

# Analysis on Enterprises' Credit Behavior Choices in Different Credit Culture Environments

Yuanyuan Ma<sup>1</sup>

<sup>1</sup> School of Economics, Shandong Jiaotong University, Jinan, China

<sup>1</sup>Correspondence: Yuanyuan Ma, 202, Unit 4, Building 4, Qilu Garden, Dikou Road, Tianqiao District, Jinan, Shandong, China. Tel: 86-138-5314-6989. E-mail: myy\_09@163.com

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## Abstract

Enterprises have been playing a more and more important role with Chinese economy growing and dynamic development in twentieth-century. In a credit economy, credit loss of businesses could bring chaos, even the credit crisis, to the whole market. Based on the construction of credit culture, the paper investigates that environment of credit cultural affects enterprises' credit behavior choices differently through analyzing three levels (macro level, middle level, and micro level) of credit culture. And then, we conclude that businesses have different credit behavior choices in different cultural environments. Firstly, enterprises are constrained softly and encouraged positively in the macro credit culture environment. Secondly, medium credit cultural environment has comparative advantages in saving transaction costs. At last, the social capital plays the important role in micro-credit cultural environment. And then, we conclude that businesses have different credit behavior choices in different cultural environments. According to the impact of different levels of credit culture we will build a sound credit system.

**Keywords:** Culture of credit, Credit behavior choices, Soft constraints

## 1. Introduction

People have different attitudes towards connotation and denotation of credit culture. Generally, there are two main academic views about credit culture. One defines credit culture from the perspective of economics. Credit culture, which is participated in all economic activities, is endogenous outcome of economic activity. Meanwhile, there is counteractive power on the rule of conducts and value system of the economic activities; another point of view of credit culture, which regarded as a kind of soft constraint, is obtained from the study of culturology and sociology. Credit culture is a moral principle and moral consciousness, and this intangible constraint has infiltrated into every aspect of social life.

The lack of credit constraint and the inadequate regulations have hindered enterprises' development--a common problem in Chinese society. Many enterprises, especially the micro and small enterprises, do not seriously care about the businesses integrity. The emergence of the credit problems increases the transaction costs, which is disadvantageous for enterprises to enlarge transactions and to expand market.

Statistics showed that in 2012, due to the lack of credit, direct and indirect economic losses of Chinese enterprises summed up to RMB 585.5 billion, which was equivalent to 37% of Chinese fiscal revenue. In China the direct economic losses caused by tax evasion was about RMB 180 billion, the losses from contract fraud up to RMB 5.5 billion and the losses due to poor quality up to RMB 6.5 billion. Moreover, the lack of credit will increase transaction costs between enterprises, such as increasing financial cost owing to cash transaction, losses result from corruption. Credit defect has a severe impact on economy.

As a main part related to credit, the enterprises in the social environment exercise a great influence on each other. At the same time, they affected by hard constraints such as the system, technology, laws and regulations, and the soft constraints of culture as well. A successful credit system, a series of feasible credit rules, and construction of credit

culture are indispensable to an optimal credit environment. Credit culture will affect the credit principals' behavior choice. Further studies on credit culture will be summarized in the following.

## 2. Literature review

Most economists think that the prestige or credit is the most important moral foundation of a market economy. Otherwise, only few economists presented cultural factors in the traditional economic theory analysis. In 1950', with the rise of the Japanese economy, economists began to pay more attention to cultural impacts on the economy. For example, the American economist J. Abrajaron highlighted the cultural factors when studied Japanese companies. Until the end of the last century, credit problems became a hot topic of research once again. Scholars began to explain credit in the angle of culture. "Trust: social virtue and creating prosperity", written by Japanese American scholar Francis Fukuyama is the most representative research book of this period .

Comparing other countries, there is a lag in the study on the theory of enterprise credit in China. In the process of transition from planned economy to market economy, more and more researchers emerge continuous attention and research in enterprise credit culture. Weiyang Zhang (2006) argued that the property right was the cause of enterprises' dishonest acts. Yefu Zheng (2010) focused on analysis of the human biological roots, the psychological root of trusting behavior and cultural basis, which are from the perspective of trust, the relations and customs. Li Keqiang, Premier of the State Council, chaired a state council executive meeting on January 15, 2014. He urged to speed up the construction of social credit system and build up honest social environment. In addition, it was emphasized that all of the industrial areas should be placed in credit system, including food and drug safety, social security and finance field. Through continuous efforts, the benefit of keeping one's promise and the cost of breaking his promise will be realized.

Although many scholars agree that credit belongs to the field of economics, but the comprehensive study about enterprise credit culture construction is mainly from the perspective of sociology and ethics, but not economics. By studying specific credit cultural environmental construction, the paper suggested improving the level of enterprise credit and constraining the anomie behavior to perfect the social credit system. The impacts on corporates are different with different levels of credit cultural environment. Strengthening credit awareness, we take advantage of the three constraint forces not only to reduce transaction costs and waste of social wealth, but to alleviate effectively the financing difficulties of SMEs problems in China.

## 3. There being different hierarchies of credit culture environment according to the scopes

As a kind of soft environment, credit culture act as "soft constraints" for credit behavior choices of all enterprises. The credit function can be expressed as the following formula.

$$C = f(h, m, p) \quad (1)$$

C refers to credit;

h refers to integrity of credit body;

m refers to the performance capability;

p refers to external constraints.

According to the formula, the following three factors will affect the credit subject's behavior choice, such as credit body integrity, the performance capability and the strength of the external constraints. It really does confront enterprises with a certain social environment. To a great extent, credit cultural environment affects and even determines the businesses' behavior choices.

It's well known to us that the credit environment is a social factor that affects the human's psychology and behavior, and has influences on behavior choices in the social environment. The following four elements constitute social credit environment: the credit behavior of others, the social credit system, credit system environment and credit cultural environment.

As a kind of feasible power, the credit culture environment originates mainly from the traditional culture and values shaped from mainstream ideology and internalizing behavior constraints. Compared with the social credit system and the credit system environment, as is known for hard constraints, there are still important gaps. Credit culture environment has a continuous impact on the businesses' credit concept, which makes businesses internalize constrain in heart. Accordingly, culture becomes an effective endogenous restraint to improve the enterprise credit environment. There are the following three levels of credit culture environments.

### *2.1 Macroscopical credit culture environment*

At the macro level of credit culture environment, we promote the social mainstream culture. This is a unique cultural environment difference to distinguish one country's residents from others. In the formal education system, there are various forms, such as values, ethics and morality, to instill in the culture of the country's citizens constantly and propagate the culture.

### *2.2 Middle-level credit culture environment*

Middle-level credit cultural environment has obvious differences from others. In comparison with other credit culture groups, the members of the middle-level group interact more frequently than other cultural group members. Accordingly, group members often choose concentrated living style to reduce interaction costs. Credit cultural environment of the middle level is the so-called "subculture group".

The members in the middle-level cultural environment have more similar mental models and cognitive structure than those of other credit culture environment. They also have the uniform way of life, ideas and informal norms. In the same situation, the group members are more easily to communicate with each other, and are more likely to trust each other. However, trading in reality may not be extended unlimitedly due to the transaction costs, which has played a vital role in regional trade expansion. On the premise of trust, we confirm that middle-level of credit culture environment affects behavior selection. At the same time, the same way of life, common sense and informal norms may be the conditions.

### *2.3 The microcosmic credit cultural environment*

Similar with middle level credit cultural environment, the microcosmic level of credit culture is still on the basis of the member interaction. However, the scope of microcosmic levels involved is much smaller, and the connection between the members is much closer. We will discuss the microcosmic credit cultural environment in another section below, that is, the analytical framework of social capital.

## **3. Every level of credit culture environment induces different influences to the small and micro enterprises' credit behavior choice**

### *3.1 Information symmetry is essential for the enterprises' behavior constraints in macro credit culture environment*

The macroscopical cultural environment is not only the most basic constraint environment, but most loosely one for the enterprises. Because of the same social evaluation standard and different cognitions of social requirements, enterprises, especially those small and micro ones in this level, are significant differences in self-filtering mechanisms. On the one hand, if enterprises behavior choice is consistent with social regulations, they will regard the degree of recognition as important. Correspondingly, the enterprises will restrain spontaneously opportunism behaviors of themselves. On the other hand, they are prone to break promises with existence of inconsistent. In comparison with other levels, the macro-level of credit culture environment highlights the highest asymmetry of all. Due to information asymmetry, breaking faith will reduce the psychological cost, which makes the subjects avoid negative incentive punishment. Thus, businesses' good faith is difficult to build in the next credit behavior choice in the long run.

Therefore, credit behavior choices in macro credit culture environment will complete under the internalized behavior norms. As long as the following conditions are satisfied, "soft constraints" could encourage credit subjects to keep faith. These qualifications are the following: breaking faith conveying to the public at low cost, public condemnation feeding back to dishonesty subject timely, and the constructions of credit culture and regulation. If there is a clear legal bottom line about the behaviors which are against the social values, the enterprises will be seriously punished by law when they touching the bottom line. In turn, credit subjects can be restrained if the faith is broken, which will improve credit culture environment.

The more effectiveness of the "soft constraints", in the meantime, the cost of system operation will be lower, in order to ensure high levels of efficiency. Regardless of individual differences, how to choose credit behavior for the enterprises in macro credit culture environment depends on the social credit culture and the construction of a credit system to a large extent.

Many companies have benefited from the corporate credit culture construction. Galanz, as a township feather products factory founded in 1978, became the world's largest microwave oven manufacturer. What makes Galanz get such a rapid development just from an unknown small township enterprises? Both on the business philosophy and domestic talent management principle, "loyal and credit" are placed in the first place. Thus, the imperceptible influences from social and cultural environment on business has a positive incentive.

### *3.2 Middle-level credit culture environment for enterprises' constraints of credit behavior has a comparative advantage*

Middle-level credit cultural environment is the most crucial for enterprises credit behavior choice. In the meantime, the circumstance plays a most important role in the expansion of the credit order.

Compared with the other two cultural environments, transaction costs can be reduced in middle-level credit culture environment, which enjoys the highlighted advantages. Deals are always occurring in certain scope. Due to the same characteristics in the "subculture" area, middle-level credit cultural environment can play a positive role on stable expectations, effective communication and punishing dishonest behaviors.

The major reason is that social evaluation criterion in middle-level credit cultural environment is more effective than the one in the macro environment. In this level, as the main economic subjects in middle-level credit culture environment, credit information of enterprises is generally public information, which could reduce the level of credit asymmetry. The enterprise in this level will strive to maintain the best credit history. At the same time, expansion of trading comes with costs, so there is a strong dependency upon each other in certain region to lower the trading cost. If enterprises refused to make reasonable deals, the punishment caused by the deals will become a significant threat. Thus, enterprises have the motivation to engage in honest deals. Therefore, middle-level of credit culture has a comparative advantage in terms of transaction cost saving.

Of course, middle-level credit culture environment can't play its positive role without the necessary conditions, such as, capacity of the local system fitting with culture and marketization.

National formal system and macro-level credit cultural environment are similar for the enterprises located in different regions. In contrast, there are differences in the middle-level credit environment and the local official institution. If the local institution can be matched with credit culture environment perfectly, not only the effectiveness of the local system can be improved, but expansion of the trade would be promoted. It is advantageous for consolidating the position of middle-level credit culture environment. On the contrary, if there is no match, it could shrink their trade expansion again when trade within the region expanded to a certain size requires a formal system of governance.

On the other hand, the higher the level of economic development and the better the degree of market, the more frequently trading is. A previous study showed when it was assumed the degree of regional credit is 10%, an increase of 1% of the marketization would increase the degree of regional credit to 15%. The marketization has an obviously positive correlation with the credit environment.

### *3.3 Constraints come from micro-level credit culture environment to enterprise's credit behavior*

Micro-level credit culture is defined as a kind of "circle-culture". The constraints come mainly from internal "circle". The correlation between them will affect the effectiveness of a credit culture environment. The more frequently they contract, the more effective it becomes. From the analysis on enterprises credit behavior influence in micro-level credit culture environment, we can combine with a new analysis tool--social capital to verify the credit extension, as has been proved by many experienced facts.

Via the social capital (that is, informal enforcement mechanism), the contract of the enterprises can be smoothly performed without formal implementation mechanism (even so is in transition countries or regions). The main reason is that the social capital has solved the problem of mutual distrust between the traders to fulfill the contract. In Krishna & Uphoff's views, social capital can be divided into structural type and cognitive one. Through rules, procedures and precedents, the former set up social networks and determines the social role to promote information sharing and act collectively. The latter refers to the shared norms, values, trust, attitudes and beliefs. In modern credit environment, more and more contracts depend on the formal enforcement mechanism (such as the legal system). Due to the imperfect mechanism and implementation costs, the formal enforcement mechanism cannot cover all the areas of economic life, especially for transition countries or areas.

Rhett Eve (2003) argued that trust relationship began with the relationship of individual enterprises in the market, if the society was lack of trust. And then, trust between business members develops into individual trust which means single side trust.

According to the classification of social capital, structural social capital encourages enterprises to pursue long-term interests. At the same time, the short-term interests of credit subjects are constrained to curb self-interest to evolve into opportunistic ideas. It is effective to reduce dishonest. By stimulating enterprises altruistic tendency, cognitive social capital has the effect of strengthening the integrity consciousness. Therefore, the role of social capital is

beneficial for enterprises to keep an appointment and strengthen credit. Due to the incorporation of structural social capital and social credit together with the union of cognitive social capital and the cultural angle of view, social capital can play a role in the modern credit cultural environment, as is shown in the figure1.

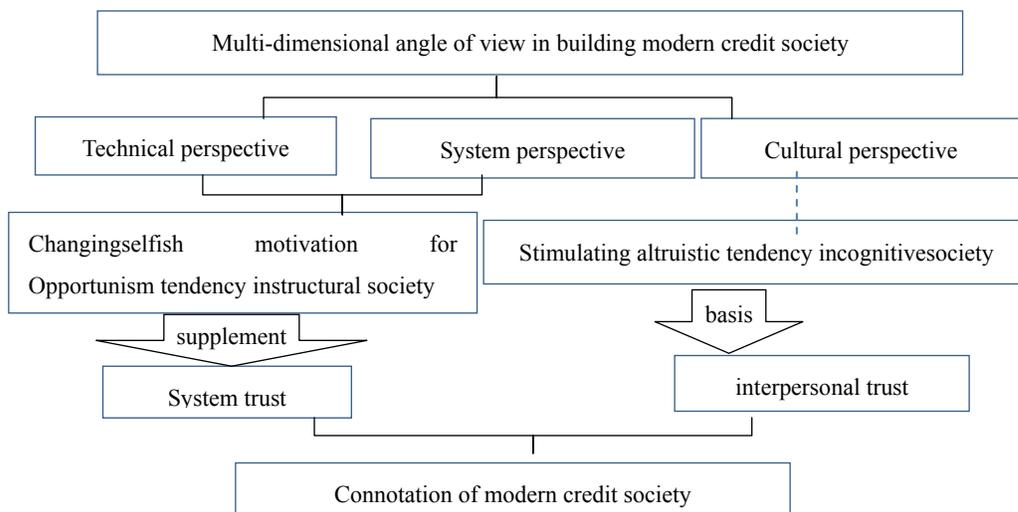


Figure 1. the Function of Society Capital in Modern Credit Environment

#### 4. Conclusion

Modern market economy is based on contract-based credit economy. Capital is the basis of the credit, at the same time, the credit can bring new capital. Enterprises form a community of interest relations and mutual trust in market exchange. As long as the market exchange is long-term and active, credit is the best strategy and the best guarantee to achieve self-interest for market players.

As a kind of "soft regulation", credit cultural environment does not have an enough strong restraint for the enterprises in China to regulate their behaviors completely. The invisible characteristic constrains the subjects' behavior softly. If the credit as inner support of economic transactions and fundamental beliefs, the enterprises' transaction cost will be saved greatly, and wasting of social wealth will be avoided as well.

The credit cultural environment has sustained effects on the behavior ideas of enterprises, making credit within the body of the heart, which makes credit subjects internalization from heart. As effective endogenous constraints, there are credit behavior constraint forms in different levels of credit culture environment for enterprise. Firstly, enterprises are necessarily constrained softly and encouraged positively in the macro credit culture environment. Secondly, medium credit cultural environment has comparative advantage in saving transaction costs. At last, the social capital plays the important role in micro-credit cultural environment.

A complete social credit system is composed of a series of essential parts. These different levels of credit cultural environment constitute the holy land of market economy. A sound credit system will be built depending on the impact of different levels of credit culture. Credit defect can be avoided maximally. Only optimize the credit environment, can the market operate normally.

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