)–host government relations in the People's Republic of China (PRC) through the prism of the GlaxoSmithKline (GSK) corruption scandal. The article takes the episode as a revelatory case study and analyses it with a view to uncovering further data on the imperatives that govern interactions between the PRC and MNCs. Drawing upon the theoretical framework provided by David M. Anderson's conception of leverage, the authors attempt to unite the two themes of cultural analysis and commercial analysis. By highlighting both the rising commercial risks for MNCs and considerable legal risks for Chinese and non-Chinese intermediaries working on their behalf, the case itself underlines a gulf between theoretical understanding and practical experience of engagement with China in this sphere. The authors argue that the GSK corruption case demonstrates both that MNC normative bargaining leverage (the use of standards and norms, considered legitimate by both sides, to gain advantage or protect one's position) in the PRC is illusory and that the Chinese party-state possesses far greater negative bargaining leverage (leverage based upon the capacity to make the other side worse off) than typically assumed.

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**Keywords**

People's Republic of China, multinational corporations, GlaxoSmithKline, leverage, multinational corporation–host government relations

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**Introduction**

In September 2014, the British pharmaceutical company GlaxoSmithKline (GSK) was found guilty of bribing Chinese doctors and hospitals to prescribe its medical products and was levied a record-high fine of CNY 3 billion (USD 386 million). The corruption scandal engulfed senior managers at GSK, brought the company's entire China strategy into question, and resulted in the imprisonment of two corporate investigators drafted in to explore an aspect of the case on GSK's behalf.

The authors present the GSK corruption scandal in the People's Republic of China (PRC) as a revelatory case study which constitutes one of the best opportunities in recent years to explore the dynamics of the relationship between China and the West, and multinational corporations – Chinese party-state (MNC-PS) engagement in particular.

While the GSK scandal received wide coverage in the media at the time, its importance to academic understanding of international engagement has not been sufficiently acknowledged in the existing literature. Despite the ubiquity of news reports and punditry generated by the episode, the unique circumstances in which the scandal came to pass have actually generated valuable data on the typically obscured relationship between MNCs and the PS. Given the rising geopolitical weight attached to this relationship, careful analysis of the episode is essential. The authors believe that the episode holds the potential to contribute valuable new understanding to our knowledge of this area of international engagement with the PRC.

The existing academic literature on the GSK scandal is let down by overly reductionist and one-sided analytical frameworks. In this sense, the analysis reflects wider faults in academic commentary on PRC–MNC relations. In response, the authors draw upon David M. Anderson's "leverage" theoretical framework as a device that allows them to consider a range of disparate factors in a broadly compatible equation. In the context of this research article, leverage is understood as "the property of a lever and fulcrum, which uses minimum effort to create a maximum force" (Anderson, 2014a: 5). Considering the case through the prism of Anderson's leverage theoretical framework not only offers, original perspective on this area of engagement with the PRC, but also provides an opportunity to discuss the veracity of the framework based on its adoption in this instance.

At the heart of the research puzzle are imperatives that govern interactions between MNCs and the PS. Building on this foundation, the article considers three related research questions. There is extensive evidence of major MNCs engaging in targeted hiring of family members of senior Chinese officials (Gara, 2016; Raymond and Lynch, 2015). Initial media coverage of the GSK case also suggests the presence of familial

linkages. The first research question thus queries the extent to which familial links reaching into the PS played a role (Chatterjee, 2015). The second question considers precisely why GSK's China engagement went so spectacularly wrong in the case of the bribery scandal that it became engulfed in. Finally, the article seeks to ascertain the efficacy of Anderson's leverage framework in the case of MNC–PS relations. As an adjunct to this final research question, our research seeks to test the veracity of the initial academic investigations into the scandal.

Following the introduction, the study considers the fundamental elements of Anderson's leverage framework. The ensuing section discusses both the existing academic literature covering the GSK scandal and pertinent research into MNC–PS relations. The next section spells out the research approach employed in this article, before a working through of the context of the scandal. An account of the scandal itself is followed by a conclusion that serves as a discussion of the findings and possible future directions of research.

## Leverage as a Framework

Anderson's edited volume *Leveraging: A Political, Economic and Societal Framework* provides the theoretical foundation in which the authors consider the GSK scandal in China. That framework is itself the product of a paper delivered by Anderson (2010) at the Brookings Institution. Each chapter of his book represents an attempt to apply the leverage framework to a particular case or theme, with each academic exploring phenomena from their own area of expertise through the prism of leverage. Anderson explains that the framework he has constructed consists of three related concepts of leveraging, "namely traditional bargaining leverage, what many management theorists called resource leverage, and what many of the economists were calling financial or investment leverage" (Anderson, 2014a: xi). Taking Archimedes' notion of leverage as the central metaphor, (Anderson, 2014a: xi) states that leverage "involves getting maximum effect from exerting a minimum effort, and you have to use some device or tool to create a fulcrum in which the maximum effect is created."

Accepting that leverage in this form has existed since the dawn of our species, Anderson argues that it has only gained such prominence through the onset of the information age. Summarising the factors that have given rise to leveraging as we know it, Anderson (2014b: 13) states:

In an interconnected world where power is diffused and individuals can have the same or more power than organizations or even countries, everyone is forced to leverage resources to attain their goals and also to use leverage in bargaining situations in new ways, especially in connection with resource leverage and investment leverage. In the twenty-first century, leverage is king.

The notion of leverage, as it is understood here, has begun to receive wider attention. Most notably, Salamon (2014) employs it to analyse philanthropy and social investment

in his landmark monograph *Leverage for Good*. In the course of Anderson's edited works, authors apply the framework to a number of situations in political, economic, and social life. As well as subjects as diverse as "the contemporary family" and "regulatory processes," the work includes a chapter by Mulloy (2014), who carefully examines the period of reform and opening up in the PRC. Considered within the leverage framework, he reinterprets the country's development as a careful balance between different types of leverage strategy that depended at various times on the specific weaknesses of Western governmental and non-governmental actors. In this sense the PRC's success securing most favoured nation (MFN) status for trade with the United States is explored as primarily an act of bargaining leverage. On the other hand, knowledge transfer from Western companies that interacted with the PRC was primarily a feat of resource leverage, in this case leveraging its own cheap labour and lax environmental laws (amongst other factors) to attract foreign companies (Mulloy, 2014: 71).

### ***Bargaining Leverage***

Anderson asserts that in its simplest terms, bargaining leverage is the use of a tool in a bargaining situation to extract a concession. He explains, "frequently, one side withholds consent to including one feature of the proposed agreement in order to extract a concession from the other side; in so doing, the side withholding is using the withheld item as leverage in order to extract the concession" (Anderson, 2014b: 5). The author gives the example of a policy negotiation in US Congress where one side withholds its agreement on a modest item in order to block the passage of a law that covers a far greater number of topics.

Drawing on the work of G. Richard Shell, Anderson (2014b) divides up bargaining leverage into three further categories: negative leverage (leverage based upon the capacity to make the other side worse off); positive leverage (a needs-based leverage based on what the other side desires); and normative leverage (the use of standards and norms, considered legitimate by both sides, to gain advantage or protect one's position).

### ***Resource Leverage***

Anderson suggests that though resource leverage overlaps with bargaining leverage, it is not employed as part of an agreement with someone else, but rather is the careful employment of resources themselves to create conditions where one can exert maximum effect from minimum effort. Anderson argues that the internet is an excellent example, citing organisations that have used it to "sell products, or reach voters, or develop relationships, promote the ends of a federal agency, or build a grassroots movement to promote a social end" (Anderson, 2014b: 6). For clarity, Anderson states that the leverage of one's relationships can also be considered a form of resource leverage.

### *Investment Leverage*

The use of the term leverage will be familiar to most within the context of finance, and indeed, the financial crisis has been referred to as a “leverage crisis” (Anderson, 2014b: 7). Within the financial sector there are actually a range of tools that refer to “leveraging,” but, as Anderson suggests, in terms of the wider meaning of leverage as employed here, all of those tools “revolve around the core idea of using funds, typically borrowed, as a fulcrum to achieve a large return on investment” (Anderson, 2014b: 7). At its most basic, investment leverage is when “money that is borrowed is invested in order to produce an outsized return on the investment” (Anderson, 2014b: 5).

Anderson explains that his framework was not constructed as “a theory of causal laws which have predictive power. Instead, we are using broadly causal explanations to explain certain phenomena in the social world” (p. 4). In this sense it lends itself to analysis of the GSK scandal for its explanatory power to explore a revelatory episode where assessment in the media was wide but not deep. Adding to the case for a leverage-based analysis, the framework as described here offers not only a means to bisect typically disparate elements such as the micro and macro features of the case, but also modes of analysis associated with cultural studies and those associated with business studies. Finally, just as Anderson’s theoretical framework would appear to represent a helpful prism through which to interpret the GSK scandal, the contested terrain of MNC–PS relations in which this scandal occurred is an ideal arena in which to test, and if necessary develop, the theory.

### **Emerging Literature on the GSK Scandal and Established Literature on MNC–PS Relations**

This review of existing literature is shaped by both the research focus on the imperatives that govern MNC–PS relations and the widely recognised practice of strategic hiring of individuals with links to governments by MNCs in emerging markets (Congressional Executive Commission on China, 2014; Jordan, 2017; Srere, 2015). It includes consideration of the small body of research into the GSK scandal itself, as well as wider academic discourse on MNC–PS relations. In this sense this research sets out to evaluate and process the events of the GSK scandal using Anderson’s leverage framework to enrich the academic debate on the role of MNCs in the PRC. In addition, this study intends to inspire and to some extent inform further research into the GSK scandal. The salacious details of the case and their wide transmission via global media should not distract from their value. The scandal propelled into the public sphere valuable and typically hidden information about the relationship between MNCs and the Chinese PS at the elite level.

### *The GSK Scandal*

Rather than entertain the notion that the GSK scandal reveals ethically problematic behaviour by all involved, the majority of existing literature on the case itself has treated

it as an instance where an MNC simply has not complied with local law and custom. The authors will demonstrate that this reading is a grave simplification and in fact, the case offers a glimpse of a complex landscape containing many compromised actors. GSK's corporate misconduct is not in doubt and includes mis-selling drugs in the United States for which it received a USD 3 billion fine, as well as other cases in Poland, Romania, the United Arab Emirates, Jordan, Syria, Lebanon, and Iraq (Hirschler, 2015; Neville, 2012). But by offering a superficial analysis of the corporate environment in the PRC and making recommendations that hinge on better MNC cultural understanding of the PRC, the literature thus far remains firmly in the theoretical realm and as a result arrives at conclusions that run counter to the experiences of many practitioners. While there has been some excellent scholarship on the court cases that resulted from the GSK scandal, most prominently the research by Clarke (2015), these studies primarily are concerned with the legal landscape rather than the scandal itself.

A prime example of research that fails to penetrate the complexities of the case is Schipani et al.'s (2015) interpretation of the scandal. Their article argues that "Chinese culture pays close attention to the integrity and morality of people, and commercial corruption plainly conflicts with these basic tenets" (Schipani et al., 2015: 102). The same piece, without irony, includes references to the passing of new anti-corruption laws as well as the prosecution of Bo Xilai as evidence of the rule *of* law. Whilst the study's conclusion that GSK had bribed "hospitals, doctors, officials, and professional medical organizations" seems reasonable, the assertion that the PRC represents a law-abiding, conventional "free market" does not (Schipani et al., 2015: 102). Yang and Jiang, 2015: The study evidences little engagement with the actual conditions on the ground in PRC medical institutions or the compromised nature of regulation in the PRC.

Yang and Jiang (2015) explore the scandal from the point of view of corporate crisis management. Again, the complex interplay of objectives is left untouched and instead the authors explore the role of cultural difference. They argue that "managers [should] pay close attention to the context in which a crisis unfolds and act accordingly in a Chinese way" as well as focusing on "sentiment reason and law" as they are "rooted in age-old Chinese philosophy" (Yang and Jiang, 2015: 200). Whilst the piece accepts that interpretation of the law in the PRC is uneven, the recommendation that foreign MNCs should simply nurture strong governmental ties not only lacks depth but also overlooks that in times of crisis such ties can also endanger the MNC.

Chow (2015) presents a much more convincing study that considers the GSK case in the context of a broader campaign against corruption. Exploring the scandal in a slightly different way than the other research discussed here, Chow draws upon the GSK example as one of many, demonstrating that the anti-corruption campaign has led to less transparency as important cases are settled behind the scenes. He concludes that "in the GSK case [...] the decision to investigate and prosecute was one made at the highest levels of the Communist Party not by the local level Public Security Bureau (PSB) and Procuratorate" (Chow, 2015: 698–699). Chow's discussion of the difference between the law and its implementation on the ground is a welcome addition to the literature, as well as a finding of note for the MNCs that continue to operate in the PRC.

### MNC–PS Interaction

Literature that explores the MNC–PS relationship more broadly is typically divided between research from a cultural perspective and research from a business-legal compliance perspective. This results in a predominance of studies examining the role of *guanxi* in Chinese culture and society and those examining how MNCs can operate in the PRC whilst upholding corporate compliance with the Foreign Corrupt Practice Act (FCPA). The GSK scandal and its spillover into the public arena presents an opportunity to provide insight into the risks posed to foreign MNCs and their representatives, not in the form of FCPA compliance on the Western side but rather risks incurred from entanglement in patron–client networks that permeate the PS.

The scholarship of Yang (2000, 2006) and Osburg (2013a) has produced deep insights into the cultural imperatives that informed the type of relations evidenced in the case of the GSK scandal. Such research provides important context to the case as explored here. Yang convincingly argues that Chinese intermediaries acting on behalf of MNCs are likely to be subordinates in a Chinese political faction. When the family backgrounds of the intermediary are the key reason for their employment by the MNC, such intermediaries qualify as members of “a clique of private and close confidants, called *qinxin*” (Yang, 2000: 96). According to Yang, such *qinxin* (亲信) are physically close to political leaders, able to follow orders without questioning, and exhibit absolute loyalty to them. Yang explains that *qinxin* are expected “(1) to do what the leaders cannot do [...]; (2) to take care of or to fight for their personal and private interests [...]; and (3) to serve as the scapegoat in times of trouble” (Yang, 2000: 97).

The relationship between *qinxin* and political leaders can furthermore be explained in terms of the dynamics of patron–client relationships, which exhibit special characteristics. Political patrons in mainland China generally exert influence by granting favours (*en*, 恩), which make the client indebted to the patron (*enqing*, 恩情). While this creates a strong bond between the patron and client, it also leaves the client in a very dependent position vis-à-vis the patron, who is extending his or her influence. The possibility of losing patronage means that the client may not be able to develop any kind of meaningful independence, thereby leading to conforming behaviour (Yang, 2000: 97).

Osburg (2013a: 80) has pointed out that

deals and alliances between government officials and businessmen [...] should not be read as mechanistic manifestations of a stable, traditional moral economy, but rather as strategic, fragile, ad hoc structures that invoke and draw on a closed, moral frame of distribution as a means of gaining an advantage in China’s economy and that are constantly under threat by other modes of power, distributional logics and personal loyalties.

The fragility of personal relationships is an important caveat to Anderson’s concept of resource leverage. While personal ties to the PS can be an important lever for MNCs, these relationships come with hidden liabilities.

Osburg (2013b) explains that



[the] new rich businessmen I studied operated in tightly-bound social networks governed by an ethos of mutual aid and brotherhood. This ethos benefits the well-connected members of these networks, who have insider access to deals, capital, and opportunities. From the perspective of those on the outside of elite networks, however, these relationships are the basis of corruption [...] (The) moral economy of elite *guanxi* networks results in very immoral consequences for the public good.

Further notable studies into the cultural dynamics exhibited in the GSK case take a more forgiving line. Hooker (2009: 8) argues that the type of nepotism and cronyism associated with emerging markets like the PRC's might actually be considered "highly functional in a Confucian setting." Likewise, he argues that practices considered routine in the West may be considered corrupting elsewhere. His analysis applied to the GSK scandal would suggest a failure of cultural adjustment by the MNC. The authors' analysis of the GSK case will suggest that, in that instance at least, Hooker's argument affords too little agency to the actors involved or the political dimension of the scandal. Earle and Cava (2017) bridge the two prominent strands of analysis, offering a study that combines appreciation of the cultural factors involved in MNC-PS dynamics whilst considering the impact on FCPA compliance. Whilst this combined approach is welcome, they conclude that "business must be able to engage in legitimate relationship building and other promotional activities if we wish to encourage its growth," appealing to US authorities, "surely, the FCPA can permit a middle ground" (Earle and Cava, 2017: 146). Conspicuous in its absence is the analysis of the risks and hidden liabilities for the MNC on the PRC side of this equation.

Like the majority of business studies-focused research touching on MNCs' targeted hiring of PRC officials' family members, Chatterjee's (2015) article is concerned with the legal consequences in terms of the FCPA. Despite discussing J. P. Morgan's "Sons and Daughters Program" of targeted hiring of senior officials' children in the PRC, Chatterjee concludes that FCPA enforcement "exceeds the intended scope and purpose of the legislation [...] [and] will likely impair business relations overseas, allow prosecutors to control the manner and disposition of all FCPA resolutions, and yield undesirable foreign policy consequences" (Chatterjee, 2015: 1804). Chatterjee's key contribution to the academic discourse is her warning against a "criminalization" of the MNC practice of relationship hiring. Such a narrow and legalistic interpretation of MNC engagement in emerging markets, however, runs the danger of giving corporate actors a *carte blanche* in their dealings with host governments.

Leung and Barnes (2020)' study is perhaps the most prominent contribution of recent years to the growing body of literature on MNC-PS relations. In it, they argue that scholars are drawn to different conclusions on PRC business practices depending on whether they employ an emic or etic approach. In this case, emic refers to an approach from the "local" point of view whilst the etic approach is that of the "outside," typically the scholar looking in. Drawing upon an emic approach, they suppose, like Hooker, that what exists in the PRC might be considered an "ethical cronyism." From this standpoint the study goes on to offer advice to MNCs "as they grapple with acquiring insider status



in order to succeed in China” (Leung and Barnes, 2020: 16). In this sense, the article’s conclusion matches with Yang and Jiang’s examination of the GSK scandal itself. Like the majority of literature that touches on the GSK scandal and wider MNC–PS relations, there is little consideration of the risks associated with entanglement in patron–client networks that the GSK case laid bare, an etic perspective which also needs to be taken into account. By employing Anderson’s leverage framework this research article overcomes the limitations of existing scholarship. Honing in on the intended and unintended consequences of targeted hiring in the PRC, the authors reveal dynamics of the MNC–PS relationship from both an emic and etic perspective.

## Research Approach

This study employs a case study approach to explain the GSK corruption scandal. The focus on a single case study is justified as it represents a rare occasion where private machinations of Chinese political elites, foreign investors, and their respective intermediaries become visible and produce both tangible and traceable consequences. In his chapter, “The Single MNC as a Research Site,” Lervik (2011: 231) suggests that single-N case studies involving MNCs are especially justified where “the virtue of the case is not its representativeness, but rather its uniqueness.” The GSK scandal fulfils this criterion, representing a rare example of MNC–PS breakdown in relations played out in a semi-public arena. Thus, the scandal and accompanying court cases represent a closely viewed “critical incident” (Edvardsson, 1992: 17) by which to examine a crucially understudied segment of Sino-international interaction that resides firmly within the PRC’s domestic arena. The nature of the GSK scandal itself meets Schell’s (1992) conditions for suitability of a case study approach as (1) the scandal is a contemporary phenomenon (ruling out a primarily historical study) within its real-life context where the boundaries between context and phenomenon are not clear, and (2) there is little investigator control (ruling out controlled experiment) over the phenomenon that may be queried by way of “how and why research questions.” According to Yin’s (1994: 41) classification, the research is best categorised as a “revelatory case study,” justified by its exploration of “a situation previously inaccessible to scientific investigation” that is only “obscurely understood”, generating material that has the potential to stimulate “much further research, and eventually the development of policy actions.”

The authors construct a “thick description” of events, drawing upon a wide range of sources to provide as clear an account of the scandal as possible through triangulation. This bricolage of sources includes both domestic and international journalistic accounts of the scandal, legal commentary around the resulting court cases, and a degree of network analysis to better illustrate the relationships between the central actors of the saga. The process of multiple source verification lends itself to the research puzzle, allowing the authors to layer several sources when exploring the familial linkages and the fault lines of the scandal. The authors also take the opportunity to explore the applicability of the leverage theoretical framework, noting that Lervik (2011: 235) suggests at single-N MNC case studies “provide a fertile context

[...] for deductive theory testing.” The following section sets out the context in which the GSK scandal took place. This wider context is important as it provides further data by which to ascertain precisely what type of leverage is being employed in this equation and by whom.

## Context of the Case

### *The Allure of Mainland China as an Emerging Market*

Since the earliest interaction between China and the West, merchants have regarded the Asian giant as a market of immense potential (Studwell, 2003). To some extent, mainland China’s opening up and middle-class growth are seen as the realisation of such potential. For many of today’s largest companies, the Chinese market retains its enormous appeal due to the progress made and the capacity for future growth. Gordon (2016) suggests that for CEOs of large MNCs in particular, the Chinese market represents a useful tool as well as an opportunity. Amidst slow growth rates in developed nations, company leaders can cite China as an opportunity that will demand long-term investor patience but has widely acknowledged potential to ultimately deliver growth.

This observation is especially true for the pharmaceutical sector, where China’s ageing population represents an industry-specific growth opportunity. Grimes and Miozzo (2015) cite evidence demonstrating that the rapid growth in numbers of citizens earning between USD 7,000 and USD 27,000 is accompanied by a diagnosis revolution whereby recorded instances of previously undiagnosed or misdiagnosed conditions (such as cancer and hypertension) are on the rise. This potential growth strategy model is reinforced by industry-wide data that show, despite very substantial investment by the world’s largest pharmaceutical companies, that the Chinese market at this stage generates only 1–3 per cent of global revenue (Grimes and Miozzo, 2015: 1881). Substantial research and development (R&D) investment in China by virtually all major pharmaceutical companies also indicates a long-term approach, this coming despite an ineffective regulatory framework and opposition to public–private partnerships that constitute significant obstacles to R&D (Li et al., 2008). Evidently, both pharmaceutical groups and the PRC government possess various types of bargaining leverage when engaging, but this background reveals the strong positive bargaining leverage held by the Chinese side as gatekeeper to a market with immense growth potential.

GSK conforms to the industry-wide focus on China as a key growth market. GSK had invested USD 6.09 billion by 2012 whilst generating only 1.6 per cent of global sales in the country according to figures from 2013 (Grimes and Miozzo, 2015). Head of GSK Consumer Healthcare Business for Asia Pacific, Middle East, and Africa, Zubair Ahmed, declared in 2016 that “the sheer importance of China to our business is humongous,” going on to explain that “China is the single biggest market in the Asia, Middle East & Africa (AMA) region in terms of size, and is certainly the one with the biggest growth potential” (Ding, 2016).

### *China's Pharmaceutical Sector Within the Context of an Underfunded and Under-Regulated Healthcare System*

The exponential growth of the PRC's pharmaceutical sector has been facilitated by a combination of foreign direct investment by MNCs and domestic entrepreneurialism. The Chinese Communist Party facilitated such economic growth with the help of five-year plans (Shambaugh, 2000). More recent policy initiatives such as "Made in China 2025" aim at industrial upgrading and call for the development of biopharmaceuticals (Kennedy, 2015). While China's pharmaceutical sector is typically viewed through the prism of its future growth potential (Li, 2016), one must also consider how it operates within the context of an underfunded and under-regulated Chinese healthcare system, which is beset by corruption and collusion.

According to Rose-Ackerman and Tan's (2014) discussion of the Chinese healthcare system, "corruption appears to be endemic in the procurement of drugs" and, according to former employees of Siemens, "nearly all major multinational healthcare companies bribe in one way or another." The piece goes on: "you cannot even sustain your business if you don't bribe." The prevalence of corrupt practices can in part be explained by the lack of PS funding for the provision of health services in China. Rose-Ackerman and Tan (2014: 7) argue that in the case of China's healthcare system

neither public nor private insurance provides broad coverage. Insurance costs are low, but much spending is out-of-pocket by patients at the time of service. Second, national reforms have pushed financing responsibilities onto local and provincial healthcare institutions and place heavy pressure on them to maintain service levels and budgets.

According to the World Bank, China's overall expenditure for healthcare has only moderately risen from 3.5 per cent of GDP in 1995 to 5.5 per cent of GDP in 2014, which is a higher percentage than Botswana (5.4 per cent) but below Azerbaijan (6 per cent; World Health Organization Data, 2017).

Low levels of funding have encouraged rent-seeking activities in China's healthcare system. Rent-seeking refers to all largely unproductive, expropriate activities, which bring positive return to the individual but not to society (Krueger, 1974). According to Prybyla (2000), "China since 1978 has removed most of the spoiled remains of the central planning system, and has marketed the greater part of the economy's allocative and co-ordinating mechanism." The emerging markets, however, "are quite imperfect, as they are linked by networks of interpersonal connections" (Prybyla, 2000: 213). Chinese scholar, He Qinglian (cited in Osburg, 2013b: 78–79) has pointed out that..."

[...] what has emerged in China is a system for distributing resources that is rooted in neither a purely planned nor a market-based economy. Instead, rent-seeking activities that lead to acquisition of capital and other forms of wealth rely on a highly elaborate and informal network or web of social connections [...] Informal networks of social relationships are, in short, a major resource, in that they are the key mechanism for mobilizing and directing the

flow of wealth, making them not just of great economic significance, but also critical to the way in which China goes about handling its raw materials and other such social resources.

Linking to the case that this study considers, rent-seeking activities in the health sector are particularly visible in the relationship between pharmaceutical companies, hospitals, and doctors. Low levels of PS funding mean that in order to endure, Chinese hospital managers need to increase revenue through the sale of prescribed medication. For this to happen, Chinese doctors need to comply with the hospitals' commercial strategy. Since Chinese doctors are generally underpaid (*The Economist*, 2013), they are easy targets of pharmaceutical companies bribing them to prescribe their branded medication. It is in this context that the GSK scandal took place. Against this backdrop, the director of the Center on China's Transnational Relations at the Hong Kong University of Science and Technology, David Zweig commented on the GSK scandal by stating that "Everyone else pays bribes. Glaxo just got caught" (cited in Bradsher and Buckley, 2014).

## The Scandal

From late 2012, thirteen senior executives at GSK received a series of emails from an account listed simply as "gskwhistleblower," each alleging endemic corrupt practices throughout the Chinese arm of the British pharmaceutical giant (Kaiman and Kollwe, 2014). This proved to be the beginning of a scandal that reshaped the landscape for foreign firms operating in the country. As well as senior GSK officials, China's healthcare regulator began receiving emails alleging that GSK's staff were bribing healthcare professionals (Sawer et al., 2014). In the first two months of 2013, the emails sent to senior GSK executives included highly detailed accusations that suggested insider knowledge of the company's practices in China (Kaiman and Kollwe, 2014). Targeting the company's most senior member of staff in China, Mark Reilly, one email alleged "the firm's sales staff – with the connivance of Mr Reilly – paid doctors and key staff in hospital purchasing departments to sell its products and then attempted to hide the payments" (Sawer et al., 2014). Next, the executives received an email from the same address with a link to an online video. The online video was a sex tape of Mark Reilly with his Chinese girlfriend, apparently filmed secretly at his secure Shanghai apartment (Moore, 2014a).

Vivian Shi had assumed the position of "Head of Government Affairs" for the Chinese office of the British pharmaceutical giant and was hired for her "impeccable connections inside the Communist Party" (Moore, 2014b; Ward, 2015). Shi's father had been a senior cadre in Shanghai's health bureau and is believed to have been a mentor to Meng Jianzhu, the then Politburo member responsible for China's police force and legal system (Mitchel and Ward, 2014; Moore, 2014b). Later, reports in 2014 would indicate that Meng took a personal interest in the GSK scandal (Sheridan, 2014).

The targeted hiring of children of senior officials displayed here correlates broadly with the account of the practice provided above. Whilst the act of hiring these individuals is in effect an investment (one pays a salary to that individual with the hope that it will

lead to a greater return through the benefits the linkage affords), the individual becomes a resource leverage for the MNC in question. By this, we mean their employment at the MNC supposedly generates “conditions where one can exert maximum effect from minimum effort.” In this case that maxim translates to buy-in to a network that intersects with the higher echelons of government via family linkages.

Whilst the targeted hiring of the family of officials by MNCs is common beyond the borders of the PRC, it has a number of idiosyncratic qualities in the case of China. Chen (2015) has argued that the combination of the one-child policy and a lingering “job inheritance policy” at SOEs beyond its official abolition in the late 1980s has led to strong parent–child ties within the labour market. This phenomenon comes amid widespread frustration with the perceived advantages bestowed upon the children of officials, the group being dubbed “second-generation officials” (*guanerdai*, 官二代) in traditional and new media (Lin and de Jong, 2017). The phenomenon of hiring the children of officials, such as Shi, for their family connections is taken to its logical conclusion in the hiring of “princelings,” the children of existing and former high-ranking government officials. In 2013 it was revealed that J. P. Morgan had been running a “Sons and Daughters Program” in China, a strategy to hire the adult children of senior government officials (Earle and Cava, 2017). The investigation into J. P. Morgan’s hiring practice was soon expanded to include five other international banks as evidence grew of coordinated targeting of the so-called princelings (Son, 2013). Within that context, GSK’s own strategy, though morally objectionable, is not an outlier amongst other PRC-active MNCs.

GSK’s own internal investigation into the identity of the whistle-blower notes that Shi had been dismissed in December 2012 for allegedly falsifying her travel expenses (Moore, 2014c). In fact, internal documents suggest that she was fired because she was suspected of being behind the whistle-blower emails alleging corrupt business practices (Barboza, 2016). Regardless of her precise role in the whistle-blower emails, or whether she acted alone, she was ultimately removed from her position. This is an important detail as the objective of this study is not to prove beyond doubt the whistle-blower’s identity, but to extract as much information about the motivation, costs, and benefits of MNC engagement in these networks in the PRC as revealed by the GSK case. Evidently the MNC decided to remove her on their own terms despite knowing of her connections. Regardless of her precise role in terms of the whistle-blower emails, GSK appears to have acted without extensive consideration of the ramifications. This decision was a massive miscalculation in terms of the leverage equation GSK was operating. In pursuing the case, the MNC totally misread the normative bargaining leverage they possessed. Believing that both sides were operating by mutually recognised “standards and norms” suggests a deficit in knowledge about local conditions amongst GSK decision makers.

After concluding that Vivian Shi was almost certainly responsible for the incriminating emails, Reilly sought out corporate investigators to probe her background. Ostensibly this move would generate negative bargaining power, that is, provide the MNC with ability to make Shi worse off in some form. After six weeks of working on the case, Peter Humphrey delivered a thirty-nine-page report to GSK concluding that she was probably

the whistle-blower, noting that she had a “track record of staging similar attacks” (Barboza, 2016). It would later become apparent that there may have been more than one whistle-blower, and some reports even cast doubt over the whistle-blower’s identity (Barboza, 2016). Still, GSK, after hiring Shi for her connections, took the decision to remove her. As relations turned increasingly sour, GSK’s position came under greater pressure. On 28 June 2013, police in Changsha announced that four GSK employees were under investigation for “economic crimes” just as the whistle-blower emails had accused (Mitchel and Ward, 2014). Mark Reilly promptly left the country and by early July the Chinese Ministry of Public Security had announced that it was conducting investigations into the behaviour of GSK (Fox, 2015). On 16 August, the corporate investigators that Reilly hired, Humphrey and his partner Yu Yingzeng, were also arrested at their home and would be held for a full year without charge before being formally accused of “illegally obtaining private information” (Clarke, 2014).

In September, Mark Reilly returned to China and though he was barred from leaving the country, his movement domestically was not restricted. By May 2014, Chinese authorities had announced the discovery of an elaborate network of bribery, reportedly managed by Reilly who was to face trial at Changsha Intermediate People’s Court with four other Chinese GSK executives in September 2014 (Fox, 2015). On 19 September 2014, Reilly and his fellow executives were handed sentences ranging between two and three years, but crucially, all sentences were suspended (Neate and Fletcher, 2014). Mark Reilly was free to leave China and did so almost immediately. GSK was found guilty of “bribing hospitals and doctors, [and] channelling illicit kickbacks through travel agencies and pharmaceutical industry associations” (Bradsher and Buckley, 2014). On the same day, GSK released an apology to the Chinese people on its PRC website and also a statement on its global website that declared “reaching a conclusion in the investigation of our Chinese business is important, but this has been a deeply disappointing matter for GSK.” It went on to confirm that the company had been fined CNY 3 billion but reiterated its commitment to the healthcare sector in China (GlaxoSmithKline, 2014).

Chinese pharmaceutical expert Bing Shaowen stated that GSK had almost certainly made some form of deal with authorities and in fact the GSK statement outlined various commitments to the PRC (Ward et al., 2014). The MNC explained that it would win back trust “by continuing to invest in China and supporting China’s scientific development; and by further development of innovative new medicines and vaccines for diseases prevalent in China [...] greater expansion of production and through price flexibility” (Jerin, 2014). The new strategy on “price flexibility” correlated neatly with PS priorities, both Xi Jinping and Li Keqiang having previously stated that reducing the prices of pharmaceuticals was a “core issue” (Liu, 2013). One year after the scandal, GSK CEO Sir Andrew Witty gave an interview to *Caixin* magazine that further emphasised this shift. He explained to Chinese readers that the company would be embarking on a brand new business model of selling drugs at much lower prices in China (Ren and Liu, 2015).

The legal conclusion of Peter Humphrey and Yu Yingzeng’s ordeal presents further evidence into the fallout when MNC–PS relations break down. In this case, the two individuals involved were somewhat drawn into the case unwittingly having taken on



the assignment offered by GSK. Regardless, the consequences of involvement were severe. This aspect of the case reinforces the impression that the judiciary is commandeered by government when required and demonstrates the type of damage that can be inflicted by the PS in extremis. Such a state of affairs should be central to any equation of leverage that involves the PRC. On 8 August 2014, Humphrey and Yu faced trial at the Shanghai First Intermediate People's Court, accused of illegally acquiring personal information of citizens (Moore, 2014d). According to the trial transcript, the couple argued they were not aware that obtaining information such as household registrations was illegal. Yu's lawyer reminded the court that Chinese law states that companies (rather than private individuals) must traffic over 600 pieces of personal information to be charged with a crime (Moore, 2014d). Humphrey told the court that no pieces of personal information had been sold by the company, prompting the prosecutor to ask Humphrey why his answers had diverged from a written "confession" (Moore, 2014d). Humphrey maintains that he was forced to sign certain statements and minutes under duress; he points out, however, that he made no confession, written or otherwise (Reuters, 2015). The one-day trial concluded and the pair were found guilty. In addition to monetary fines, Humphrey and Yu were handed sentences of two years six months and two years in prison, respectively (Clarke, 2015).

China legal experts were critical of the case, and Hille (2014) argued in the *Financial Times* that even after the trial had taken place, it was unclear whether or not any law had been broken. Leading US expert on Chinese law, Clarke (2015: 6) went further, referring to the precise wording of the law:

It is of course possible that Humphrey and Yu acquired some personal information through illegal means, but neither the transcript nor the judgment show any effort by the prosecution or the court respectively to show that it was in the category of information "acquired during the organ's or entity's performance of duties or provision of services."

Clarke (2015: 20) also demonstrates that the sentences handed out to Humphrey and Yu were "extreme outliers and do not reflect the usual judicial practice in Shanghai." He points out that Humphrey received the most severe sentence for the crime handed out by the court in Shanghai at that point, despite the fact that in some other cases of the same crime, the conditions were considered to have amounted to "serious circumstances" and of those cases, many defendants had been found guilty of obtaining thousands (and in some cases millions) of pieces of personal information (Clarke, 2015).

The legal outcomes of the cases tied to the GSK scandal present further data for consideration. The high likelihood of a hidden deal between authorities and GSK, the ultimately favourable outcome for GSK executives, and the demonstrably harsh treatment of Humphrey and Yu should focus the minds of those engaging with the PS from MNC or MNC intermediary perspective. The experience of the GSK case would suggest that the normative bargaining leverage employed by those engaging with the PRC might not hold under extreme conditions. It also serves as a reminder of the negative bargaining leverage the PS holds over groups operating within the PRC.



## Conclusion

By examining GSK's bribery scandal in the PRC through the prism of Anderson's leverage framework, this study has attempted to shed further light on the partially concealed world of MNC-PS interaction. As far as one can ascertain from a case that contains several black box elements, GSK's mishandling of its employee Vivian Shi played a significant role in the scandal that endangered its presence in the PRC. Acknowledging the dark corners that cannot be reached, the answer to the first research question clearly shows that familial links between MNC and PS appear to have been a live element of the GSK scandal. These parent-child ties within the labour market must be viewed in the wider context of factionalism that permeates elite politics and, by extension, business in the PRC. Given the leverage that such ties afford, it is unsurprising that companies deliberately target children of officials. But by investing in an informal network that represents resource leverage beyond official channels, companies are also subscribing to a new and opaque set of rules. If the companies then fall foul of the new rules of the game of which they are a part, they may be at the mercy of such networks in a legal sense. The GSK case appears to demonstrate that the consequences of such a relationship breakdown can be catastrophic.

Our second research question asks precisely how GSK's engagement with the PS failed in such a spectacular fashion. Indeed, the very reason that this scandal is a case study is because despite tensions, few breakdowns between PRC and MNC result in the release of so much material into the public arena for investigators to examine. Contributing to Anderson's book on leveraging, Dees (2014: 90) states that we overleverage "when the load is too heavy for the tool, so heavy that it causes—or threatens to cause—the mechanism to break." This description neatly sums up GSK's experience, and the language of leverage helps us to form a viable proposal of the dynamics that fostered the scenario. GSK undoubtedly possesses some positive bargaining leverage in this equation, most notably the expertise that PS leaders hope to acquire. The PRC holds a very significant amount of positive bargaining leverage in the form of access to a market with vast capacity for growth. Where GSK appears to display naivety is in its handling of Shi. Regardless of her role in the whistle-blower emails, she was hired for her connections, and so dismissing her the way they did, in a country with few "checks and balances" against abuse of power, was a major risk. In a rule *by* law country (rather than rule *of* law), GSK's normative bargaining leverage is to some extent illusory. When pitted against a familial network that reaches into the heart of the PS, the MNC simply cannot win. Furthermore, the PS's resource leverage and negative bargaining leverage (i.e. penalties they can inflict on GSK) are vast. The scenario in which GSK found itself points towards a serious deficit of local knowledge; however, given how little is known of the negotiations that took place inside the company at the time of the scandal, this assessment is speculative.

This answer to the second research question reveals a central lesson for other MNCs working in the PRC. Commercial organisations that commit the time and capital to build a presence in the PRC typically consider the risks associated with presence in that market. The contribution that this study makes in that sense is to raise the prospect that some

of those risks, such as the one explored in this article, represent hazards that are far outside the conventional Western MNC human resource rationale. When Chinese intermediaries help MNCs establish key relationships with Chinese officials in municipal and provincial government agencies they become active players in informal networks. Such informal networks are shaped by group norms that are beyond the control of a human resource regime of an MNC such as GSK. The MNCs must realise that they are not simply buying into a network by way of tactical hiring, but they are also incurring liability should that network turn against them. Whilst a number of MNCs have evidently benefitted from buy-in to the networks, they are by extension subject to the fallout when network conditions change for the worse. In arenas where such networks operate beyond the scope of legality, the potential for harm is significant.

The final research question considers the efficacy of Anderson's leverage framework to MNC–PS interactions. The authors believe that in the case of the GSK scandal, Anderson's three kinds of leverage help to shed light on the dynamics of the MNC–PS relationship. As discussed above, the majority of emerging literature considering the scandal does so from either a cultural, corporate, or legal standpoint. Given the vexed nature of the landscape investigated, such mono-disciplinary analysis is overly reductive and can lead to erroneous conclusions. Yang and Jiang's (2015) article is a typical example in this sense, opting for a reading of Chinese culture that results in the recommendation that Western MNCs must simply nurture stronger government ties. Such a recommendation disregards both central political elements of the equation and, by extension, the harmful aspects of the familial ties that have become such a significant feature of large Western MNCs operating in the PRC. By offering a durable framework that can accommodate fairly disparate factors under the umbrella of leverage, Anderson's outline, though still requiring further testing, proves a much more useful heuristic tool for analysis.

The authors believe that the framework would benefit from a more developed handling of the different modes of leverage. Whilst Anderson (2014b) toys with the idea of "physical, cognitive and emotional" leverage, this element of the theoretical framework remains unconvincing. Such a limitation could conceivably have knock-on effects on the classification of leverage (e.g. Is a diplomat engaging in transnational negotiations making an emotional appeal or marshalling resource leverage?). In terms of MNC–PS relations, further investigative research should be welcomed. Though there are few examples of MNC–PS breakdowns comparable to the GSK scandal, there are some cases that deserve further study. The Rio Tinto bribery scandal that resulted in the imprisonment of four company executives in Shanghai would be a good place to begin (Branigan, 2010). The authors are convinced that additional case studies of this nature employing the leverage framework will not only enhance our knowledge of MNC–PS interaction but will, in a cumulative fashion, also contribute to further refinements to the theory and practice of leverage.

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## Author Biographies

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