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Blue Monday

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Anita Li

For Anita Li, senior sales rep for the Chinese subsidiary of Pharmacyl Inc., a multinational pharmaceutical company, it was the start of yet another blue Monday. For the second quarter running she had not achieved her sales quota. As she parked her car in the yard at company headquarters, she thought about how she could explain her failure at the sales review meeting taking place that morning at 10.30. Her supervisor, she knew, would not be pleased by her performance.

It had all seemed so different seven years ago when she had graduated from Jiatong University and got her first job as a sales rep with a local Chinese pharmaceutical company. Then she had been full of ambition, determined to shine at her job and be the company's best salesperson. The first six years had gone very well. Anita had worked hard, become knowledgeable about the Chinese pharmaceutical industry and achieved an excellent sales record. Using this as a springboard, she had applied for other jobs and landed her present post at the newly formed China subsidiary of a multinational pharmaceutical giant. All her colleagues had envied her such a coveted post but for Anita, it was the first step in a successful international career.

Spurred on by her ambition, she had worked even harder in this new company, setting herself the goal of creating a new sales record. But to her immense disappointment, this had not happened. Instead, Anita had found herself failing for the first time in her life as she struggled to survive in a very different company culture. Three times in the last year she had missed her quarterly sales target, and now she had to face her boss and explain her failure. As she locked the car and walked towards the big glass entrance doors of Pharmacyl China, Anita wondered whether she could give him the real reason why she had missed her target, or find some other excuse.

Alex Brown

In the meeting room Alex Brown, Pharmacyl China's sales director and Anita's boss, was waiting for the sales team to gather. This was his first experience of working in China. American by birth, he had been with Pharmacyl for ten years and had worked for the company in several countries. However, after a year working in China he admitted to himself that he found the pharmaceutical system there quite different from any other country, though it was difficult to put his finger on where exactly the difference lay. The main reason, in his view, was because as a foreigner he could not communicate easily and frankly – or did not know how – with his Chinese subordinates. In the past he had always had good communications with his teams, been able to follow exactly what they were doing and motivate them to obtain good results. The excellent sales figures he had achieved in his various foreign postings had enhanced his reputation within Pharmacyl Inc., which was why head office had selected him to be sales director at its first Chinese subsidiary, based in Shanghai.

Alex thought of himself as a very effective leader. His leadership style had produced excellent results in his previous jobs and he saw himself as a person able to listen, to lead and also to be decisive. He knew he was expected to achieve outstanding results in this important market and guide Pharmacyl China to become market leader, overtaking many local competitors. After this, it was expected he would lead Pharmacyl China's expansion into other parts of the country.

He had not doubted he could do this: he had hand picked his sales team and knew that they all had good sales experience with excellent sales records. Of course he knew that operating in China was not necessarily working on a level playing field. The plethora of companies from small to medium to a few larger scale ones showed that competition was fierce. He had heard reports about some fake or uneven quality products. Over a beer he had heard from foreign managers about the lack of transparency or integrity reported in the media. But despite this, given the reputation of Pharmacyl Inc.'s products and the substantial human and financial resources it was putting into the Chinese operation, Alex had expected to overcome these hurdles. He firmly believed that once medical practitioners and patients realized the superiority of Pharmacyl's medicines over competitive products, his sales team would be successful. Yet this had not happened, and he was puzzled as to why.

Take Anita Li, he mused; she had come with excellent references and was a hard working, ambitious girl. Yet her performance was way below her previous best. What exactly was the problem? At today's meeting, Alex was determined to try and find out what was going wrong. He thought that as a good leader, when a problem occurs, he should talk openly about it and get to the real cause of the issue.

Monthly Sales Review Meeting

When everyone was finally gathered, Alex kicked off the meeting: "I know everyone in this room worked very hard last month. But the results are very disappointing; we are still lagging far behind our local competitors. Why? What are they doing so much better than us? You are all good sales people – why are we not hitting our targets?"

Nobody spoke. Sitting in the front row, Anita could no longer keep quiet. She stood up, "We are just as disappointed as you are. We have all worked hard and are frustrated to see our efforts achieving so little. We have our pride and know we should be market leaders. You should understand that we are all trying our best". "I appreciate that, Anita," replied Alex. "I know you are all professionals and very familiar with the industry. I really want to understand why this is happening. Why, for example, are your results here so different from those at your old company, where you were their top sales person?"

Anita thought hard and looked round at her colleagues, who were all gazing at the floor. She made up her mind. She would tell Alex the real reason behind the company's poor performance. "You are right to point out that we have better and greater resources than our local rivals. We have spent a lot of money on seminars,

promotion and other marketing activities. These are all very important. But in China, there is one expense we have not made but that local companies have, and this is in fact the most critical one for success”.

“The local companies”, she continued, “have not spent their money on marketing activities as we have, but on paying kickbacks directly to the doctors who prescribe their products, based on their monthly prescription volume. In the company I worked for before joining Pharmacyl China, my major responsibility was actually to collect the prescription volumes and distribute kickbacks to the doctors on my list. Kickbacks make easier for local companies to leverage their sales without spending the money we do. For example, our competitor’s medicine with the retail price 10 RMB will bring the doctor 0.5 RMB per box in kickbacks. And what do we offer them - free travel to another destination in China once a year. That is obviously not an attractive proposition compared with the extra money they can earn from our competitors. So since the effectiveness other companies’ medicines is almost the same as our products, doctors naturally prescribe rival medicines rather than ours.”

Alex was not totally surprised by Anita’s words. He had already heard rumors about the widespread use of kickbacks in the Chinese pharmaceutical industry, but this was the first time he had been given first hand confirmation directly from one of his subordinates. Anita continued:” I am sure that we can meet our sales targets comfortably if we offer the same kickbacks as our competitors, in fact doctors may even prefer our products as they have an international brand, even though our prices are higher. As long as we pay bigger kickbacks than our rivals.”

Her colleagues nodded in agreement. Alex thought that as an effective leader, he should reflect before reacting. He therefore told everyone to take a break while he thought about what Anita had said. He was in a very awkward predicament. Giving kickbacks was strictly illegal both in the US and under Chinese law. But in practice, local government regulations on the industry were not strictly imposed on either manufacturers or doctors. Alex and his colleagues had heard recently that a senior official of the State Food and Drugs Administration found guilty of bribery and lowering safety standards had been given a heavy sentence. They had all hoped that this indicated the government was about to take a stand to progressively clean up practices in the sales of medicine and medical equipment.

But it would take some time for any change of the industry to take effect. And in the meantime, what was Alex to do? According to Anita, giving kickbacks was currently the only way to do business in China, so without joining the system it was clear Pharmacyl China would not be able to reach its sales targets, and would continue to lag the competition. That would put Alex’s career on the line. Already he was coming under strong pressure from top management back in the US over the poor sales figures during the last six months. On the other hand, such conduct was strictly illegal under US law, and could leave him vulnerable to prosecution and then his career really would be over. Furthermore the company has a clear code of conduct, signed by

all employees, making the prevailing practices in China totally unacceptable.

Trade offs always exist in the real world, and Alex knew that leadership was about taking difficult decisions. Alex was wondering whether it was the moment to accept a custom he could not fight, or to find a creative way around it. The decision was up to him. Should he tell his team to adapt to the local market and authorize them to pay kickbacks (breaking the corporate code of conduct) or stick to the ethical position he and his company had always taken, knowing this would mean a continued loss of market share and ultimately failure.

Questions:

1 – As Alex, what would you do? Why?