

From The Byrds to The Eagles: Lessons in the Evolution of Compliance in China

I regularly read the Lefsetz Letter, which is the best blog I know about the music business. While Bob Lefsetz, its founder and author, has received criticism from industry peers as someone who furthers himself by tearing others down, I find his personal reflection on songs, songwriters, bands and industry insiders that have affected his unique and independent outlook of the music industry to be some of the finest current writing on the music biz. In yesterday's post, he talked about the transition of the folk music scene from Greenwich Village to Los Angeles and then charted it from The Byrds to The Eagles. He linked to a BBC documentary which demonstrated this shift. I thought about this change in music venues and musical tastes whilst thinking about some of the ongoing changes in how non-US and UK companies are responding to requirements of doing business under the Foreign Corrupt Practices Act (FCPA) and UK Bribery Act.

One of the areas which continues to raise a large number of questions for US businesses and for compliance officers is about the ritual of gift giving in Chinese business culture. Many US companies believe that it is important to offer gifts to senior people that are more expensive than those offered to their subordinates. However an ever growing number of Chinese companies now discourage gift giving. An article entitled "*The Myths of Gift Giving*" in the summer edition of the MIT Sloan Management Review explores this question and provides an interesting example from one Chinese company. As Chinese companies engage with partners, globally and locally, their internal and external business practices are evolving. Indeed the article found that many Chinese companies now put greater emphasis on professionalism and building trust and confidence in business capabilities.

The example of the Chinese company China Data Group (CDG) was cited in the article. CDG is a fast-growing company, based in Beijing, with over 4,000 employees, who develops technologies that provide business process outsourcing services for information-intensive industries such as insurance, credit cards and corporate banking. CDG created a goal to become less reliant on *guanxi* relationships. *Guanxi* relationships are often viewed as the basic dynamic in personalized networks of influence and are a central idea in Chinese society. However, in the case of CDG it sought to expand the company's footprint globally by building the company's brand equity, professionalism and service quality. This expansion targeted businesses in Japan and the US. To facilitate this growth strategy, the company began recruiting executives with substantial international experience.

The article reported that to try to overcome the tensions between the traditional norms of *guanxi* and new global expectations that the company set for itself, it initially established two separate sales organizations: the day team and the night team. The day team worked at client sites discussing projects, giving presentations and providing technical support. Their objective was to build confidence in the quality and reliability of CDG services. The night team would invite clients to dinner and other social events with the objective of building personal ties and rapport. In other words, the traditional *guanxi* of connections and relationships.

The company found that internal tensions erupted when CDG secured its largest contract ever from a local Chinese company who had received a cell phone from a senior CDG executive as a gift. Members of the CDG executive team were polarized. Some felt that the vice president in charge of the deal should be promoted. Others argued that such gift giving sullied the company's reputation and the night team should be disbanded. What was the outcome of this internal discussion? The company moved to change its internal business practices so that expensive gift giving is no longer standard practice, and the night team was disbanded. The article ended with the intonation that the CDG "experience highlights how Chinese companies are moving away from some traditional cultural norms as they align their practices with international business standards."

Lefsetz ended his piece with the following, "But this is how it worked back then. We followed the music. Business was one step behind...Music just does not have that power today. The California sound put so much money in the system, everybody wanted in. Hell, that company known as Time Warner? Its main asset is its cable system. You know what paid for that? The profits from the record companies!" The change wrought by the power of money may or may not be a good thing for the music business. Bob Lefsetz does not seem to believe so. However, the fact that Chinese companies are moving towards a more Western approach to business practices and compliance tells me that things are moving in the right direction in the compliance world.

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