

Wine and dine

Alex Newman, a lecturer at Nottingham University Business School in Ningbo, on how Chinese SMEs wine and dine investors to secure financing

Alex Newman is co-author of a study conducted by the University of Nottingham's Globalisation and Economic Policy Centre on Chinese SMEs' creation of social capital through wining and dining. He is also a lecturer in international business at Nottingham University Business School in Ningbo. While Newman has experience working in Japan, today his research interests include social capital and small business financing, the impact of culture on employee behaviour, and training and retention in multinational companies. Newman spoke to EuroBiz about the contexts in which guanxi is important, what it can really achieve, and how important relationships are for foreign firms.



Alex Newman, Nottingham University

Q: Is this phenomenon of businesses being forced to "wine and dine" bankers to get loans more cultural and part of the all-important Chinese concept of *guanxi*? Or is it unethical?

A: I don't think we can say it's unethical, as I think in China building trust through wining and dining is essential in business relationships. It is a way to get to know other economic actors, such as government officials, who can influence decisions. It's also a way to gain access to trade credit and informal financing via business networks. A lot of the short-term financing in China is trade credit. [For example], you don't pay your suppliers for three months and your customers pay you very quickly, then you use the money coming in from your customers to pay your suppliers. There's also a lot of informal financing in China; you borrow money from family and friends. Firms that invest more in entertainment have

greater access to debt, what kind of debt that is we can't tell, but some of it is formal and some of it is informal. A lot of [informal lending] went on in China, especially during the very early stages of opening up. There's a greater proportion of bank financing in China these days, but compared to state-owned enterprises, it's relatively difficult for private enterprises to gain access to bank loans. One way they can do so is by developing trust, getting to know key people, such as government or bank officials.

Q: Do you think the need to wine and dine key players has been exacerbated by discrimination against smaller, private firms in recent years?

A: I talked to some bank officials in China in 2008, and at that time there was a move to reduce credit on offer to enterprises, so I think *guanxi*-building helped SMEs gain access to bank financing at that time. In 2009,

because of the financial crisis, the government increased the supply of credit to banks for lending purposes. As a result there is greater credit on offer to SMEs today and less of a need to wine and dine as in the early part of the 2000s, when our study was conducted. The government has pushed money toward the state-owned banks and encouraged them to lend more money to SMEs because the government is afraid of what would happen in the case of a financial crisis. I did some interviews and surveys with businesses in 2009 and one businessman mentioned that access to bank financing has improved as a result of the financial crisis. But we also noticed that banks distinguish between the performances of the enterprises. It's not just *guanxi* – performance criteria are also important to state-owned banks.

Q: So how important is wining and dining to securing financing?

A: You need to prove you can pay the loan back, but you also need to get your foot in the door. You need to wine and dine, use your relationships with officials, make your company known to the banks. So it's still important, but the banks do stress performance. If you lend to a company that goes out of business, you'll get in trouble as a bank official. There are very strict lending criteria, but it's not as [discriminatory] as it was in the past and more companies now have access to credit. And often when a bank is deciding to lend money, they will use their networks to ask around about how much to trust a company.

Q: What was the research process like for you?

A: For the study, we used a big data set from the National Bureau of Statistics, collected on a regional basis. I've done some survey and interview work on a smaller sample of around 150 business people, and again in that study we don't actually have the actual financial data, we just talked to the people and they says their relationship to the government wasn't as important as in the past. It's very difficult to get this information. The businesses aren't willing to talk about their relationships with the banks or the government officials. You're never going to get perfect information with such a large amount of data, but I think what we found is quite interesting: Entertainment expenditure only affects short-term debt, such as trade credit or short-term bank loans. Entertaining is all-important in how it allows companies to access financing via these different channels, but we don't

have specific information on which channels.

Q: Don't firms in the EU or the US spend money on entertaining business associates?

A: I think we see that in all countries, but it's become more difficult to wine and dine and offer gifts to customers or politicians in the West. You have to declare things. You've seen that in Germany [in 2005], with Volkswagen spending millions on entertaining government officials and union leaders. I think it happens in all cultures, just to a greater extent in China because eating and drinking, wining and dining are more central to the culture. Here, the distinction between the "in group" and the "out group" is bigger. You need to trust people, and you need to have *guanxi*. Trust comes before business here, whereas in the West business leads to trust.

Q: What does this mean for foreign firms? How necessary is *guanxi* for foreign firms doing business here?

A: I think foreign firms have to really understand *guanxi* in order to do well in China, especially if they're selling to the Chinese. If you want to access the Chinese market, to distribute in China, *guanxi* and relationships are very important. You have to work very hard to build relationships with governments and other companies. There's a big dilemma between what is normal practice in your own country and what is expected here. The Chinese government is trying to crack down on this kind of illegal gift giving, but a lot of companies who come to China are in a dilemma about what is okay: Should they abide by what is expected back home or do what is expected here? Sometimes, they might lose business opportunities because they aren't willing to engage in these practices. ■

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