

### Case Study Part 2 - “Profit”

#### 2.7 Businesses Built on Debt – Lessons Learnt from China’s Evergrande

Financial engineering may protect us from legal responsibility when things go wrong and losses are incurred, but as Christian business owners, we do have an ethical and moral responsibility to protect our stakeholders, including: -

1. Investors who entrust us with their investment capital.
2. Lenders who provide us with financing for our business
3. Customers who, in good faith, buy our products and services.
4. Suppliers who trust our integrity and supply us with raw materials and supplies.
5. Collateral damage to society and financial markets, especially when the business is considered “too big to fail”.

The logic behind using other people’s money to grow a business (leverage) is often discussed. Modern business schools advocate the use of leverage to increase returns.

**Matthew 7:12** “So in everything, do to others what you would have them do to you, for this sums up the Law and the prophets.” (NIV)

**Ecclesiastes 11:2** “Invest in seven ventures, yes in eight; you do not know what disaster may come upon the land.” (NIV)

**Philippians 2:4** “Let each of you look not only to his own interest, but also to the interest of others.” (ESV)

**Proverbs 21:5** “The plans of the diligent lead surely to abundance, but everyone who is hasty comes only to poverty.” (ESV)

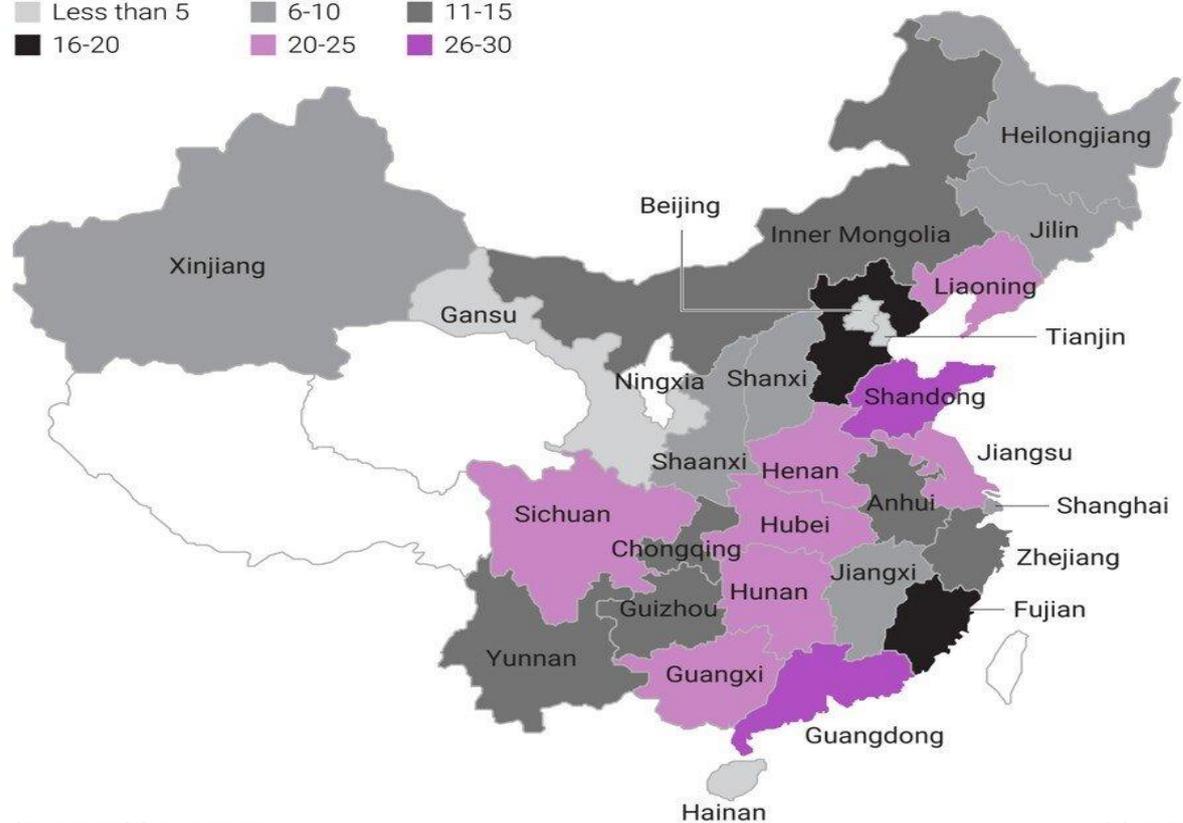
**Proverbs 22:7** “The rich rules over the poor, and the borrower is slave to the lender.” (ESV)

**Proverbs 13:11** “Dishonest money dwindles away, but whoever gathers money little by little makes it grow.” (NIV)

Case Study- The Story of Evergrande (SCMP, 9 Oct 2021)

<https://next-media-api.ft.com/renditions/16466589443050/1280x720.mp4>  
FT video on Evergrande

### Evergrande residential projects for sale and scheduled for sale



Sources: SCMP, Ke.com

SCMP

China Evergrande Group, until recently the world's largest property developer, owns dozens of stalled sites with unfinished construction. Buckling under more than US\$300 billion in liabilities, the company collapsed, leaving 1.5 million buyers waiting for completed homes. (SCMP- 16 Oct2021)

## BAM Singapore - Case Study

Suppliers and creditors are pursuing hundreds of billions of dollars of unpaid bills, as well as over 70,000 investors and stalled construction on apartments for more than one million homebuyers who invested their life savings on the promise of a more prosperous future, which has now turned sour. (Jing Dairy – 4 Nov 2021)

A financial distressed Evergrande caused illiquidity for its direct and indirect suppliers. Most of them are small and medium-sized enterprises that rely heavily on large customers, not only for business but also for access to finance, often in the form of credit extended to Evergrande by sellers in order to move their products—supply-chain finance, that is. (Mint Curator, 1 Nov 2021)

### Discussion

1. What does the Bible teach about borrowing, and how do we apply it to our business?
2. Integrating Faith into our Business Practices:
  - a) As Christian business owners, what can we learn from the saga of China's Evergrande, whose business model was based primarily on debt?
  - b) Debt is a double-edged sword. When times are good, returns are multiplied. In bad times, it can be fatal, causing great harm to ourselves and others who do business with us. As good stewards, our motivation is to achieve good returns (maybe even maximise them) on our capital. How do we balance good stewardship while doing business using owners' or shareholders' funds versus debt?
  - c) If growing our business requires financing that can only come from borrowing, should we proceed? Could it be that the withholding of capital or financing is God's way of telling us to wait, defer or abandon our plans? Are we hearing correctly?
  - d) When might it be prudent to use debt to grow our business?