

RESEARCH PROJECTS

The Market Valuation Implications of Aging Disclosures of Accounts Receivable in an Emerging Market

- ✉ HAW In-mu • QI Daqing# • WU Yuwu Woody
- ☐ 1 November 2001
- ❖ CUHK Research Committee Funding (Direct Grants)

Despite the problem with collectability of accounts receivable, the listed Chinese firms were not allowed to make provision for bad debt expenses more than 0.3-0.5% of accounts receivable. As a consequence, the bad debt expense is understated and earnings and assets are overstated in the financial statements. Since these reported numbers may not represent the true value of the firm, the relevance and reliability of financial reports may be impaired. Interestingly, the Chinese regulatory body requires the firms to disclose in a footnote details on ages of accounts receivable by disaggregating them into four age periods. Thus, the Chinese regulation provides a unique accounting setting to examine value-relevance of accounts receivable of different age periods. This study will investigate whether Chinese investors utilize such aging disclosures to correct the impaired assets and inflated earnings on the financial statements for their investment decisions.

In 1998, the Ministry of Finance in China began to allow (but not mandated) managers of the listed firms to exercise their discretionary judgement to estimate provision for bad debt. This study will also examine (1) why certain firms voluntarily adopted the new accounting change immediately and (2) whether investors value differently the accounts receivable and earnings reported by the adopting and non-adopting firms. The empirical results of this study will provide important insights to policy makers and investors on the usefulness of aging disclosures to correct the impaired assets on the financial statements and the reliability and relevance of discretionary provision of bad debt expenses estimated by managers in an emerging market. (BS01982)

"Effects of Business Risk and Auditor-Client Relationship on Auditor's Decisions to Accept Client's Aggressive Reporting Practice: A

Comparative Study Hong Kong and US Audit Professionals"

- ✉ HWANG Nen Chen
- ☐ 8 September 2001
- ❖ Research Grants Council (Earmarked Grants)

The rapid economic development and extensive international trade in the Asia Pacific during the past two decades have significantly changed the business practices in the region. The shift in global investments to Asian Pacific has provided abundant opportunities for accounting firms in both Hong Kong and China. Major accounting firms, such as the U.S. Big-5, have either affiliated with local firms or have established their own offices in Hong Kong and China. As they are expanding business operations and recruiting audit professionals in the region, it is important for accounting firms' management to understand the potential impacts of business environment, as well as other factors, that may affect auditors' decision to accept their clients' aggressive reporting practices.

An client's aggressive reporting practice is defined as a financial reporting method adopted by the audit client and accepted by the auditor that portrays the client's financial situation favorably. The purpose of the study is to examine the effects of business risk and auditor-client relationship on Hong Kong and U.S. auditors' decisions to accept client's aggressive reporting practice. The major contribution of this study is to provide policy implications for the accounting profession in Hong Kong to develop strategies and training programs that will prevent auditors' acceptance of aggressive reporting by clients, and thus, help the accounting firms in the region to maintain high audit quality.

(SS01284)

Performance of Foreign Investments in China: An Empirical Study with Tax

- ✉ LAM Chee Keung
- ☐ 1 December 2001
- ❖ CUHK Research Committee Funding (Direct Grants)

The pending accession of China to the World Trade Organization is expected to result in significant increases in foreign investment activities. I propose

to undertake empirical studies on factors affecting foreign direct investment performance in China. Factors that will be investigated include technological intensity, organization form, firm location, strategic timing, and international tax considerations. I am especially interested in how tax factors may affect reported firm performance. Tax factors studied include the tax rate of the parent countries, tax subsidies offered by the Chinese and the regional governments and the possibility of using transfer pricing devices to minimize overall global tax paid. Past studies in this area are scant and characterized by factors. Using a large performance data set comprising of international investments across many Chinese provinces, we will examine the effects of these performance factors simultaneously.

(BS01602)

The Potential Determinants of Auditor Changes: An Empirical Investigation of Listed Companies in Hong Kong

✉ NG Yick Man Andy

☐ 1 November 2001

❖ CUHK Research Committee Funding (Direct Grants)

Auditing provides many economic benefits to society. Auditors also assist companies in improving operations and internal controls. Auditors often make suggestions to management that ultimately reduce costs by promoting operational efficiency and reducing errors and fraud. When management and other employees are aware that an audit is being performed, they are often more careful in their work and are less likely to make mistakes and most important of all commit fraud. Changing of auditors happened from time to time and it costs an organization tangibly and intangibly. The purpose of this research is to understand some of the reasons behind a change in auditors and explore what factors may contribute to an auditor change. One of the major potential determinants is company shopping of desired type of audit opinion which is a definite required output of the whole audit process. The topic of auditor changes is important to policy makers and the accounting profession because it directly relates to auditor independence. When a company replaces their auditors, a concern arise that the company may have “*shopped around*” for a new auditor that might provide the client with a more

favourable audit opinion, a more liberal interpretation of an accounting regulation, a more complacent attitude towards the audit, or a reduced chance of detecting fraud. These imply impaired auditor’s independence or less credible financial statements. A theoretical foundation will be developed to examine the determinants of auditor change. An *empirical experiment* will be designed to test the values hypothesized to be the possible determinants. The premises of auditing must be analyzed to gain insights into the decision to replace an auditor. Consequently, this research will analyze the relationships between auditor choice and the demand for auditing services to understand auditors change of Hong Kong listed companies. The motivation of this study is Hong Kong, being the financial communication and trading center of Asian region, has a unique Corporate Governance structure (such as family ownership, Board component and structure, extreme proprietorship bias in reporting, government position, political and social interactive elements).

(BS01349)

Auditing and the Information Content of Interim Report in the A-share Market of China

✉ WU Yuwu Woody • HAW In-mu • QI Daqing#

☐ 15 September 2001

❖ Research Grants Council (Earmarked Grants)

This proposed project is a comprehensive empirical study on the information content of the interim report of listed Chinese firms. It will examine whether interim report contain incremental information to investors, whether the market responds to interim earnings again when they are disclosed the second time as part of annual earnings, and whether auditing and auditing and auditor's opinion affect the information content of interim report. It will provide important inputs to the Chinese stock market regulators, who are considering requiring firms to be listed on the second board (similar to the NASDAQ Stock Exchange) to file and disclose quarterly reports to provide more timely information to investors. It will also contribute to the academic literature on the effect of auditing on the credibility of earnings. While interim reports of listed Chinese firms are not required to be audited in general, about one third of them are in fact audited either voluntarily or because of specific transactions. Such a unique setting allows, for the first time, a direct empirical

comparison of the information content of audited and non-audited earnings.

(SS01288)

Timing of Earnings Announcements in China: Determinants and Stock Market Consequences

✉ WU Yuwu Woody • HAW In-mu • QI Daqing#

□ 1 December 2001

❖ CUHK Research Committee Funding (Direct Grants)

The stock market in China has been growing rapidly in the last decade and outpaced the development of information infrastructure. While listed Chinese firms are relatively young and less known to investors, little firm-specific information is available to investors prior to the annual report release. Listed Chinese firms seldom provide voluntary information or earnings forecast. Moreover, financial analysts and the financial press are still at their infancy and cannot act effectively as the information intermediaries between listed firms and investors. Consequently, investors have little information available to predict earnings, and especially no warnings of bad news before it is officially released. It has been recently demonstrated that timing pattern of earnings announcement could be a useful hint since good news are typically released early and bad news late.

The objective of this study is to further examine: (1) the determinants of the timeliness of annual earnings announcements, and (2) the effects of the timeliness of annual reports, audit opinion, and earnings news on stock prices prior to, at, and subsequent to the earnings announcement. It is motivated by the possibility that the previously documented delay in the reporting of bad news may be due to the fact that they are more likely to receive a modified opinion that requires lengthy and difficult audits. Furthermore, there has been no empirical study to assess whether in an emerging market stock prices around the annual report release are jointly affected by the timeliness of earnings announcement, audit opinion, and earnings news. The results of this study will shed light on the corporate reporting and auditing behavior, information dissemination environment, and investor sophistication in the emerging capital of China.

(BS01885)

An International Comparison of the Value-Relevance of Alternative Accounting Data

✉ YOUNG Danqing • Yaw Mireku MENSAH#

□ 1 November 2001

❖ CUHK Research Committee Funding (Direct Grants)

One important objective of financial reporting is to provide information that investors can use to value a business entity in terms of the ability of that entity to generate future profits. Logically, this implies that the standards under which the accounting statements are prepared should be based primarily on theoretical reasoning unfettered by other considerations such as political, social, and/or tax consequences.

The institutional setting necessary for the development of such “objective” accounting standards exist in some countries such as the UK, the US, and Hong Kong, but no in some other industrialized countries such as France, Germany, and Japan. Recent research has shown that accounting data in these latter countries are less reliable as a basis for firm valuation than they are in countries such as the UK and the US.

In the absence of the reporting environment that provides value-relevant accounting earnings, rational investors in these countries have to develop alternative methods for valuing business entities. Therefore, the purpose of this research project is to examine whether investors in countries where accounting earnings are less value-relevant rely more on other information (such as operating cash flows, total revenues, and adjusted accounting earnings) to value business entities than investors in countries with more value-relevant accounting earnings.

(BS01931)

Please refer to previous issues of this publication for more details of the following ongoing research at the department:

<u>Edition</u>	<u>Title/Investigators</u>
2000-01	A Comparison of the Value-relevance of Chinese GAAP versus IAS Accounting Measures: The Case of B-shares and H-shares (BS00867) ✉ HAW In-mu • QI Daqing# • WU Yuwu Woody

- 1998-99 A Study of Job Choice Decision of Public Accounting Firms by Accounting Graduates: An Application of Analytic Hierarchy Process (BS98022)
 ✍ HO Shun Man Simon • CHAN Siu Yeung*
- 2000-01 Family Control, Corporate Governance and Firm Performance (BS00500)
 ✍ HO Shun Man Simon • CHAN Siu Yeung*
- 2000-01 An Empirical Examination of Value Chain Analysis Implementation in the U.S. vs HK Companies (BS00577)
 ✍ HWANG Nen Chen
- 1999-00 The Making of Administrative Tax Rules in China (CU99026)
 ✍ JIANG Zhaodong
- 2000-01 Determinants of Audit Fees for Hong Kong Companies - Influence of Auditee's Corporate Governance Factors (BS00320)
 ✍ KWONG Kok Shi • LEUNG Kwan Lap Victor • LAM Chee Keung
- 2000-01 The Effects of Clients' Corporate Governance and Management Integrity on Audit Qualifications: An Empirical Study in Hong Kong (CU00006)
 ✍ LAM Chee Keung • HO Shun Man Simon • Michael John FERGUSON • ZHOU Yuqing (Dept of Finance)
- 2000-01 Further Evidence on Pricing Initial Audit Engagements (BS00536)
 ✍ LEE Suk Yee Dominica
- 2000-01 Value Relevance of Direct Method Presentation in Statement of Cash Flow (BS00768)
 ✍ LUI Man Ching Gladie
- 1998-99 The Association Between Financial and Auditor Characteristics and Auditor Negligence in Audited Financial Statements: A Regional Empirical Study (CU98066)
- ✍ MAJID Abdul • GUL Ferdinand Akthar Khan# • LOW Pek Yee*
- 1999-00 Multinational Transfer Pricing: An Experimental Study of the Effects of National Culture on Negotiated Transfer Pricing Decisions (CU99023)
 ✍ Michael John FERGUSON • LAM Chee Keung • JOYCE Edward J*
- 2000-01 The Effect of Non-audit Services on Audit Quality (BS00608)
 ✍ Michael John FERGUSON • YOUNG Danqing
- 1999-00 Corporate Governance: Issues of Effectiveness and Necessity of Existence of Corporate Audit Committees (BS99021)
 ✍ NG Yick Man Andy
- 1998-99 Corporate Disclosure Policy and Price Anticipation of Earnings (CU98067)
 ✍ QI Daqing# • WU Yuwu Woody • ZHANG Hua (Dept of Finance)
- 2000-01 Stock Rights Offers and Earnings Management of Listed Firms in China (BS00957)
 ✍ QI Daqing# • HAW In-mu • WU Yuwu Woody
- 2000-01 The Expectations-performance Gap in Financial Reporting From Bank Loan Officers' Perspective (BS00923)
 ✍ TONG WU Yew Jen Marian
- 2000-01 Timeliness of Annual Report Release and Market Reaction to Earnings Announcement in China (BS00924)
 ✍ WU Yuwu Woody
- 1999-00 International Accounting Differences, Foreign Investment, and Capital Market Integration (BS99011)
 ✍ YOUNG Danqing

RESEARCH OUTPUTS AND PUBLICATIONS

- <P010794> **MAJID Abdul; GUL A. Ferdinand and TSUI S.L. Judy.** "An Analysis of Hong Kong Auditors' Perceptions of the Importance of Selected Red Flag Factors in Risk Assessment" *Journal of Business Ethics* vol.32 no.3, pp.263-274. The Netherlands, 2001.08.
- <P011939> **YAW M., Mensah; SONG Xiaofei and HO S.M., Simon.** "The Effect of Conservatism on Analysts' Annual Earnings Forecast Accuracy and Dispersion Wording Paper under Review". 2001.07.
- <P012193> **Yaw Mireku MENSAH, HO Shun Man Simon and SONG Xiaofei.** "Is There a Long-Term Payoff to Greater Corporate Disclosures? the USA Experience". Paper presented in the 13th Pacific-Asian Conference on International Issues, organized by Asian Pacific Accounting Association Rio De Janiero, Brazil, 2001.05.21.
- <P013108> **CHAN K. Hung; LEW Y. Albert and TONG WU Yew Jen Marian.** "Accounting and Management Controls in the Classical Chinese Novel: A Dream of the Red Mansions". *The International Journal of Accounting* vol.36 no.3, pp.311-327. 2001.
- <P028001> **LAM Chee Keung and FERGUSON Michael John.** "Voluntary disclosure by state-owned enterprises listed on the Hong Kong Stock Exchange". *Journal of International Financial Management and Accounting* vol.13 no.2. USA: Blackwell Publishers, 2002.
- <P02957> **TONG WU Yew Jen Marian, LUI Man Ching Gladie and LEW Y. Albert.** "The Expectations-Performance Gap for Financial Reporting from the Perspective of Hong Kong Bank Loan Officer". *Pacific Accounting Review* vol.14 no.1, pp.1-22. 2002.06.

RESEARCH PROJECTS

A Feasibility Study of a Frame-based Message Understanding System

- ✍ CHAN Wai Kwong Samuel
- ☐ 1 December 2001
- ❖ CUHK Research Committee Funding (Direct Grants)

The explosive growth of the World Wide Web has vastly increased the amount and availability of information. This in turn has ushered in an era of electronic text overload which has made us more difficult to access and identify the information that we need. There is a great demand for systems that can understand, extract and organize messages, without human intervention, into a usable format. However, messages in natural language are being regarded as an extremely intriguing representation language whose representational and inferential strengths need to be studied intensively. Understanding a message includes computing unique referents for referring expressions, predictions, and explanations which ultimately give a causally coherent elaboration of what has been said. These considerations point to the centrality of the issue of representation which supports inferences and knowledge behind all the processes. The ease of mapping from syntax to semantics, amalgamating the relevant information into the representation of a message, and performing inferences all depend on the representation adopted. The objective of this research aims to conduct a feasibility study of using a frame-based representation in message understanding. A frame-based model in Chinese texts will be explored as both semantic and knowledge representation that would serve the full range of interpretive and inferential needs of a general message understanding system. (BS01502)

A Connectionist-Based Chinese Hypermedia Document Classifier: Using Text Structure and Image as Complementary Media

- ✍ CHAN Wai Kwong Samuel
- ☐ 1 December 2001
- ❖ Research Grants Council (Earmarked Grants)

World Wide Web provides a fast and efficient channel to disseminate information. With the advent of relative cheap and large online storage capacities, comprehensive sources of text and image can be stored and made available. The information, exhibited in both the document structure and their embedded images in hypertexts, embodies extensive interconnections. However, the classification of the hypermedia documents, with heterogeneous data in nature, has not been explored as thoroughly. While the traditional keyword-based retrieval systems may be misled by the breath of vocabulary used in a long document, only a few prototype systems has attempted to classify hypertext in order to locate unfamiliar documents. As a result, a large portion of Web documents is far beyond the reach of current search engines. One of the greatest challenges in multi-media document retrieval is to provide a computer framework with linguistic as well as pictorial sophistication in order to uncover the clusters of the hypertext successfully. In this research, we attempt to provide a novel quantitative model of hypertext classification based on the heterogeneous information in the hypermedia documents. A connectionist architecture in classifying hypertexts on the basis of their textual and pictorial structures will be investigated. What distinguishes it from previous research is that attention is not only primarily focused on the individual media, but by the collaborative interaction of natural language technology and image techniques through a connectionist-based classifier can we successfully cluster and index the diverse hypertexts. (CS01171)

An ISIS for Establishing Trust in Marketplaces of the E-Commerce Era

- ✍ CHEUNG Wai Man • HUANG Wayne*
- ☐ 1 November 2001
- ❖ CUHK Research Committee Funding (Direct Grants)

E-Commerce will transform the current physical market place into a virtual market-space. Although most fortune 500 companies in the USA and many small-medium enterprises in Hong Kong have invested substantially in World Wide Web (WWW) technologies for the coming era of E-Commerce, few companies have really derived significant profits from E-Commerce transactions so far.

E-Commerce depends upon the realization of on-line transactions, which in turn relies upon the willingness and trust of businessmen/customers to deal/purchase in the virtual market-space. Most current E-Commerce research, if not all, focuses on security issues, organizational adoption issues of E-Commerce technologies, and Internet-based intelligent agents/systems to increase on-line transactions. Very little theory-guided research has been done in developing an Internet-based computer system to enhance trust and shared understanding between businesses and between business and customer in the virtual market-space. This research attempts to fill this gap.

Specially, we will draw upon dialogue theory, alignment theory, and learning organization theory to propose a conceptual and theoretical framework that aims to enhance trust and shared understanding in the virtual market-space. Base upon the theoretical framework, an Internet-based Social Interaction System (ISIS) will be designed and developed. This ISIS will provide an electronic environment and theoretical framework for supporting the establishing of trust between business parties in the E-Commerce era. Finally, empirical investigations will be carried out to test the effectiveness of the theoretical framework and to evaluate the ISIS system. The research findings can also provide insights on how to reap the real benefits of E-Commerce by enhancing trust and shared understandings in the virtual market space.

(BS01539)

An IT and Economic Study on the Future of Hong Kong Air Cargo Industry: Long-term Impact of WTO Accession and Direct Links

✉ CHEUNG Wai Man • CHU Sung Chi • LEUNG Chi Kin Lawrence • ZHANG Anming* • HU Y V*

□ 1 March 2002

❖ Funding from Other Sponsors • General Support Program, Innovation & Technology Commission

After 14 years of negotiation, China is about to enter the WTO. As 80% of Hong Kong air cargo trade is related to Mainland's external trade, it will mean substantial adjustments for the HK air cargo industry. It is also evident that direct links between Mainland and Taiwan are likely to take place in the foreseeable

future. We note that 1/6 of HK trade is related to Mainland and Taiwan trade.

The air cargo industry must examine the long-term economic impact of both WTO and direct links on the industry. It must also examine the logistics and IT infrastructure needs within the same context. There will be new requirements for air cargo logistics as well as logistics-related information technology, as more international standards are expected of the Hong Kong air cargo industry. Innovative public policies would be imperative in helping the industry in becoming more competitive globally. Further, E-commerce and Supply Chain Management have become critical aspects of air cargo logistics, the industry would be well served if such aspects can be addressed within the WTO and direct link context as well.

In this study, we organize our investigation into four parts: (1) air cargo flows, (2) business opportunities and strategies, (3) public policy, and (4) logistics and IT infrastructure. We will identify areas that are losing competitiveness and ways in which agents of the air-cargo industry can cooperate in a collective manner to strengthen its competitiveness. We would also investigate plausible efforts that the government can initiate or support to help the air-cargo industry. Such government-related activities as customs procedures and air-cargo infrastructure will be carefully studied.

(BS01703)

The Impact of Financial Liberalization in China

✉ FUNG Ka Yiu Michael • HO Wai Ming* • ZHU Li Jing*

□ 1 November 2001

❖ Research Grants Council (Earmarked Grants)

Experience of many countries and especially that of the recent Asia financial crisis strongly suggest that financial reforms in China is inevitable if its impressive growth performance is to be sustained. The objective of this study is to investigate the impact of financial liberalization on China's macroeconomic performance. To carry out the intended analysis, we modify the existing analytical framework to construct a sufficiently close approximation of the partially reformed economic structure. By using the dynamic model developed in this study, both long run and short run implications will be analytically derived.

(SS01294)

An Integrated TAM-TTF Model for Internet Banking Acceptance

- ✉ LAI Siu King Vincent
- ☐ 1 February 2002
- ❖ CUHK Research Committee Funding (Direct Grants)

In the last couple of years, more banks in Hong Kong are expanding their banking services into the platform of Internet. However, these banks all share the same challenge for the success of Internet banking, which is the need for a critical mass of customers using their Internet banking services. It is equally important, if not more important, for banks to know how their customers value Internet banking services in order that they will be able to do planning and capture the market.

In this study, we will integrate findings from Technology Acceptance Model (TAM) and Task-Technology Fit (TTF) model to derive the determinants significant to the acceptance of Internet banking in Hong Kong. Although TAM and TTF models have respectively been examined across varied information technologies, user population, and/or organizational context, they have seldom been integrated to extend their theoretical validity and empirical applicability. This is especially true when studying the acceptance of Internet banking, whereby its technology settings and transaction environments are drastically different as compared to conventional IT and their business environment.

The findings from this study will assist banks in Hong Kong in understanding the critical factors of Internet banking. It will also provide information on the needs and preferences of the potential customers, thereby banks can make more informed decisions and provide better customer services.

(BS99585)

A Study of Operations Strategies and Performances of Small and Medium Enterprises (SMEs) in Hong Kong

- ✉ LEE Tien Sheng • ZHAO Xiande
- ☐ 1 December 2001
- ❖ CUHK Research Committee Funding (Direct Grants)

With increased globalisation and competition, the survival and competitiveness of a company is not always dependent on size but on its agility and willingness to adapt to the dynamic business environment. In terms of flexibility and agility, small and medium-sized enterprises (SMEs) have an advantage over the large monolithic corporations. SMEs have also played a key pivotal role in contributing to the economic growth and technological progress of many countries such as Hongkong. In Hongkong, SMEs constitute 48% of the GDP and employs 57% of the workforce.

The operations management literature has witnessed a growing interest in the strategic potential of the operations function in companies and many operations strategy studies have been conducted to understand the strategic orientation of operations. However there remains a dearth of research examining the operations and business strategic adopted by successful SMEs and the capabilities that SMEs leverage on to compete in the marketplace.

This study aims to examine the operations strategies and operational practices of SMEs in Hongkong. In particular, the study will identify and analyze the best practices and strategies by successful SMEs. Hence the study will provide important benchmarking information for other SMEs in Hongkong that want to achieve similar success. Our results will also benefit policy makers by providing a basis for the formulation and charting of new government policies for enhancing the competitiveness of SMEs in Hongkong. Our results will also be used to compare against a similar Singapore study that has been conducted by a visiting professor (from the National university of Singapore) to our DSE department recently. This comparative study between Hongkong and Singapore SMEs represents the first of its kind, and pools together data from two of the most successful economies in the Asia Pacific Rim.

(BS01941)

Air Cargo Logistics Integration and Consolidation on a 3rd Party B2B Platform: Issues and Models

- ✉ LEUNG Chi Kin Lawrence • CHEUNG Wai Man • CHU Sung Chi • HUI Yee Van*
- ☐ 15 November 2001
- ❖ CUHK Research Committee Funding (Direct Grants)

The global trend to e-commerce and use of information technology is transforming business operations of the air cargo industry. Hong Kong is a major entrepot in Asia. To be able to compete regionally and globally, the Hong Kong air cargo industry needs to develop its IT infrastructure for air cargo logistics. A 3rd party B2B platform allows the leasing of information infrastructure without requirement of ownership.

Leung, Cheung and Hui (2000) have provided an overall framework for designing an IT infrastructure for air cargo logistics. The framework differs from traditional prtals in that it features the online integration of business transactions.

At the core of this infrastructure is an intelligent mechanism that optimizes the integration and consolidation of air cargo logistics activities. We refer to this mechanism as an E-integrator. The E-integrator is the key to enabling e-commerce activities between agents of the air cargo industry. In this research, we examine the various design and operational issues that must be addressed in developing the E-integrator. There are many constraints in the integration and consolidation of logistics activities, and decision-makers may have many criteria as well. We first formulate the basic problem of cargo logistics integration and consolidation as a mixed 0-1 integer optimization model. Variants of the basic model are then developed for other specific considerations. Efficient solution procedures would be designed for implementation in the Internet environment.

Modern logistics must be IT based. The E-integrator can be viewed as the engine within the B2B platform, which coordinates interrelated activities. Without the E-integrator, the B2B is merely an information seeking and matching platform, i.e. a market place. With the E-integrator, the B2B becomes a platform that integrates and consolidates activities of various agents of the air cargo industry. (BS01508)

Statistical Inference for Time Series with AR Coefficients Near Unity

✉ LI Hongyi

□ 1 November 2001

❖ CUHK Research Committee Funding (Direct Grants)

This project investigates an important theoretical issue in modeling near-nonstationary time series. Many observed business, financial, and macroeconomic variables are recorded over time as time series. Statistical inference about these time series is always important in the empirical analyses of financial markets and economic development. In general, these time series, for example, interest rates, inflation rates, GDP or stock market indices, fluctuate irregularly over time. They are nonstationary (or integrated) in nature, hence the classical way of statistical modeling for trend stationary time series is limited in predicting stock prices or economic growth and in deriving policy implications. For this reason, nonstationary time series models are widely used in recent year.

In many economic and financial applications, although persistency was found in many time series, we are uncertain about the borderline case of whether they are exactly integrated or not. As a result, these time series are best described as near-nonstationary (or near-integrated) processes in empirical analyses. In the past twenty years, a very important problem in empirical macroeconomics has been the measurement of the persistence of the shocks to macroeconomic time series. In this project, we propose the use of a new method in the study of this issue. The new model we propose offers additional flexibility over the traditional nonstationary or near-nonstationary models and has many advantages in dealing with economic, business and financial data. The newly developed method can be widely applied in the analyses of financial market movement and economic growth related to the Hong Kong and the Chinese economy.

(BS01657)

Inter-market Arbitrage Efficiency and Pricing Dynamics of Individual Stocks, Stock Options and Stock Futures.

✉ MOK Man Kwong Henry • FUNG Joseph K. W.* • CHIANG C P Raymond*

□ 1 December 2001

❖ CUHK Research Committee Funding (Direct Grants)

Opinions and futures are important financial instruments for portfolio risk management and arbitrage. However, previous research has limited to studying only a single pair of the opinions, futures

and stock parity conditions, which is incomplete since the third security is omitted in the system. Via a vector error correction (VECM) model, we examine the long-run relationship and short-run dynamics of the three financial instruments simultaneously. By applying impulse response analysis and examining the speed of error correction of the price adjustment process, the results will provide additional evidence on how and whether onscreen trading affect inter-market price efficiency.

The resilience of the three-market system will be tested when the markets are under stress. We will segment the analysis according to various market conditions such as intra-day changes in liquidity and volatility; up and down market conditions; the Hong Kong financial crisis that began in the fourth quarter of 1997 and subsequent direct market intervention by the government in August 1998 and the reactions to the horrible "911" terrorist attack on New York. We will study the static and dynamic price relationship among the three markets under extreme market conditions.

This study will contribute as Hong Kong's first study investigating the arbitrage efficiency of the three markets simultaneously based on individual securities. The results of the study will also have broad implications as financial markets around the globe are moving rapidly towards electronic trading. (BS01896)

An Investigation of Information Sharing in Supply Chains

✉ ZHAO Xiande • LEE Tien Sheng

☐ 1 December 2001

❖ CUHK Research Committee Funding (Direct Grants)

Supply Chain Management (SCM) is about the co-ordination of products and information flows among suppliers, manufacturers, distributors, retailers and customers. To co-ordinate different activities, trading partners must share information with each other. Although modern information technology has made it possible for different parties to share information at high speed with relatively low cost, there are still many barriers for sharing information. Many issues need to be addressed in order for trading partners to share information with each other.

In this study, we will investigate critical factors that will influence the adoption of information sharing,

evaluate the benefits of alternative approaches to sharing information, and propose incentive schemes to induce trading partners to share information with each others. The research methodology will include in-depth case studies of supply chains in selected industries, computer simulation and modeling.

The findings from this study will enhance our understanding of the benefits of information sharing, critical success factors of information sharing and alternative approaches of information sharing. Guidelines will be developed for companies to design effective policies to induce information sharing. These guidelines will help companies, particularly in Hong Kong and Mainland China, reduce costs and improve customer service levels in the supply chain. (BS01792)

Please refer to previous issues of this publication for more details of the following ongoing research at the department:

<u>Edition</u>	<u>Title/Investigators</u>
1999-00	Lexical Cohesion and Boundary Detection in Chinese Discourse: A Computational Approach (CU99196) ✉ CHAN Wai Kwong Samuel • Tsou B K*
2000-01	A Pilot Study on an Intelligent Agent for Clustering Chinese Web-based Documents (BS00999) ✉ CHAN Wai Kwong Samuel
2000-01	Encoding the Connectivity of Events: A Dynamic Connectionist Approach to Gist Preservation (CU20003) ✉ CHAN Wai Kwong Samuel • Tsou B K*
2000-01	Air Cargo Logistics Industry Studies in Shanghai and Beijing (BS20005) ✉ CHEUNG Wai Man • LEUNG Chi Kin Lawrence • HUI Yer Van* • Zhang Anming*
2000-01	Increasing the Competitiveness of the Air Cargo Industry in Hong Kong (BS20004) ✉ CHEUNG Wai Man • LEUNG Chi Kin Lawrence • HUI Yer Van* •

	LAW Japhet Sebastian • Hui W L George* • Lau Anthony*	1999-00	Designing an Air-Express Courier's Distribution Network (CU99037) ✍ LEUNG Chi Kin Lawrence • CHEUNG Wai Man • HSU Cheng*
2000-01	Establishing and Enhancing Trust and Shared Understanding in Virtual Market-space for the E-Commerce Era (BS00453) ✍ CHEUNG Wai Man • HUANG Wayne W*	1998-99	Bootstrapping Time Series Models with Integrated Processes (CU98078) ✍ LI Hongyi • XIAO Zhijie*
2000-01	A Pilot Study of Designing Data Warehouse in Supply Chain Environment (BS00653) ✍ DU Timon Chih Ting	1999-00	Impulse Response Asymptotics and Long Horizon Prediction in Cointegrated VAR Models (BS99012) ✍ LI Hongyi • XIAO Zhijie*
1998-99	Reputation Effect in Repeated Negotiations (CU98076) ✍ LEE Ching Chyi • ZWICK Rami*	2000-01	An Empirical Investigation of Service Quality and Profitability Among Retailers in Hong Kong and Mainland China (BS00718) ✍ ZHAO Xiande • LEE Tien Sheng
2000-01	Total Quality Management (TQM) Practices and Its Success Factors in Hong Kong Manufacturing Industry (BS00829) ✍ LEE Tien Sheng • ZHAO Xiande • LI Eldon*		

RESEARCH OUTPUTS AND PUBLICATIONS

- <P011758> **LEE Ching Chin and YANG Jie.** "Knowledge Management and New Product Development". *6th Asia Pacific Decision Sciences Institute (APDSI)* Singapore: National Singapore University, 2001.07.
- <P011793> **蔡克.** 《香港奇蹟不再嗎?》. 125 頁. 社訊出版社, 2001.10.
- <P012366> **CHOW Kong-Wing, Clement; FUNG Ka-Yiu, Michael and NGO Hang-Yue.** "Ownership Types, Job Turnover and Technical Efficiency in China". *International Journal of Business Studies* vol.9 no.2, pp.69-90. Australia: Edith Cowan University, 2001.12.
- <P02891> **FAN Xuecheng; ZHUANG Hejun and ZHAO Xiande.** "A Cross-Cultural Investigation of Complaining". Paper presented in the 11th Annual American Marketing Association (AMA) Frontiers in Service Conference 2002, organized by Maastricht University and The Center for e-Service, University of Maryland. Maastricht, The Netherlands, 2002.06.27.

see also <P026412>

RESEARCH PROJECTS

The Relation between Price Changes and Trading Volume: A Market Level Analysis

✉ CHENG Wui Wing Joseph • CHANG Eric C* • KHORANA Ajay*

☐ 1 September 2001

❖ Research Grants Council (Earmarked Grants)

In this study, we argue that in examining the price-volume relation at the market level, it is important to distinguish between aggregate market trading volume and the variation in trading volume across individual securities that comprise the market. To explicitly take the later into consideration when examining the price-volume reaction at the market level, we propose a novel “volume dispersion” measure. The use of volume dispersion measure is motivated by the obvious intuition that both market-wide information and firm-specific information cause trading. Since both volume and price change at the stock market index level are composite measures, we argue that, in analyzing the relation between price change and trading volume at the market index level, it is important to include the dispersion measure in the analytical model. Our preliminary results based on a small pilot grant suggest this line of thinking is promising. The research has potential to offer important insights into the relation between price change and trading volume as well as that between return volatility and trading volume at the aggregate market level. (SS01301)

Value Creation and Corporate Governance

✉ CHOW Ying Foon • KEUNG Yiu Ling*

☐ 1 September 2001

❖ Research Grants Council (Earmarked Grants)

The main objective of this project is to investigate the relationship between shareholder value and corporate governance in the context of Hong Kong and China using some recently proposed measures that claim to offer new insights to value enhancement, such as the Economic Value Added (EVA). For instance, as claimed by many advocates, EVA is a key performance index that motivates companies to find

ways to increase efficiency of capital utilization and consequently produce a superior operating performance, and therefore should in theory reflect a stock's intrinsic value. Since featuring in popular financial literature in the early 1990s, EVA has become popular in mainstream corporate circles as a performance measurement and corporate governance tool in the U.S. and around the world. With few exceptions, past studies have concentrated on the relationship between EVA and stock returns as well as firm values in the U.S. Since the stock markets in both Hong Kong and China appear to be quite volatile, this will cast some doubts of using stock returns as the measure of value added to shareholders. Therefore, in addition to examine these usual assertions, this project mainly aims to investigate how alternative corporate governance affects the performance of publicly listed firms in Hong Kong and China using EVA and other related measures. (SS01302)

On the Development of a Wealth Management Platform

✉ CHOW Ying Foon • HE Jia

☐ 11 March 2002

❖ CITIC Ka Wah Bank Limited

CITIC Ka Wah Bank is planning to introduce wealth management services to the market in 2002. The aim of such services is to provide professional financial advices to customers, and help them to manage their assets in an efficient way in terms of wealth accumulation. A comprehensive operation platform, the Wealth Management Platform (WMP), has been developed as a tool to analyze and provide solutions to customers' financial needs. This report serves as a review and comments on the WMP based on our professional opinions. (BS01422)

Credit Risk Management in China Banking System: Statistical Business Failure Classification and Rating Migration Models - A Study Based on The Credit information Registry of China

✉ HE Jia • LI Yu* • SONG Fengming*

☐ 1 September 2001

❖ Research Grants Council (Earmarked Grants)

The main theme of the research in credit scoring, classification analyses, and rating transitions is the finding of the determinants and the reliability of the prediction of future failure and credit ratings migration. The issue is complex enough given some of unique agency, asymmetric information, different ownership structure problems related to China. By this comprehensive study on credit relationship between banks and other organizations we should be able to document some basic scientific findings which are significant to academics, financial industries, and as well as policy makers.

(SS01303)

The Likelihood of Innovation Adoption When Multiple Generations of Future Innovations are Expected

✍ HE Jia

☐ 15 November 2001

❖ CUHK Research Committee Funding (Direct Grants)

Since Schumpeter's theory of economic development, technology innovation has been the name of the game in the world economy. As convincingly evidenced from then till today, the key to the games is the diffusion/transfer of innovations. Diffusion patterns of innovations differ drastically according to technology environments. Because the technology progress will continue when the current innovation emerges, the prospective buyers (firms) are generally confronted with an unceasing flow of innovations. Due to the dynamic and stochastic features of technology progress, adoption decision of a firm is strongly influenced by expectations concerning the timing and significance of future improvements in addition to the cost structure of adoption. This characteristic of adoption decision is especially common in modern high-technology markets. Uncertainty of technology progress creates flexibility that can be represented by a sequence of real options, and thus value for a firm to make strategic investment decisions in adopting innovations. While facing the current innovation provides a firm with the option to opportunity of learning by doing and holds an option to upgrade in the future at low cost. Therefore, a current innovation should be viewed as a link in a chain of future investment options rather than considered in isolation. By delaying the adoption it

may save the total cost of investing in both today and tomorrow's innovations.

In this project, we extend the results of Greadier and Weiss (1997), and He and Zeng (2000), by studying the innovation adoption behavior when multiple generations of future innovations are expected. This will help, for example, to price the third generation (3G) license of mobile services when the 4G and 5G are expected to come in the future.

(BS01570)

Loan Spreads and Bank Risk Capital

✍ Hugh Alun Lloyd THOMAS

☐ 1 December 2001

❖ Research Grants Council (Earmarked Grants)

This study will test the integration of loan pricing in the syndicated bank credit market and with bond markets. It will investigate extent to which revealed syndicated bank credit market pricing and risk conforms to existing theoretical models of credit risk pricing and the degree to which pricing in the market leads or lags the economy. It will also study the degree to which empirical models of value at risk accurately reflect the value at risk to the bank and the strategic behavior of banking groups. Finally, it will also investigate the degree to which regulatory capital for syndicated loans confirms to value at risk / risk capital of corporate lending.

(SS01305)

Economic Analysis Co-relating the Performance of Listed Companies with Their Shareholders' Profile

✍ LANG Hsien Ping Larry • SO Wai Man Raymond • LOW Chee Keong (School of Accountancy)

☐ 8 September 2001

❖ Hong Kong Financial Services Bureau

As many East Asian economies plunged during the Asian financial crisis policy advisors pointed to the ownership concentration structure of corporations and associated corporate governance as one of the main reasons for the weak performance of corporations. Little empirical evidence exists, however, on the nature of the ownership structures in East Asia and its relation to corporate performance

under the typical East Asian family control regime and external environment, often including weak property and shareholders' rights, inefficient judicial systems, and corruption. This study will trace the beneficial ownership to locate ultimate the family owners of all Hong Kong listed firms. To exercise control, we hypothesize that this ultimate owner would exercise his control through deviations from one-share-one-vote rules, pyramid structures, and cross-holdings among firms. Deviations of one-share-one-vote dictate that a superior voting power on shares owned by ultimate owners. Given the deviations of one-share-one-vote, pyramiding and cross-holdings, voting rights consequently exceed formal cash-flow rights. The divergence of cash flow rights from control rights creates incentives for ultimate owners to expropriate minority shareholders. We hypothesize that higher cash-flow rights are associated with higher market values. In contrast, deviations of control from cash-flow rights—through the use of dual-class shares, pyramiding, and cross-holdings—are associated with lower market values. It is likely that the degree to which certain family ownership structures are associated with evidence of expropriation depends on country-specific circumstances. These may include the quality of banking systems, the legal and judicial protection of individual shareholders, and the degree of financial disclosure required. The exact magnitude to which these institutional variables affect the degree of expropriation is an issue of important policy relevance and of potential future research.

(BS01802)

"Bank Ownership, Control and Related Party Lending: A Comparative Study"

✉ LANG Hsien Ping Larry • YOUNG Leslie

☐ 1 October 2001

❖ Research Grants Council (Earmarked Grants)

Poorly-regulated banks and related-party lending have been seen as a major cause of the Asian financial crisis. Europe provides a useful benchmark because banks also dominate corporate finance there, but have not caused the massive expropriation and macroeconomic problems which surfaced during the Asian financial crisis. We shall investigate and contrast the control and ownership linkages between banks and other businesses in the

two regions and examine how these linkages affect bank performance, as measured by profitability, dividends and the comprehensive risk measures employed by observers of the banking industry. By identifying structural features of the relationship between banks and other corporations in Europe which could be translated into an Asian setting to uphold business integrity, we seek policy proposals for Asian banking which are compatible with political and regulatory realities.

(SS01304)

Heterogeneous Beliefs and Stock Market Volatility

✉ LI Tao

☐ 1 December 2001

❖ CUHK Research Committee Funding (Direct Grants)

In the original Lucas (1978) model, all investors assumed to have homogeneous beliefs on the structure of fundamentals (dividend processes) in a pure exchange economy. In this project, I intend to investigate what are the effects when investors have heterogeneous beliefs. The preliminary results I have show stock prices behave completely different from that in an economy with homogeneous beliefs. Several unique features of the equilibrium are especially interesting. Those features include the "excess volatility" of stock prices and the relationships between price changes and trading volume. Those empirical facts are regarded as "puzzles" because they are difficult to be explained by traditional equilibrium models. Furthermore, in a very simple economy, I also show that the stock price volatility becomes higher during recession and lower during expansion when a certain condition on the wealth distributions is satisfied when investor's beliefs are heterogeneous.

(BS01749)

Ownership Structure, Control and Bank Lending: Evidence from Japan

✉ SO Wai Man Raymond • LANG Hsien Ping Larry • YOUNG Leslie

☐ 1 December 2001

❖ CUHK Research Committee Funding (Direct Grants)

Poorly-regulated financial systems and related-party lending from family controlled commercial banks have been suggested as major causes of the Asian financial crisis. Japan provides a useful benchmark to examine the paradigm of related party lending because commercial banks dominate corporate finance in Japan, and there is substantial cross shareholding between lending banks and borrowing firms. This corporate governance structure provides great incentives for lending banks to expropriate wealth from depositors to favored parties and will cause severe macroeconomic problems. We shall investigate the control and ownership linkages between banks and other businesses in Japan and examine how these linkages affect bank performance, as measured by profitability, dividends and the comprehensive risk measures employed by observers of the banking industry. By identifying structural features of the relationship between banks and other corporations in Japan, we seek policy proposals for Asian banking which are compatible with political and regulatory realities.

(BS01933)

An Analysis of Automobile Compensation Systems: The Pending Legislation of US "Auto Choice Reform Act" and Its Implication to Hong Kong Motor Insurance Industry

✉ YEH Jia Hsing

☐ 1 September 2001

❖ Research Grants Council (Earmarked Grants)

According to the Hong Kong Office of the Commissioner of Insurance, motor insurance is one of the two continuous loss-making classes of business in Hong Kong insurance market. In 1999, the loss amount amounted to HK\$258 million. Several studies on auto insurance have found that the compensation system is one of the key factors that explain the cost differences. In the US, three major types of systems concurrently exist: the tort, the no-fault, and the choice system, which creates a unique opportunity for comparison among various systems.

In the 1970's and 1980's, triggered by the escalation of auto insurance premiums, 24 states implemented a variety of no-fault systems to replace the traditional tort system. The evidence of no-fault's effectiveness has been mixed. In the late 1980's a system of choice, whereby drivers can elect either tort or

no-fault, began entering the public debate and three states currently have such a system. In 1997, the debate escalated to the federal level with introduction of The Auto Choice Reform Act in Congress.

This research is to explore the economic consequences of "choice" on auto insurance costs. The data from US Insurance Research Council and other sources enable us to test the cross-sectional comparisons among states with different systems as well as longitudinal comparisons between the systems before and after choice legislation in Kentucky, New Jersey, and Pennsylvania.

Hong Kong's third-party liability system is similar to the tort systems, which can be viewed as a traditional way to compensate traffic victims, in many US states. This research is expected to provide experiences in the US to compare the system with other possible alternatives. Ultimately, we hope policy recommendations for Hong Kong motor insurance market will be proposed from this study.

(SS01306)

Please refer to previous issues of this publication for more details of the following ongoing research at the department:

<u>Edition</u>	<u>Title/Investigators</u>
2000-01	Examining the Implications of Portfolio Theory for Trading Volume: A Latent Variable Approach (CU00018) ✉ CHENG Wui Wing Joseph • Chang Eric Chieh*
2000-01	Is Financial Deregulation a Panacea? (BS00451) ✉ CHOW Ying Foon • KEUNG Yiu Ling*
1997-98	A High-Tech Approach to Innovative Bank Marketing in the Era of Information Explosion (BS97024) ✉ FAN Kin Keung Dennis • CHAN Chi Fai Andrew (Dept of Marketing) • LAU Kin Nam (Dept of Marketing) • LEUNG Kwong Sak (Dept of Computer Science and Engineering) • LEUNG Pui Lam William (Dept of Statistics) • LEUNG Yee (Dept of Geography & Resource Management)

1999-00	Informed Trading and Uninformed Trading in Stock Market and Option Market (CU99040) ✍ FONG Wai Ming • CHAN Kalok*	1999-00	Clientele, Prepayment and Mortgage Design in the Hong Kong Mortgage Market (CU99058) ✍ LIU Ming • CHIANG Chiu Ping Raymond# • HE Jia
1999-00	Internal Capital Market Misallocation and Inefficient External Capital Market: Evidence from Red-chip Companies (BS99002) ✍ HE Jia • CHEN Zhiwu*	2000-01	Weak Moments in the Efficient Methods of Moments (CU00023) ✍ LIU Ming • CHOW Ying Foon • ZHANG Hua • ZHANG Huibing Harold*
1999-00	Technology Innovations and Financial Policies: An Exploratory Study Using A Unique Database on International Market for Medical Technology (CU99041) ✍ HE Jia • LIU John J.*	2000-01	Auto Insurance Claims in New Jersey and Pennsylvania: A Comparison of Pre- and Post-Choice and of No-fault versus Tort (BS00725) ✍ YEH Jia Hsing
2000-01	Internal Capital Market Misallocation and Inefficient External Capital Market - Evidence from Red Chip Companies (CU00021) ✍ HE Jia	1997-98	An Empirical Investigation of the GARCH Option Pricing Model (CU97419) ✍ ZHANG Hua • DUAN Jin Chuan*
1999-00	Related Diversification and Firm Performance (CU99042) ✍ LANG Hsien Ping Larry	2000-01	A Study on Share Repurchases in Hong Kong (CU00024) ✍ ZHANG Hua • CHOW Ying Foon • LIU Ming
2000-01	Expropriation of Minority Shareholders in East Asia (BS00307) ✍ LANG Hsien Ping Larry	2000-01	Financial Innovation in Incomplete Markets (BS00630) ✍ ZHOU Yuqing

RESEARCH OUTPUTS AND PUBLICATIONS

- <P012673> **CHEN C., Cherry and SO W., Raymond.** "Exchange Rate Variability and the Riskiness of US Multinational Firms: Evidence from the Asian Turmoil". Paper presented in the 14th Annual Australasian Finance and Banking Conference, organized by University of New South Wales. Sydney, Australia, 2001.12.18.
- <P020304> **GLASCOCK L. John; LU Chiuling and SO W. Raymond.** "REIT Returns and Inflation: Perverse or Reverse Causality Effects?". *Journal of Real Estate Finance and Economics* vol.24 no.3, pp.301-317. The Netherlands, 2002.
- <P021326> **CHAN C. Eric and CHENG W. Joseph.** "Inflation and Relative Price Variability: A Revisit". *Applied Economics Letters* vol.9, pp.325-330. UK: Routledge/Taylor & Francis, 2002.

<P02658> **CHEN Cherry C. and SO Wai Man Raymond.** "Exchange rate Variability and the Riskiness of US Multinational Firms: Evidence from the Asian Financial Turmoil". *Journal of Multinational Financial Management* vol.12, pp.411-428. Holland: Elsevier Science B.V., 2002.

see also <P011830>, <P011836>, <P011953>

RESEARCH PROJECTS

Corporate Reactions of Poorly Performing Chinese Listed Companies

- ✍ LEUNG Wai Kin
- ☐ 1 December 2001
- ❖ CUHK Research Committee Funding (Direct Grants)

China represents a huge potential market in the world. Its economy has grown by about 9 percent per year since 1978. Ongoing development of the financial equity and bond markets is seen as a way for the Chinese government to privatize its state-owned enterprises (SOEs). However, inefficiency continues to plague Chinese companies. With China's expected accession into the WTO, the inefficiency problem would pose increasingly serious risk to the Chinese economy. According to WTO regulations, China would have to substantially open more markets to other WTO members after she successfully joins WTO. As a result, in a lot of local markets (including the service industry), China would not be able to protect her companies from direct competition to compete against foreign companies. If Chinese companies are unable to solve their inefficiency problems, they will be unable to compete against foreign companies.

To analyze the inefficiency problem of Chinese companies, we plan to study how listed Chinese companies react when they are performing poorly. Do they do what foreign companies in foreign stocks markets are doing: selling assets, restructuring,

changing employment policies, changing control of the board of directors and being taken over, etc. If there are differences between what Chinese listed companies and their counterparts are doing, what accounts for the differences? Does listing in different stock markets (namely China, Hong Kong and New York) have any impact on their corporate reactions? The results of the study could have potentially interesting implications for the improvement of Chinese listed companies. (BS01964)

Please refer to previous issues of this publication for more details of the following ongoing research at the department:

<u>Edition</u>	<u>Title/Investigators</u>
2000-01	Professionalism and Service Quality in Hospitality and Tourism (CU00001) ✍ TSE Eliza Ching Yick • HUI King Man (Dept of Marketing) • LEE Kam-hon
1999-00	An Empirical Investigation of Service Quality and Profitability Among Hotels in Hong Kong (BS99023) ✍ WANG Ko • LEE Tien Sheng (Dept of Decision Sciences and Managerial Economics) • ZHAO Xiande*

RESEARCH OUTPUTS AND PUBLICATIONS

- <P012375> **CHON Kaye and TSE Ching-Yick Eliza. ed.** *Asia Pacific Journal of Tourism Research*. vol.6 no.1. Asia Pacific Tourism Association, 2001.
- <P012377> **TSE Ching-Yick, Eliza and CONNOLLY J., Daniel.** "Creating Hospitality and Tourism Program for the New Millennium". *Conference Proceedings, Asia Pacific Tourism Association 7th Annual Conference* pp.198-200. Makati, The Philippines: University of the Philippines, 2001.07.

<P012671> **CHATHOTH Prakash; TSE, Eliza and OLSEN, Michael.** "Turnaround Strategy: A Study of Restaurant Firms". *Abstract of the International CHRIE 2001 Conference* Toronto, Canada, 2001.07.

see also <P012376>, <P012962>, <P017475>

RESEARCH PROJECTS

An Empirical Investigation of Guanxi Network in Chinese and Non-Chinese Settings

- ✉ CHOW Hau Siu Irene • NG Ignace*
- ☐ 1 December 2001
- ❖ CUHK Research Committee Funding (Direct Grants)

Guanxi networks are important assets that are critical for long-term success. The purpose of present study is to fill the gap in the social network literature by pursuing the following questions:

- (1) To what extent is Chinese guanxi relationship different from western business relationship?
- (2) How does a guanxi relationship evolve over time?
- (3) With accepted measures of guanxi characteristics and vigorous research method, what is the impact of guanxi on performance?

This study applies social network theory and methods in analyzing guanxi networks. Another area of enquiry is the uniqueness of guanxi network. This study seeks to find out whether guanxi connections are indeed different from the western concept of networking relationships, as measured by density, centrality, multiplexity, and homophily. The finding helps to clarify the misunderstanding or incorrect perception of Chinese guanxi as very secretive, and using bribery, corruption and illegal means of getting things done. Relational network in western countries and guanxi in Chinese society are constructs that have universal applications as well as culturally unique manifestations.

Understanding the similarities and difference and ways to synthesize these two constructs may well be a critical step to building successful global business. (BS01316)

Characteristics and Processes of Top Management Teams in Chinese High Tech. Entrepreneurial Firms: A Longitudinal Study

- ✉ FU Pingping • TSUI Anne* • FARR James*
- ☐ 1 November 2001
- ❖ CUHK Research Committee Funding (Direct Grants)

As China advances technologically, over 10,000 high tech firms are established every year, but a large percent of such firms disappear just as quickly. The Chinese corporate graveyard is littered with the remains of thousands of companies that could not make the transition from entrepreneurial star-ups to full-fledged, large, enduring firms. What might account for these premature failures? Based on existing literature and preliminary interviews with twenty-two top management teams of entrepreneurial firms in Beijing as well as focus group discussion with twelve leaders, we propose that the nature of the top management team may be a major reason for the demise for these young firms. We propose a preliminary framework, which emphasize the importance of a strong leader with explicit values and empowering skills. This leader also must be sensitive to the expectations in the complex web of external relations. Team members in effective teams share the leader's values, possess complementary skills and compatible personality traits. These characteristics should relate to both social (TMT member commitment, retention, team cohesiveness and member satisfaction), and task (employee knowledge of the firm goal and firm performance) outcomes. The proposed research aims to refine this preliminary conceptual model through additional focus group interviews to incorporate other potential team or contextual factors that may be indigenous to China. We will test the model by using 400 stratified firms in four major cities in China. The proposed research will contribute to both theory and practice on new venture development and success in an emerging economy with all its dynamic changes.

(BS01976)

Managing in Polychronic Times: Cross-cultural Comparisons of Temporal Norms and Communication Medium

- ✉ HUI Chun • TURNER Jeanine Warisse*
- ☐ 1 October 2001
- ❖ Research Grants Council (Earmarked Grants)

The study of time has not received adequate attention in organizational research. For organizations, the effective scheduling, coordination, and synchronization of people and tasks through time are keys to survival, growth and profitability. For the employees, the effective scheduling and use of time

across tasks both at work and outside work can affect their performance and satisfaction on and off the job. For cross-cultural businesses, the differences in time perceptions and how time-related communications across cultures influence interactions at work and effectiveness of the business. In the management literature, norms about time at work are viewed as characteristics of culture and have not been given appropriate attention. We propose to examine, cross-culturally, the association of time orientation and patterns of temporal norms of different occupational groups in China, Hong Kong and U.S.A. We will examine, for example, whether engineers show a consistent pattern of temporal norms that differ from managers or assembly-line workers. We will also examine how the congruence and incongruence of the individual, occupational, and organizational temporal norms will lead to individuals' and organization's higher performance, and lower stress and conflict. We shall adapt and validate the scales particularly for measuring polychronicity and test a model of cross-cultural polychronicity using a longitudinal design. (SS01309)

Sources of Trustworthiness Evaluations: Self and Others' Perspectives

- ✉ LAU Chi Sun Dora
- ☐ 1 December 2001
- ❖ CUHK Research Committee Funding (Direct Grants)

Interpersonal trust is essential in organizational activities. Current trust research emphasizes trusters' reasons for trusting, the determinants for selecting trusted others, and the benefits (or detriments) of trusting. The trusted others' perspectives are relatively unexplored. In this project, I would like to examine the sources of trustworthiness evaluation. Trustworthiness may be evaluated by focal trusted others (self) or by people around them (others). Two arguments will be examined. First, when individuals are closely related or have interdependent relationships, information exchange is expected to be frequent and accurate. Correlation between self and others' evaluation of trustworthiness is expected to be high. On the other hand, self-evaluation is subject to self-serving bias and therefore self and others' evaluation of trustworthiness will not correlate.

When these sources of trustworthiness evaluation do not correlate, situations of trusting mismatches are possible. When only the focal persons regard themselves as trustworthy, but not others, they are likely to feel frustrated because they do not receive the expected trust. On the other hand, when colleagues trust untrustworthy individuals, colleagues become highly vulnerable and trusted individuals fact great potential for personal gains. Results and implications will contribute to the trust literature. (BS01549)

Strategic Orientations of Top Management Teams in State-Owned Enterprises in China

- ✉ LAU Chung Ming
- ☐ 1 November 2001
- ❖ Research Grants Council (Earmarked Grants)

This project analyzes the strategic orientations of Chinese top management teams in State-Owned Enterprises (SOEs). Strategic orientation represents a resource allocation priority and is based on a cognitive understanding and interpretation of the external environment and internal resources, with the firm's long-term growth and shareholders' wealth as the ultimate objective. An orientation is developed in a strategist's mind that involves different investment and deployment of financial resources and human capital, and perhaps political capital. Using both agency theory and transaction costs perspectives, the current project investigates how different strategic orientations are developed among the top management teams of Chinese SOEs in different regions. It is argued that strategic orientations are based on both market and societal demands, as well as the top management team characteristics. However, the agency issue and transaction costs involved will serve as constraints to the development of the orientations. (SS01310)

"Environmentalism and Business Management in the Greater China Region: The Cases of Mainland, Hong Kong, and Taiwan Pollution Intensive and Environmental Protection Firms"

- ✉ TSAI Soo Hung Terence • DONG Xin Bao* • LIU Xue* • LU Yuan
- ☐ 1 September 2001

❖ Research Grants Council (Earmarked Grants)

Over the past twenty years, the People's Republic of China (the PRC) has achieved an impressive rate of growth. However, the country's economic development has been achieved at the expenses of a deteriorating environment. The proposed research project is a follow-up to the team's previous study of the environmental protection in the Mainland China, which hinted that Chinese firms, including those established by the Hong Kong and Taiwanese investors, were lagging behind in the greening business initiatives. The proposed project will examine, in the first instance, the effect of environmental regulations on pollution intensive firms and how they responded to such institutional demands. Second, we will analyze the economic and institutional linkages between pollution intensive firms and their suppliers of environmental protection products or services. The research is expected to contribute to:

- (1) the enrichment of institutional theories which are the main framework adopted in this project; and;
- (2) the business opportunities of environmental protection industries in the PRC.

Case studies employing semi-structured interviews will be used as the principal research method tool of investigation. At least 16 case studies will be conducted and the analysis will be via content analysis using NU-DIST or Atlas/ti.

(SS01311)

Please refer to previous issues of this publication for more details of the following ongoing research at the department:

<u>Edition</u>	<u>Title/Investigators</u>
2000-01	Service Quality and the Congruency of Employee Perceptions and Customer Perceptions (CU00032) ✉ CHEUNG Wai Hung Gordon • HUI King Man (Dept of Marketing)
2000-01	A Cross-Cultural and Cross-National Comparative Study of Entrepreneurs in China and the United States (BS00394) ✉ CHOW Hau Siu Irene • TAN Justin*

1999-00	Partner Selection in Strategic Alliances in Greater China: What are the Most Important Selection Criteria and Success Factors? (CU99047) ✉ David Christopher AHLSTROM • HITT Michael A.* • DACIN M. Tina*
1999-00	Venture Capital in Hong Kong: Its Role in High Technology Development (BS99029) ✉ David Christopher AHLSTROM • BRUTON Garry* • Sapienza Harry*
1999-00	Exploring Managerial Influence Behaviors that Cross Borders (CU99050) ✉ FU Pingping • GARY Yuki*
1999-00	Study of Chinese CEOs (Chief Executive Officers): A Value-based Leadership Approach (BS99026) ✉ FU Pingping • HOUSE Robert* • Wu Ku Wei* • Yang Yong Kang* • Wu Rong Xian* • Lin Gang* • Zhang Lihua*
2000-01	Study of Chinese CEOs: A Value-Based Leadership Approach (BS00537) ✉ FU Pingping • Wu Ku Wei* • HOUSE Robert* • WU Rong Xian* • JI Xiao Li* • YANG Yong Kong* • FU Yong Gang*

1998-99	The Nature and Outcome of Psychological Contracts: A Longitudinal Study in a Chinese Context (CU98197) ✉ HUI Chun • CHEN Zhen Xiong* • ROUSSEAU Denise*
2000-01	Cross-cultural Differences in Group Member Expectations and Outcomes (CU00026) ✉ HUI Chun • ROUSSEAU Denise*
2000-01	Managing High and New Technology Industries in China (BS20003) ✉ LAU Chung Ming • LU Yuan • MAKINO Shigefumi • Yeh Rhy Song* • Chen Xiao Hong* • Wang Xiao Ruo*

1998-99	The Embeddedness of Strategic Management in a Transitional Economy: Diversification Strategies in Guangdong Large Industrial Groups (CU98092) ✍ LU Yuan • YEH Ryh Song • CHOW Hau Siu Irene • BRUTON Garry D.* • HOSKISSON Robert E.* • LAN Hailin*	2000-01	Innovation, Strategies and Performance of Small and Medium-sized Technology-based Enterprises (BS00555) ✍ QIAN Gongming • WANG Yu Long Denis
2000-01	Permanent Failure or Successful Transformation: An Exploratory Study SOEs (State Owned Enterprises) in the PR China (BS20001) ✍ LU Yuan • Marshal Meyer*	2000-01	Corporate Governance and Strategic Networks in Asia (BS00846) ✍ WANG Yu Long Denis • AU Yuk Fai Kevin • PANG Mike*
1999-00	Technology Sourcing through FDI: The Case of Asian Multinationals in the US, UK, and Japan (CU99052) ✍ MAKINO Shigefumi	2000-01	"Development, Validation, and Application of an EQ Model in the Work Place" (CU00038) ✍ WONG Chi Sum • LAW Kenneth S* • WONG Ping Man*

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- <P019663> **DELIOS Andrew and MAKINO Shigefumi.** "The Timing of FDI: Is Being Early Always Better Than Being Late?". Paper presented in the Academy of Management Annual Meetings USA, 2001.08.
- <P019962> **BIRD Allan; MAKINO Shigefumi and ROEHL Tom.** "AJBS and AAOM Plenary: A challenging Japanese business systems and its changing relationship in Asia". Paper presented in the Academy of International Business Sydney, Australia, 2001.11.16.
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- <P985355> **LAU Pak Lung Victor.** "Why are Entrepreneurs Committed to their Careers? A Study of Hong Kong Small Business Owners". *Paper presented in the The Third South China International Business Symposium*, organized by The Faculty of Business Administration, University of Macau, 12 pgs. 1998.11.23.
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see also <P012366>, <P020293>

RESEARCH PROJECTS

CRM Feasibility Project for Bank of China (Hong Kong)

- ✍ LAU Kin Nam • FAN Kin Keung Dennis (Dept of Finance)
- ☐ 17 June 2002
- ❖ Bank of China (Hong Kong)

This CRM feasibility project mainly studies how the customer data of BOCHK can be transformed and converted into meaningful information for marketing actions through data cleansing and mining. (BS02305)

A Mathematical Model of Customer Conversion Effects

- ✍ TSE Ching-biu Alan
- ☐ 1 December 2001
- ❖ CUHK Research Committee Funding (Direct Grants)

In Marketing, numerous conceptual models exist that describe different types of dynamic conversion processes in advertising and consumption behaviour. An example is the various hierarchy of effects models that explain how advertising and promotion turn consumers in the cognitive stage to the affective stage, and finally to the behavioral stage. The sequence described by these models is essentially the same, although the number of stages may be increased or refined. Another good example is the retail sales conversion model that postulated all human traffic must be converted into front store traffic and then in-store traffic before a possible transaction can be completed. A similar conversion process can be postulated for online shopping behaviour. These models can be collectively labeled as “conversion effects” models. Conversion effects models are mostly qualitative in nature. This research aims at fitting a mathematical model that describes that dynamic process of how marketing mix factors cause consumers to migrate from one stage of a specific model to a ‘higher’ stage in the model. (BS01496)

A Partial Transfer Strategy for the Supermarket Technology: The Case of China

- ✍ TUNG HO Suk Ching S. • TANG Fangfang
- ☐ 15 March 2002
- ❖ CUHK Research Committee Funding (Direct Grants)

According to the “food modernization school of thought”, the introduction of modern food retail technology could contribute to the process of economic development of the less developed economies (LDEs). The “modern food retail technology” in this context primarily refers to the western retail prototype of vertically integrated supermarkets. However, there is no consensus on a food retail modernization strategy that can claim supremacy in effecting a transfer of the supermarket technology into the LDEs. At least two competing strategies – a complete transfer strategy and a partial transfer strategy – have been adopted with varying degree of success in different economies.

The current proposed research project is to test a proposition that a partial transfer of the supermarket technology giving rise to a hybrid format incorporating both elements of the modern (supermarket) and traditional (wet market) food retail format is the more applicable food retail modernization strategy in the Chinese market. This is tantamount to a localization of the western-originated supermarket technology in the Chinese context. It is contended that the project offers academic as well as managerial implications pertaining to the transfer of supermarket technology across different economies. (BS01667)

Please refer to previous issues of this publication for more details of the following ongoing research at the department:

<u>Edition</u>	<u>Title/Investigators</u>
1999-00	Data Fusion, Data Mining and Decision Support System: Bank Marketing in the Twenty-First Century (BS99001) ✍ CHAN Chi Fai Andrew • LAI Siu King Vincent (Dept of Decision Sciences and Managerial Economics) • LAU Kin Nam • LEUNG Kwong

	Sak (Dept of Computer Science and Engineering) • LEUNG Pui Lam William (Dept of Statistics) • LEUNG Yee (Dept of Geography & Resource Management)	2000-01	DHBG-CUHK CRM (Customer Relationship Management) Joint Project (BS00615) ✉ LAU Kin Nam • LEUNG Pui Lam William (Dept of Statistics)
2000-01	The Adaptability of WOM (Word-of-Mouth) Communication in an On-line Setting (BS00875) ✉ CHAN Hak Sin	2000-01	The Design and Implementation of a CRM (Customer Relationship Management) System for CITIC Ka Wah Bank (BS20007) ✉ LAU Kin Nam • LEUNG Pui Lam William (Dept of Statistics)
1999-00	The Impact of Empowerment on Employee and Customer Satisfaction: A Cross-Cultural Comparison (BS99019) ✉ HUI King Man • AU Yuk Fai Kevin (Dept of Management)	1989-90	Currency Investors' Behaviour and Exchange Rate Forecasting (AB00137) ✉ MUN Kin Chok
2000-01	The Impact of Empowerment on Employee and Customer Satisfaction: A Comparison between Service Organisations in PRC, Hong Kong SAR and North America (CU00030) ✉ HUI King Man • AU Yuk Fai Kevin (Dept of Management) • Ilan Vertinsky*	1989-90	Cultural Differences in Family Decision-Making (AB88037) ✉ YU Hung Hsua Julie
2000-01	Consumer Preference Uncertainty: Effect of Attribute Conflict in Judgement and Choice (CU00031) ✉ JIA Jianmin • Mary Frances Luce*	1989-90	The Impact of Cultural Values on Consumer Behaviour and Acceptance of Specific Products (AB90045) ✉ YU Hung Hsua Julie • ALBAUM Gerald*
		2000-01	Internet Usability Project (BS00343) ✉ YU Hung Hsua Julie • SMITH Scott*

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- <P012376> **TUNG Ching Ho, Suk and TSE Ching-Yick, Eliza.** "Retail and Distribution System in Hong Kong". *The Asian Retail and Distribution Forum 2000* pp.27-28. University of Marketing and Distribution Sciences, 2001.
- <P012516> **POWPAKA Samart.** "Consumers' Brand Choice of Pharmaceutical Products During Economic Depression: An Empirical Investigation". *Journal of Pharmaceutical Marketing & Management* vol.14 no.1, pp.27-61. USA: Pharmaceutical Product Press/The Haworth Press, Inc., 2001.
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