

## ***Curbing Corruption: GlaxoSmithKline in China***

Multinational companies have often turned to China with the prospect of marketing to a large population that has seen major economic growth in recent decades. As China has become an economic leader, the country has also invested more in its fight against corruption, in part to protect its own economy. British pharmaceutical company GlaxoSmithKline (GSK) discovered this firsthand when, in 2014, the company was fined \$489 million by Chinese courts for bribing doctors and hospitals to use its products and bribing government officials and regulators to ease monitoring of GSK.

In 2013, an anonymous whistleblower sent an email to GSK board members, describing fraudulent activities in China. The whistleblower stated that medical professionals were given all-expenses-paid trips under the pretense of attending professional conferences. Also, the drug Lamictal was being heavily promoted as a treatment for bipolar disorder, despite being approved only for treatment of epilepsy by Chinese regulators. The whistleblower explained that GSK “almost killed one patient by illegally marketing its drug Lamictal,” and that “GSK China bought the patient’s silence for \$9,000.” The whistleblower sent e-mails to GSK’s executives and auditor PricewaterhouseCoopers over the course of 17 months.

According to Chinese state media reports on the investigation, GSK apparently bribed government officials, gifting a Shanghai investigator an iPad and treating him to a \$1,200 dinner. Reports also stated that Mark Reilly, the GSK country manager for the Chinese market, was given company funds for the purpose of bribing Beijing officials.

China first opened up its economy to international companies decades ago in order to help develop its own economy. Many multinational corporations avoided scrutiny over bribery as their presence helped establish manufacturing in China and created jobs. As Jerome Cohen, a legal advisor for international companies, explained, “For a long time, there’d been this policy of going easy on foreign enterprises,” adding, “The government didn’t want to cause embarrassment or give outsiders the impression that China is plagued with corruption. But they’re not thinking like that anymore.”

Extensive bribery by pharmaceutical multinationals is also a part of the massive expansion of the healthcare system in China. Benjamin Shobert, Senior Associate for International Health at the National Bureau of Asian Research, explained that new hospitals and infrastructure have been built at a rapid pace. However, according to Shobert, doctors are often overworked and



underpaid and hospital administrators cannot always close the gap between government reimbursements and the growing costs of healthcare. He wrote, “It should be no surprise that both hospital administrators and doctors have found alternative means to make up for the revenue not provided by the government. For administrators, their response has been to incentivize doctors to prescribe unnecessary pharmaceuticals, surgical procedures, and diagnostic evaluations. Doctors have supplemented their paltry incomes through the sort of bribes the GSK scandal has laid bare.”

In addition to the fines faced by GSK, Reilly and four other managers were sentenced to prison time by the Chinese government. The charges against GSK have pointed to changes in other companies’ presence in China. For example, Microsoft faced scrutiny over antitrust allegations, Apple modified its tax practices after facing fines in China, and Disney has partnered more closely with Chinese producers. GSK apologized for its dealings in China and vowed to both reduce and change its interactions with Chinese healthcare professionals. CEO Andrew Witty stated, “We will also continue to invest directly in the country to support the government’s health care reform agenda and long-term plans for economic growth.”

**Concept:** Corruption

**Ethical Insight:**

Corruption is the abuse of power or position for personal gain. It often involves bribery, as in the case of British pharmaceutical company GlaxoSmithKline (GSK) in China. GSK bribed medical professionals to push their drugs into the market. The company also bribed government officials to ease up on regulation. Some patients were made ill because doctors were heavily motivated to prescribe drugs encouraged by GSK, not the drugs that were best for their patients, in order to reap the highest financial rewards for themselves. In an effort to curb corruption, the Chinese government levied large fines against the company and sent several company managers to prison.

**Discussion Questions:**

1. Who is hurt by corruption and how?
2. How was corruption fostered for multinational companies in China? How was corruption later curbed?
3. How did GSK gain influence among government officials and healthcare workers?
4. As Jerome Cohen pointed out, China had a history of “going easy on foreign enterprises” until more recent efforts to curb corruption. If corruption is common in a country or in a particular industry, can it still be unethical? Do you think GSK was simply playing by the

- rules of a corrupt system? Why or why not? To what degree do you think companies have a responsibility to act ethically in a system that enables corruption?
5. Doctors and hospital administrators accepted bribes from GSK in part because they were underpaid. Do you think it was ethically justifiable for them to accept these bribes? Why or why not?
  6. Because of its actions described above, GSK paid \$20 million to settle civil charges under the Foreign Corrupt Practices Act. You can understand why China wishes to minimize bribery on its soil, but why might the U.S., U.K., or other countries that are home to multinational corporations such as GSK think they should be concerned about bribery happening elsewhere in the world?
  7. Who should be responsible for regulating multinational companies operating in foreign markets? Companies, governments, or third-parties? Explain your reasoning and how these efforts might protect against corruption.
  8. Can you think of other examples of corruption you have seen with your own eyes or read about or seen on TV? What happened? What were the consequences of corruption?
  9. GSK's case demonstrates the pitfalls of a number of biases and behaviors including the self-serving bias, ethical fading, and conformity bias. Can you identify other behavioral ethics concepts at work in this case study? Explain and discuss their significance.

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