



How to manage client entertainment in China



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Abstract Client entertainment is a popular business practice that Chinese managers often use to facilitate business relationships and promote sales. Multinational enterprises (MNEs) operating in China, however, have been frequently involved in corruption allegations caused by client entertainment. This article explains client entertainment's purpose, prevalence, and persistence in China and identifies the pitfalls that foreign firms often encounter when they practice client entertainment in that country. Based on field observations and first-hand experience as well as research on public and survey data, this article also provides eight prescriptive guidelines that can potentially help firms manage client entertainment more efficiently and effectively without causing ethical and legal problems.

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1. Client entertainment: A popular practice worldwide

Client entertainment activities—such as eating, drinking, sightseeing, exchanging gifts, and sporting with clients—are a popular business practice worldwide. While some studies (e.g., [Steidlmeier, 1999](#)) have considered client entertainment corruptive, few firms have totally banned it. Entertainment is widely used by business managers as an important facilitator in building business relationships and promoting sales (see [Beltramini, 2002](#)).

Client entertainment's role in facilitating business relationships in modern societies can be traced

back to antiquity. Throughout human history, eating, drinking, and various forms of entertainment activities have served a broader role in social and economic interactions ([Kipnis, 1996](#)). For example, Pacific Islanders, Northwestern American Indians, and Asian Eskimos practiced a ritual called potlatch—a ceremony of banqueting, dancing, and gift exchange—to facilitate transactions and exchange favors. Similarly, Mayans used banquets as an occasion for resolving disputes, exchanging gifts, arranging transactions, and nurturing social relations ([LeCount, 2001](#); [Mauss, 1925/1990](#)).

In industrialized societies, although most business transactions are guided by market rules and legal restraints, entertainment is still prevalent in facilitating business relationships. Entertainment practices play an enabling role by strengthening trust, promoting reciprocal behavior, and building

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long-term relationships, all three of which are favorable for developing high-quality business relationships (see [Carrier, 1991](#)).

2. Client entertainment in China: The lubricant for smooth business

Client entertainment is observable in all societies, but is particularly rampant in China. The well-known Chinese business practice of *guanxi* actually represents the business networks and connections that are often built through entertainment activities (see [Yang, 1994](#)). Customarily, Chinese managers entertain their business partners at such venues as luxurious restaurants, golf courses, karaoke booths, dance halls, hiking trails, bowling centers, sauna rooms, sport arenas and stadiums, tea houses, skiing resorts, hotels, hair salons, massage and foot-care parlors, et cetera. Data from the 2007 annual reports of over 220 companies listed on the [Shanghai Stock Exchange \(2009\)](#) indicate that these companies spent an average of over 10% of their annual profits on entertainment-related activities, a figure that signifies the prevalence of client entertainment in China.

Different from the strict regulations on client entertainment in some countries, the Chinese government recognizes entertainment expenses as a legitimate accounting item that must be recorded in a firm's operational costs. According to Chinese Accounting Standards—China's Generally Accepted Accounting Principles (GAAP)—firms must report entertainment expenses in their financial statements; failing to do so leads to severe penalties by the taxation authorities. Chinese firms can claim tax credit on 60% of actual entertainment expenses or an amount that accounts for up to 0.5% of their annual sales, whichever is lower ([State Administration of Taxation, 2012](#)). In comparison, entertainment practices are strictly regulated in the United States, where companies can only deduct a maximum of \$25 for business gifts given to a client during each tax year, and only 50% of all qualified entertainment expenses can be claimed for tax credit ([Internal Revenue Service, 2015](#)).

Under its current anti-graft campaign, the Chinese government has set up strict rules to discipline officials and managers of state-owned enterprises (SOEs) regarding lavish entertainment. But entertainment spending is still skyrocketing at SOEs. For instance, the state-owned insurance company China Life reported an annual spending of 1.4 billion yuan (\$220 million) on client entertainment in its 2013 financial statement. In the same year, another SOE,

China Railway Construction Corporation, spent 837 million yuan (\$130 million) on client entertainment. Both numbers exceed 11% of the annual net profits of those firms ([Xinhua News Agency, 2013](#)).

Client entertainment plays such a critical role in Chinese business that it may potentially affect the country's overall economic growth. Anecdotal evidence of such an impact is reported, with some analysts alleging that the Chinese government's current austerity and anticorruption campaign—which has prohibited normal business entertainment—is behind the country's slowed economic growth ([Spegele, 2014](#)).

3. Foreign firms in China: Pitfalls of client entertainment

While most local Chinese firms can practice client entertainment deftly to initiate, sustain, and consolidate business relationships, weave subtle business networks, and promote sales, some multinational enterprises (MNEs) operating in China have resorted to outright corruption in practicing client entertainment. In recent years, excessive entertainment has been the major culprit behind ethical dilemmas and even criminal charges experienced by multinational giants operating in China.

Foreign firms began to enter the Chinese market in the 1980s, soon after the country adopted its Open-Door Policy to reform the foundering economic system. But client entertainment-related corruption charges against foreign firms only started to surface after 2001, the year that marked China's joining the World Trade Organization (WTO). Since then, outsiders have acquired increasing access to more detailed market information in China, thanks to the WTO's rules of transparency regarding market conditions and firm behaviors in member countries ([Evenett & Hoekman, 2005](#)). In the meantime, the home countries of some MNEs also began to regulate those firms' activities in China. For instance, in October 2007, a German court fined Siemens 201 million euros (\$284 million) over allegations that its employees used illegal activities such as entertainment to secure contracts in the international market. The company was found guilty of paying \$14 million—in the forms of travel, entertainment, and cash—to Chinese medical professionals in attempt to sell Siemens medical equipment in China, thereby pulling the Chinese market into the German lawsuit ([Schubert & Miller, 2008](#)).

The most strict and extensive regulations governing entertainment-related bribery practices were legislated by the United States via enactment of

its Foreign Corrupt Practices Act (FCPA). Under FCPA rules, firms are subject to legal penalties if they bribe foreign officials as part of international operations (McCubbins, 2001). In the aforementioned Siemens case, the company also paid \$800 million in criminal and civil penalties to the U.S. government for failing to comply with the FCPA, as Siemens was listed on the New York Stock Exchange when those illegal activities were committed (O'Reilly & Matussek, 2008).

The FCPA is particularly dangerous to U.S. firms in China for two reasons. First, the Chinese gift economy is rife with gifting activities like client entertainment, which is by and large considered bribery according to U.S. standards. Second, most Chinese firms and organizations (e.g., hospitals) are state-owned, so their managers are treated as foreign officials by FCPA definition. The U.S. Securities and Exchange Commission's FCPA enforcement actions have affected many large U.S.-based multinational corporations that conduct business in China, including IBM, Mead Johnson, Bristol-Myers Squibb, Lucent Technologies, and Eli Lilly (Securities & Exchange Commission, 2015). On top of huge fines levied against these firms, criminal charges were extended to senior executives (Shearman & Sterling LLP, 2015). Table 1 provides a summary of major entertainment-related cases against MNEs in China since 2010.

Concurrent with China's economic integration into the global market, the Chinese government adopted foreign regulatory practices to charge firms for client entertainment-related corruption allegations. The largest of such penalties to date—over 3 billion yuan (\$490 million)—was imposed on GlaxoSmithKline by Chinese regulators in September 2014 over alleged misconduct of bribery to medics in the form of travel, entertainment, sex favors, and cash (Jack, 2013).

In court records of all cases, entertainment was cited as a common count in building criminal charges. As outsiders, we don't know the specifics of how each firm mishandled client entertainment, resulting in the corruption allegations. We do know, however, that their initial motivation was to adopt this local business practice in order to promote sales. We also know that a general pitfall for all firms involved was a lack of local market knowledge: They tried to use the business principles developed in Western market economies to manage a business practice (i.e., client entertainment) in the Chinese gift economy (see Yang, 2002).

Based on field observations and first-hand experience as well as research on public and survey data, this article provides eight best-practice recommendations that could help foreign firms efficiently and

effectively manage client entertainment in China, and avoid pitfalls that may drag them into ethical and legal troubles.

4. Eight principles

It is true that client entertainment can help firms build and sustain business relationships, and promote sales. But not all firms have to practice client entertainment in all situations at the same level of intensity; and not all types of entertainment activities are equally effective. Firms can make better decisions regarding where, when, how, on whom, and in what format to use client entertainment in order to achieve desired results without causing legal and ethical problems. In the following sections, we outline eight general principles.

4.1. Principle 1: Get started by setting up an entertainment expense account

As noted earlier, the Chinese GAAP requires firms to record entertainment expenses as a mandatory accounting item for operational costs; failure to do so subjects the firm to penalties from taxation authorities. A common malpractice that has been punished by regulators entails hiding or disguising entertainment expenses as conference fees, travel expenses, and promotional costs. To avoid this quagmire, simply set up an entertainment expense account. It's totally legal.

Once an account is set up, a budget is needed. The current Chinese tax law allows for tax deductibles on entertainment expenses up to 0.5% of a firm's total annual sales or 60% of actual entertainment expenses, whichever is lower. Allocate a reasonable budget for entertainment expenses around that limit, taking into consideration how much the firm needs to spend on entertainment, based on the factors given in Principle 3 (i.e., Use Entertainment Only When Needed).

Outline detailed spending protocols, such as the annual or monthly spending limits for each manager at different ranks and the type of entertainment and spending limit for guests of different types. Table 2 provides an example of some spending protocols, with an excerpt from an actual Chinese firm's budgeting policies on entertainment expenses.

A common issue in managing entertainment expenses is that some managers may embezzle the company's money with fake or tampered receipts, or serve private purposes in the name of entertaining clients (see Cai, Fang, & Xu, 2011). Severe penalties against such behaviors should be clearly specified in the spending protocols.

Table 1. SEC's FCPA enforcement: Major entertainment-related cases in China since 2010*

Firm	Year	Industry	Entertainment	Penalties
Bristol-Myers Squibb	2015	Pharmaceutical	<ul style="list-style-type: none"> ● Meals ● Travel ● Entertainment ● Sponsorship of events ● Jewelry, cash, and other gifts 	\$14M
Mead Johnson Nutrition	2015	Health food	<ul style="list-style-type: none"> ● Improper payments 	\$12M
Avon	2014	Cosmetics	<ul style="list-style-type: none"> ● Tickets & corporate boxes at the China Open tennis tournament ● Meals ● Entertainment ● Travel ● Sponsorship of cultural events ● Gifts of art, Louis Vuitton merchandise, Gucci bags, Tiffany pens, and cash 	\$135M
Bruker Corporation	2014	Scientific instruments	<ul style="list-style-type: none"> ● Travel ● Improper payments 	\$2.4M
Diebold	2013	ATMs and bank security systems	<ul style="list-style-type: none"> ● Travel ● Entertainment ● Improper gifts 	\$48M
Eli Lilly and Company	2012	Pharmaceutical	<ul style="list-style-type: none"> ● Spa treatments ● Jewelry, cash, and other improper gifts 	\$29M
Pfizer	2012	Pharmaceutical	<ul style="list-style-type: none"> ● Training ● Travel ● Entertainment ● Sponsorship of conferences ● Medical books, cell phones, tea sets, reading glasses, and other gifts 	\$45M
Biomet	2012	Medical devices	<ul style="list-style-type: none"> ● Dinners ● Travel ● Sightseeing ● Entertainment ● Cash 	\$22M
Watts Water Technologies	2011	Water valves and related products	<ul style="list-style-type: none"> ● Travel ● Meals ● Entertainment ● Payment as "consulting fees" 	\$3.8M
Rockwell	2011	Industrial automation	<ul style="list-style-type: none"> ● Leisure travel ● Sightseeing ● Illicit payments 	\$2.8M
IBM	2011	Information technology	<ul style="list-style-type: none"> ● Travel ● Entertainment ● Gifts ● Improper cash payments 	\$10M
Maxwell Technologies	2011	Energy-related products	<ul style="list-style-type: none"> ● Travel ● Entertainment ● Meals ● Kickbacks ● Payoffs ● Bribes 	\$14M
RAE Systems	2010	Chemical and radiation detection monitors	<ul style="list-style-type: none"> ● Travel ● Entertainment ● Meals 	\$3M

* Source: [Securities and Exchange Commission \(2015\)](#)

M = U.S. million dollars

Table 2. An excerpt from a Chinese firm's budgeting policies on entertainment expenses**Article 6: Entertainment Expenses**

1. The Company will arrange ONE formal banquet for visiting clients. The rest of the meals for them should be standard working meals.
2. The budget for banquets is as follows: For a formal banquet hosted by a general manager, the standard is 50 yuan (\$7.10) per person/time; for those hosted by a division manager, the limit is 30 yuan (\$4.30) per person/time; and for banquets hosted by other employees, the budget is 20 yuan (\$2.80) per person/time.
3. Budget limit for regular working meals is 20 yuan (\$2.80) per person/day.
4. The Company can give gifts and gift money to important clients; but the general manager's authorization regarding type and value of gift must be sought in advance.
5. Entertainment activities can be arranged for important clients; yet these activities should be restricted to ONCE per client per visiting time. The budget for karaoke is 100 yuan (\$14.30) per person/time; for saunas, 150 yuan (\$21.40) per person/time.
6. The Company provides meals for home-coming sales personnel and other employees on holiday duties at the budget of 15 yuan (\$2.10) per person/time. Under circumstances when a formal banquet is necessary, the budget should be controlled at the level of not more than 40 yuan (\$5.70) per person/time.

*Source: Company Website. Company name is not disclosed for privacy reasons.

4.2. Principle 2: Watch the red line and keep clean

Before entertaining any client, managers should always remember that the purpose of client entertainment is to nurture exchange relationships and facilitate normal business transactions; the purpose is not to gain an unfair advantage or even create unethical and illegal gains that would change the nature of the practice. Therefore, all entertainment should be within the legal framework and in accordance with the corporate code of conduct. Compare it to walking on a tightrope over a deep valley: If one has the necessary knowledge and skills, he/she may survive. If not, he/she will fall into the abyss of corruption allegations.

Just as one man's medicine might be another's poison, given the cultural relativity across societies, certain entertainment activities that are perceived as bribes at home can be considered business gifts in China. The local Chinese market might have lower or different ethical standards regarding bribes or corruption. Try to strike a balance between home and host standards. However, remember that excessive entertainment is considered corruption everywhere in the world. In real business settings, engagement in excessive entertainment is not necessary to get the job done. We'll discuss how in later pages.

Managers should also beware the type of clients they are about to entertain. Never entertain government officials, especially not in an excessive way. Keep in mind that Chinese business managers at SOEs are considered government officials. Use extra caution when entertaining those dual-status individuals because national laws—particularly the Foreign Corrupt Practices Act—will punish such behaviors severely if deemed as bribing foreign government officials. Always limit entertainment

activities to clients within the private business sector.

Finally, make sure to keep all receipts from each entertainment event. Some firms and sales managers retain such documents for as long as 20 years. If possible, have multiple individuals participate in the events to witness the process. It is also a good idea to keep photos and videos taken at each entertainment event. These will serve as important rescue evidence in the case of bribery allegations.

4.3. Principle 3: Use entertainment only when needed

Client entertainment helps to initiate and sustain business relationships, and promote sales. In practice, however, many factors can determine whether client entertainment should be conducted at all and, if so, how much and under what circumstances. Influencing factors include the location where the firm operates, the type of client the firm deals with, the firm's own age and size relative to those of the client, the features of transactions, and the focal manager's social resources or *guanxi* connections.

4.3.1. Location of operations

The location of a firm's operations in China partially determines whether and how much client entertainment is required to facilitate business relationships. Over the past 40 years, uneven economic development has changed the business landscape in China. Thanks to the Open-Door Policy introduced in the late 1970s, some coastal Chinese provinces began to host special economic zones that gradually adopted business practices of Western industrialized economies. In the coastal areas, a modern market system has emerged, whereby firms enjoy the autonomy to

sell their products in the place and at the price of their choice. Well-trained attorneys have become available for contract negotiation and dispute resolution through the court system. As compared to their previous business practices, firms that operate in these regions now rely much less on client entertainment to facilitate business relationships.

Inland Chinese provinces, however, still maintain the old economic system. Here, local governments can dictate the price of many products. Local protectionism or lack of transportation infrastructure often prohibits firms from selling their products to the highest bidder as ruled by the price system. Meanwhile, legal services are barely available. Accordingly, when doing business with inland entities, firms still need to rely heavily on *guanxi* practices—including excessive entertainment activities—to facilitate business relationships, from securing a contract to resolving a business dispute. In sum, while conducting business in coastal Chinese cities like Shanghai or Guangzhou, firms do not need to practice extensive entertainment, but doing business in inland cities like Chengdu or Chongqing requires substantial practice of entertainment.

4.3.2. Client type

Entertainment intensity also depends on the type of client a firm deals with: whether it sells mainly to business clients or individual consumers. This distinction is often simplified as business-to-business (B2B) vs. business-to-consumer (B2C). Between the two, buyer-seller relationships vary due to differing factors such as market breadth, product complexity, transaction frequency, and channel length.

A B2B association is often constrained by limited choices (e.g., finite suppliers and producers). Products sold to business clients also usually feature a higher level of technical complexity that requires both pre-sales client education and after-sales product service. In addition, many B2B transactions are repetitive over a long term, thereby enabling frequent interactions with clients. Finally, B2B products are often distributed through shorter channels, which cultivate more personal buyer-seller relationships. These features can weaken arm's-length market power. As a result, interpersonal *guanxi* practices must play a bigger role in B2B marketing and sales. Accordingly, entertainment will be used more extensively to facilitate B2B transactions.

By contrast, the large number of individual consumers involved in B2C transactions expands market breadth that can improve market efficiency. Consumer products also typically feature a lower level of technical complexity, which requires less pre-sales education and after-sales service. In addition,

consumer goods are usually sold through larger distribution networks where most deals are reached at arm's-length via retail settings like supermarkets or specialty stores. Thus, the buyer-seller relationship in B2C transactions is impersonally facilitated through standard marketing communications vehicles like advertising and branding, and hence rarely needs help from interpersonal *guanxi* practices like client entertainment. Consequently, firms selling mainly to industrial clients (B2B) should expect to practice more client entertainment, while firms selling to individual consumers (B2C) should expect to use less.

4.3.3. Firm age and size

Firm-level factors also influence entertainment spending. Older and larger firms that have rich resources and extensive media exposure possess enough market power to conduct normal transactions. It might not be necessary for them to practice client entertainment in some situations. In cases when large firms have to engage in client entertainment, they don't need to practice it on a grand scale. Unfortunately, many multinational giants are unaware of this and have fallen into bribery allegations by practicing unnecessarily excessive entertainment toward their clients.

4.3.4. Transaction features

In some transactions, firms can use less entertainment or none at all and still reach their marketing and sales objectives. The first situation arises when a firm sells a product of better quality than its competitors. Here, superior quality will enhance the firm's market power, which can reduce the need for support from entertainment. Although most MNE subsidiaries in China enjoy positive country-of-origin reputations and sell high-profile, good brands that Chinese consumers desire, these firms may still practice unnecessary entertainment that can lead them into troublesome situations.

Second, client entertainment works best in repeated trade situations within communal settings. It does not support transactions with new contacts in long-distance trade. Some MNE subsidiaries overlook the fact that they lack solid, local Chinese communal establishment—and yet still practice entertainment, wasting money and inviting trouble.

Third, it is best not to use entertainment in one-shot transactions. For client entertainment to work, the trade relationship should be long-term and recurrent, so that a reciprocal pattern can be established. When no future transactions are anticipated, investing in entertainment is a waste of time and money.

4.3.5. Participants of entertainment

Entertainment spending can be influenced by the amount of *renqing* (i.e., favor). The Chinese concept of *renqing* is roughly equivalent to the Western concept of social capital; some people possess a larger store of *renqing* than others (Park & Luo, 2001). Having lots of *renqing* entails enjoying rich social capital and broader *guanxi* networks. When *renqing*-endowed people participate in entertainment, even a small amount of spending can be very effective. Often, mere mention of or reference to the person will get things done without engaging in actual entertainment. Most of the time, these individuals can also manage entertainment well. Therefore, firms should recruit such managers to handle their sales and/or client relationships.

4.4. Principle 4: Use social resources

Client entertainment is a kind of social exchange. As is the case with all social exchanges, favors generated in client entertainment are storable and transferable through intermediaries (see Schwartz, 1967). As noted, such favors are called *renqing*. Using the social resources of intermediaries to transfer social capital in entertainment, particularly during the early stages of a client relationship, can increase its effectiveness in facilitating business relationships.

An intermediate agent in entertainment activities is usually an acquaintance of both the host and the guest. This agent may be a previous host who will collect his net credit of favor from an indebted previous guest and ‘transfer’ it to the current entertainment host. This transferred favor (i.e., *renqing*) from the intermediary can greatly enhance the effectiveness of entertainment.

Managers should develop a base of such intermediaries and learn to use the right ones in specific transactions in order to increase the effectiveness of entertainment in facilitating business relationships. The rule of thumb in choosing an intermediary is to never use government officials, no matter how influential or well-connected they may be. To avoid corruption allegations, the candidates of intermediaries should be limited to private settings. Examples of good intermediaries are successful private entrepreneurs, celebrity monks or other religious figures, famous medical doctors, and well-networked university professors with rich social resources in the local or regional business community.

4.5. Principle 5: Use frequency over value of entertainment

Money talks. Increasing the value of entertainment spending can make it more effective in facilitating

business relationships and promoting sales. MNEs that operate in China often adopt this approach in order to get as much as possible done in a short time period. However, given taxation authorities’ spending limits and firms’ budgetary restraints, this plan of action is not always feasible. Most importantly, higher-value spending on client entertainment would change the nature of entertainment and push the focal firm off the slippery slope to bribery-related outright corruption. Unfortunately, increasing the value of client entertainment is the most popular yet worst strategy for multinational corporations operating in China, and has caused most of the ethical and legal troubles.

To prevent this pitfall, firms should be aware that both economic and social approaches work toward improving the effectiveness of client entertainment. Increasing the frequency rather than the spending value of entertainment is also effective in enhancing client relationships; after all, being nice is totally legal. Don’t entertain clients only when they are needed, and avoid visiting them too often so as not to annoy. Entertaining clients at moderate frequencies will help cultivate relationships; local holiday events are particularly effective. An old Chinese saying states that a goose feather sent from afar can convey sincere gratitude, which means that an insignificant gift can also serve a big purpose if presented properly. Within a given budget, frequent but less-expensive entertainment can achieve better results in fostering and enhancing the quality of client relationships; they can even promote sales in a particular transaction without breaching ethical or legal rules.

4.6. Principle 6: Consider observable entertainment over intimate entertainment

The format of entertainment may also affect its legality and effectiveness in facilitating exchange relationships. Some intimate entertainment activities—like taking a sauna or warm-spring bath, visiting a foot-care parlor, drinking in a bar, or singing and dancing at a karaoke party with clients—are effective means for managers to develop cozy relationships.

Such leisure- and pleasure-based entertainment activities enable host managers to interact intimately with their guests, share secrecy with them, and win over guests’ trust in a relaxed manner. Repeating those events will build an increasingly higher degree of camaraderie and eventually bring guest managers sentimentally closer. Consequently, this intimacy will help build a reciprocal, long-term relationship, via which transactions can be easily conducted (Crosby, Evans, & Cowles, 1990).

Yet intimate entertainment, particularly those activities involving sex services, can easily cause

moral and legal problems (Jack, 2013). To address this concern, it is better to use an alternative entertainment format: observable entertainment events, which are equally effective. In business settings, host managers can choose to entertain their guests via activities that are observable to a broader public such that a guest's individual behavior will be exposed to group surveillance. On such occasions, client entertainment can generate stronger social relational constraints to regulate individual behaviors and facilitate business transactions.

Observable entertainment is effective in facilitating business relationships for three reasons. First, during observable entertainment events—such as a concert, a golf game, or a formal banquet at a popular restaurant—certain established routines are followed and dress codes are often observed. Such ritual and ceremonial procedures can increase commitment, dedication, loyalty, and allegiance between guests and host managers; this, in turn, can be converted into a strong, binding power to facilitate business relationships (see Gusfield & Michalowicz, 1984).

Second, observable entertainment events can turn outsiders into insiders of *guanxi* networks, where control of deviant behavior is much easier (see Merton, 1972). As insiders of the same group, the host and guest managers will follow the same set of intragroup norms and put their behaviors on display for surveillance by all group members in this particular *guanxi* network, resulting in enhanced client relationships.

Finally, the presence of business managers during observable entertainment events exposes individual behaviors to participants who have experienced the same event; consequently, defaulting on contractual terms would be subject to peer pressure by co-attendees and even bystanders who witnessed the observable entertainment. If a guest manager accepted entertainment but failed to reciprocate the host manager, his deviant behavior would be perceived as *diumianzi* (face-losing) by other participants. They could collectively spread his bad reputation in the circle and refuse to do future business with the deviator. Deterrence from such a consequence will force the guest manager to stay on track of a business relationship with the host manager. In sum, while both intimate and observable entertainment are effective in facilitating business relationships, preference should be given to the latter over the former in order to avoid ethical and legal troubles.

4.7. Principle 7: Use time as an advantage

Another important piece of advice is to watch time. There are three time-related factors to consider in

practicing client entertainment: the long-term nature of relationship building, the timing of client entertainment, and the stage of the relationship.

4.7.1. The long-term nature of relationship building

Rome was not built in a day, and good client relationships are not forged in a short period of time. Rather, a good client relationship stems from the accumulation of favor exchanges over an extended timeframe. As an analogy, consider oriental herbal medicine versus Western medicine. The former approaches wellness from a holistic and slower-paced healing while the latter seeks instant remedy. It is important to remember that in the case of relationship building, a heavy dose of a quick shot to solve the problem (i.e., offer expensive entertainment to secure an immediate deal) could ultimately cause more serious problems.

4.7.2. Timing of client entertainment

In a larger sense, entertainment is a type of gift. The timing in delivering entertainment is as important as how the gift is presented (Sherry, 1983). In Chinese culture, whether expressing gratitude or soliciting a favor, an implicit approach is always preferred. Attaching an explicit business demand to an entertainment event is considered untactful and rude. To make an entertainment event look more like friendship and less like a blunt economic deal, never schedule entertainment activities immediately prior to or after a business transaction.

Depending on the type of client, the features of the business and transaction, and the specific circumstances of the business relationship, firms may want to consider entertaining clients on some or most of the key festivals and holidays in China. These include New Year's Day, the Chinese Lunar New Year (first day of the first lunar month), the Lantern Festival (fifteenth day of the first lunar month), Women's Day (March 8), Memorial Day (April 5), Labor Day (May 1), Children's Day (June 1), the Dragon Boat Festival (fifth day of the fifth lunar month), the Moon Festival (fifteenth day of the eighth lunar month), Teacher's Day (September 10), and National Day (October 1). In recent years, some Chinese citizens have also started to observe Western festivals, such as Christmas, Mother's Day, Father's Day, and Valentine's Day.

When entertainment events would not be considered proper on those days (e.g., Memorial Day) or cannot be scheduled due to time conflicts, gifts should always be sent to clients. Reciprocal gifts should be anticipated, too. For instance, clients often send *tangyuan* dumplings to each other for the Lantern Festival, and *zongzi* dumplings and

moon cakes are usually exchanged on the Dragon Boat Festival and Moon Festival respectively.

Other occasions for client entertainment include major trade shows and cultural or sporting events; a client firm's anniversary; a new business opening; and personal situations of client managers, such as a wedding, a baby shower, a child's admission into or graduation from college, hospitalization, or the funeral of a client's loved one. Be culturally sensitive when sending a gift. For example, in Chinese culture, red is for celebration while black and white are for mourning. Do not ever send red gifts for a funeral or black/white gifts for a wedding. Do not send or wear a green hat (e.g., St. Patrick's Day or Boston Celtics) because in Chinese culture, a man who wears one denotes himself a cuckold. If necessary, consult locals for proper gift ideas.

4.7.3. Stage of relationship

The stage of a business relationship determines the degree of familiarity between host and guest managers, which can potentially influence how client entertainment should be used. As a business relationship matures, it is likely that an entertainment event's host manager has become quite familiar with the guest manager. After they become insiders of the same *guanxi* network and share common friends, they may interact with each other frequently in both private and business settings. Consequently, the host manager may have a net credit of favor over the guest manager's accumulated amount. The longer the business relationship endures, the larger the host's storage of net credit of favor becomes; in this situation, even spending just a little on each additional entertainment event will have a significant impact in facilitating the relationship.

In later stages of a business relationship, host and guest managers are likely to interact more frequently in other non-entertainment settings as personal friends. In this context, the guest manager may become less sensitive to the frequency of client entertainment; here, increasing the frequency of entertainment practices might not generate the same level of impact as when the relationship was first initiated (see [Altman & Taylor, 1973](#)). Therefore, reducing the frequency of entertainment can save time and reduce costs without affecting results.

4.8. Principle 8: Become an informed guest

Finally, remember that client entertainment is a reciprocal social practice. The importance of following the norm of reciprocity in social interactions

like client entertainment is reflected in traditional Chinese teachings such as "Receiving without reciprocating is not ritually proper" and "The receipt of a droplet of favor should be repaid with a gushing spring." In entertaining others, expect also to be entertained. We have discussed how to entertain others as a host; it is equally important to know the rules for managing entertainment invitations as a guest.

Entertainment invitations should never be accepted from non-existing business contacts unless development of that particular relationship is desired. A Chinese saying states that people never go to the temple for nothing. Applying this to client entertainment, offers are not made without a purpose. If the inviter wants to use the entertainment opportunity as a foot-in-the-door tactic to take advantage, decline the invitation with an excuse. Based on the Chinese cultural rule of reciprocity, once an invitation is accepted and received, "your mouth becomes soft and your hands become short." This translates to fulfilling the host's expectations, no matter how unreasonable or even illegal the attached demand.

Despite avoidance, if an unwanted business relationship is entered into, back out before more seriously troublesome situations arise. It should be noted that, after such a move, repairing one's *guanxi* network will take a long time and come at quite an expense. Dismantling or repairing a net is as costly as—or sometimes even more expensive than—weaving a new one.

Invitations from existing or desired business partners should be accepted and prepared for. Be sure to obtain proper gifts for exchange during the event. Find out who is attending from the host firm and arrange for guests of similar rank from your firm. For example, if the host has a vice president (VP), a marketing manager, and an engineering manager scheduled to attend the entertainment, arrange for the attendance of a VP, a marketing manager, and an engineering manager from your firm. Given the strong hierarchical social culture in China, a mismatch of rank will cause embarrassment: a guest of lower rank will make the host feel snubbed, and a guest of higher rank will make them uncomfortable. The functional areas of these individuals should be compatible, too, because managers from different disciplines have less in common business-wise, which limits the potential for information exchange between the two firms.

Upon completion of the event, never try to pay the bill, or even offer to split and share it (in China, this is handled entirely by the host). Instead, make sure to coordinate with the host and arrange a

reciprocal treat, the scale of which should be larger than—or at least equivalent to—the event just attended.

5. Conclusions

Client entertainment is a popular business practice that managers often use to facilitate business relationships and promote sales, particularly in the Chinese market. However, multinational enterprises (MNEs) operating in China have frequently been tainted by allegations of corruption in regard to the malpractice of client entertainment. The study in this article provides guidelines to help managers make better decisions about where, when, how, on whom, and in what format to use client entertainment in order to practice it effectively and within legal and ethical boundaries. The rule of thumb in managing client entertainment is to always play within the legal and ethical framework: a fine line must be delineated between gifts and bribes when delivering entertainment.

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