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‘Embedded Analysts’ cut cost of borrowing in China

Anuradha Shukla | June 8, 2016

Firms exploit this channel of communication, says CUHK Business School.

Chinese firms are using 'the embedded analyst' to cut their costs of borrowing, according to a new research by CUHK Business School.

These firms leverage a financial analyst with personal connections to a company, and having enough professional credibility to be able to inform wider markets about that company.

These analysts also helps these companies to communicate and protect sensitive information about strategic ties.

'The embedded analyst' can be powerful if they are born and brought up in China, can speak local language and have a good reputation in the market.

"These embedded intermediaries can build a bridge between emerging economies and the west," said T.J. Wong, Choh-Ming Li professor of Accountancy and Director of Centre for Institutions and Governance at the Chinese University of Hong Kong (CUHK) Business School.

Straddling two worlds

Chinese companies are driven to straddle two worlds by forming a bridge between the old China where business is still conducted on a "who you know" basis, and the emerging world of financial markets, regulations and transparency.

Firms in the nation want to cut the cost of borrowing due to the growth and development of Chinese financial markets.

Transparency has to be improved in order to build trust and this process is facilitated by these embedded intermediaries.

Their importance is increased given the fact that legal safeguards are not yet robust enough to reassure lenders that it is safe to invest in unfamiliar companies through stock markets.

"There's no quick fix. It takes a long time, maybe decades, to establish the kind of economic and legal frameworks to build trust in the markets. But we want to show that this level of closeness and ties with analysts isn't necessarily bad as it fulfils an important role in China," added Wong.