

## RESEARCH PROJECTS

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### **Concentrated Stock Ownership and Price-Leading-Earnings Effects in East Asia**

✉ HAW In-mu • HWANG Lee Seok# • WU Yuwu Woody

☐ 1 November 2002

❖ CUHK Research Committee Funding (Direct Grants)

This study examines the effect of stock ownership structure (i.e., concentrated stock ownership and divergence of voting rights and cash flow rights) on the extent to which stock prices lead accounting earnings in seven East Asia countries. Compared to their U.S. and U.K. counterparts, corporate ownership in East Asia is highly concentrated, especially in a small number of influential families (except for Japan) and the controlling owners frequently possess less cash flow rights than voting control rights. Furthermore, top managers often come from the controlling families. The concentration of ownership in controlling owners and their close ties to firm managers provides the controlling shareholders an incentive and ability to acquire 'private' information about the firms' operating, investing, and financing activities much sooner than the release of the financial statements. The increased demand for and resultant early acquisition of private management information then lead to the stock prices incorporating accounting information relatively early. Recent research on value relevance of accounting earnings and earnings components in East Asian economies essentially adopts a view that earnings information is primarily reflected in stock returns contemporaneously. This

view likely stems from the findings of existing literature on U.S. firms whose ownership structure is distinctively different from that of East Asian firms. In light of the salient features in ownership structures in East Asia, however, the maintained assumption underlying a contemporaneous association specification may not be descriptively valid. Therefore, the current study is expected to provide new evidence on the effect of corporate governance structure in Asia on the extent to which prices lead accounting earnings. Extant literature remains relatively silent on this important question. The findings of the study will shed light on the extent of expropriation of minority shareholders in East Asian corporations and provide useful insights to regulators to enhance the corporate governance structure. (BS02631)

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### **Professionals' Duties and Liabilities in China: The case of certified Public Accountants**

✉ JIANG Zhaodong • WANG Liyan\*

☐ 1 December 2002

❖ Research Grants Council (Earmarked Grants)

Professionals like lawyers and certified public accountants (CPAs) have emerged in recent years as new social groups in the Chinese system, although their role vis-à-vis the state, public and their clients is still ill-defined. As a result, contentious questions have arisen as to their moral, political and legal duties and liabilities. Existing normative, analytical or empirical models as employed in studies of professionals' liability issues in western societies only have questionable relevance to those questions, because of China's conceptual and institutional characteristics and differences.

This project investigates the duties and liabilities of Chinese professionals in general and CPAs in

particular on the basis of theoretical accounts as developed by the Principal Investigator against institutional backgrounds that are uniquely Chinese. Duties and liabilities of Chinese officials and citizens, the two other groups in the society will be compared. Cases, decisions and views concerning professionals' duties and liabilities will be collected and interpreted to test hypotheses formulated under the theoretical accounts and institutional backgrounds. The perspectives of the state, general public, clients and professionals themselves will all be critically analyzed.

(CU02277)

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**Effect of Bankruptcy Risk, Corporate Governance and Accounting Quality on Audit Fees in Hong Kong around the Asian Financial Crisis**

✉ LAM Chee Keung

□ 1 November 2002

❖ CUHK Research Committee Funding (Direct Grants)

This project proposal seeks to study how bankruptcy risk, accounting quality and corporate governance interact to affect an auditor's effort and subsequently audit fees charged to auditees. We use the unusual economic conditions of the 1998 Asian financial crisis as a stress test of the effect of these factors on audit pricing in Hong Kong. We propose to study the situation prior and subsequent to the financial crisis. Our current results suggest that audit fees were highly sensitive to a client firm's financial condition, corporate governance, and accounting quality, in predicted directions in 1998 when Hong Kong was deep in financial crisis. We propose to examine how the sensitivities of the fee determinants vary prior and subsequent to the crisis. We hypothesize that the sensitivities would decline

significantly when Hong Kong was further away from the trough. Funding is also requested to improve the precision in measuring the variables used. Our project will contribute to the understanding of audit effort determinants and their interaction with the general economic environment.

(BS02430)

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**Analysts' Earnings Forecast Accuracy in the Chinese Capital Market**

✉ LUI Man Ching Gladie

□ 1 January 2003

❖ CUHK Research Committee Funding (Direct Grants)

Chinese capital markets have now become a steady and important portion of international investors' portfolios. With China's accession into the World Trade Organization (WTO) and the gradual opening up of Chinese financial markets, the importance of China's stock markets is bound to increase. Given these investment opportunities, investors need more accurate information about the future performance of Chinese firms. Consequently, the demand for analysts' services has increased and the accuracy of their forecasts has important implications on the quality of their services.

I plan to study the accuracy of analysts' earnings forecasts in China. The unique dual reporting system in China requiring listed firms with foreign ownership to report their financial statements in accordance with both Chinese and International Accounting Standards (IAS) offers a good testing ground for the hypothesis that forecasting error is an inverse function of the availability of information. In addition to the financial statement disclosure, I will also study the firm specific disclosure of individual company and the relationship of firm's

voluntary disclosure to the accuracy of analysts' forecast.

My main hypothesis is that dual reporting, as required by legislature, provides a richer set of information for financial analysts, and will lower analysts' forecasting error. Furthermore, I will examine the firm specific news disclosure within my test period and analyze the relationship between analysts' forecasting error and amount of information available from firms.

(BS02938)

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**Flexibility or Signaling? An Investigation of Stock Repurchase**

✉ RUI Meng

☐ 1 December 2001

❖ Research Grants Council (Earmarked Grants)

Corporations distribute cash to their shareholders by either cash dividends or share repurchases. One of the most significant trends in corporate finance during the 1990s is the increasing popularity of stock repurchase programs. However, our understanding of how corporations decide between dividends and share repurchases is still quite limited. This project attempts to shed some light on this issue by empirically testing various hypotheses employing recent developments in time-series analysis.

Some argue that share repurchases are chosen when managers believe their stocks are substantially undervalued and/or managers intend to signal future prospects. Others argue that dividends are related to permanent cash flows, whereas share repurchases are related to temporary cash flows. Others explain that managers repurchase shares in anticipation of executive compensations.

Employing recently developed time-series techniques, we evaluate these hypotheses in a rigorous manner by

providing empirical measures of under-valuation (by decomposing stock prices into fundamental and non-fundamental components), permanent/temporary cash flows (by another decomposition of cash flows), and signaling effect based on information asymmetry. Causality (and VAR) tests are employed to see causal relations between share repurchases and executive compensations. In addition, we provide cross-country evidence by examining the data of the U.S., Hong Kong, and Singapore.

(BS01789)

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**Chinese Auditors' Ethical Behavior in an Audit Conflict Situation: A Research Note**

✉ TONG WU Yew Jen Marian

☐ 1 January 2003

❖ CUHK Research Committee Funding (Direct Grants)

This study will draw on the economics of ethical compliance model to examine the association between ethical reasoning, perceived risk of detection, perceived levels of penalties and Chinese auditor's behavior in an audit conflict situation. The choice of China for the site of this study is motivated by reports that unethical auditor behavior is a major problem facing the Chinese auditing profession.

(BS02358)

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**Value Relevance of Reported Cash Flows in the Emerging Capital Market of China**

✉ WU Yuwu Woody • HAW In-mu

☐ 1 January 2003

❖ CUHK Research Committee Funding (Direct Grants)

As the Chinese stock market expands, the scarcity

and quality of accounting information have become an important issue for investor to price the shares of listed firms. The usefulness of earnings is also subject to doubt as earnings manipulation became popular. To mitigate these problems, Chinese regulator issued standard on Cash Flows Statement in 1998, which discloses cash flow from operations in detail. However, the disclosure system in China is quite different from that in mature markets. While earnings information is available to investors earlier than cash flow information in mature markets, all accounting information is disclosed on the same date through Chinese newspapers. Therefore, in China, the relatively concentrated information release channels and the identical announcement date constitute a unique setting for assessing the impact of the new mandatory disclosure of cash flow information on the stock market. The objective of this study is to investigate whether the new mandatory cash flow disclosure provides useful information to investors. It will address three research questions. First, it will examine the relative and incremental information content of earnings and cash flow from operations. It then evaluates whether Chinese investors prices the funds-based earnings components differently. The last part of the proposal will investigate whether Chinese investors rely on cash flow information rather than on earnings for the valuation of a firm, when the reliability of reported earnings is suspect. This study could contribute to current literature by providing further evidence of the value relevance of cash flow information in the emerging Chinese market. It also has implications for Chinese regulators as it provides useful insight on whether the new policies on cash flow disclosure are achieving their original goal. Finally, it could shed light on whether Chinese investors are able to apprehend the quality of reported earnings, given that they are

perceived to be relatively less sophisticated than those in mature markets.

(BS02562)

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**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	Multinational Transfer Pricing: An Experimental Study of the Effects of National Culture on Negotiated Transfer Pricing Decisions (CU99023) ✉ FERGUSON Michael John • LAM Chee Keung • JOYCE Edward J*
2000-01	The Effect of Non-audit Services on Audit Quality (BS00608) ✉ FERGUSON Michael John • YOUNG Danqing
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
2001-02	The Market Valuation Implications of Aging Disclosures of Accounts Receivable in an Emerging Market (BS01982) ✉ HAW In-mu • QI Daqing# • WU Yuwu Woody
2000-01	Family Control, Corporate Governance and Firm Performance (BS00500)

	✍ HO Shun Man Simon • CHAN Siu Yeung*		✍ TONG WU Yew Jen Marian
1999-00	The Making of Administrative Tax Rules in China (CU99026) ✍ JIANG Zhaodong	2001-02	Auditing and the Information Content of Interim Report in the A-share Market of China (SS01288) ✍ WU Yuwu Woody • HAW In-mu • QI Daqing#
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 • FERGUSON Michael John • ZHOU Yuqing (Dept of Finance)	2001-02	Timing of Earnings Announcements in China: Determinants and Stock Market Consequences (BS01885) ✍ WU Yuwu Woody • HAW In-mu • QI Daqing#
2001-02	Performance of Foreign Investments in China: An Empirical Study with Tax (BS01602) ✍ LAM Chee Keung	2001-02	Task Assignment and Performance Measures (BS01437) ✍ XIE James Jia Zheng
2000-01	Further Evidence on Pricing Initial Audit Engagements (BS00536) ✍ LEE Suk Yee Dominica	1999-00	International Accounting Differences, Foreign Investment, and Capital Market Integration (BS99011) ✍ YOUNG Danqing
2001-02	The Potential Determinants of Auditor Changes: An Empirical Investigation of Listed Companies in Hong Kong (BS01349) ✍ NG Yick Man Andy	2001-02	An International Comparison of the Value-Relevance of Alternative Accounting Data (BS01931) ✍ YOUNG Danqing • MENSAH Yaw Mireku#
2000-01	The Expectations-performance Gap in Financial Reporting From Bank Loan Officers' Perspective (BS00923)		

## RESEARCH PROJECTS

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### **Learning Explicit Context Representation in Chinese Texts: A Statistical Enhanced Connectionist Approach**

✉ CHAN Wai Kwong Samuel

☐ 1 January 2003

❖ CUHK Research Committee Funding (Direct Grants)

In text understanding, during the computation of utterance meaning and upon its completion, a great deal of spontaneous, input-driven inference is presumed to occur, working out plausible interpretations and consequences based on the context interpreted so far, and on meaning postulates and world knowledge. This 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 context information into the representation of an utterance, and performing inferences all depend on the representation adopted. The objective of this project aims to extend language understanding up to text level and concentrate on the learning of a deep but incremental explicit context representation using a statistical enhanced connectionist approach. A context model in Chinese texts will be developed and implemented as both semantic and knowledge representation that would serve the full range of interpretive and inferential needs of general natural language understanding. The most distinctive

feature of our context model is its language-neutral nature which allows contextual effects linked to a uniform representation that describes them, and ultimately gives a text a coherent elaboration. The strategy to overcoming brittleness of natural language processing systems using this context representation will also be investigated.

(BS02937)

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### **Trust, Trust Building, Risks, and Internet Shopping**

✉ CHEUNG Wai Man • CHANG Man Kit\*

☐ 1 January 2003

❖ CUHK Research Committee Funding (Direct Grants)

Only 8% of internet users identify shopping online as one of the frequently used internet services in a recent survey by the China Internet Network Information Center. Risk perceptions and lack of trust have been identified as two major obstacles to the adoption of internet shopping. However, there are very few studies can be found in the literature, which study the impact of risk, trust, and trust building on internet shopping. Thus, the proposed research aims to understand and assess the effectiveness of various trust building mechanisms that can be used to enhance the willingness of the customers to shop online. A new theoretical model that includes trust and risk perceptions is to be developed based on the well-supported Triandis Model of Choice to study the adoption of internet shopping. The model will then be validated empirically through a survey and an experiment. The survey study will assess the impact of important antecedents on the adoption. A scenario-based experiment will also be conducted to investigate the effects of institutional based and process based trust

building mechanisms in enhancing trust the reducing risk perceptions. The study will fill the vacuum of the literature in this important area. The resulting theoretical model also provides a well-founded framework that can be used to guide future research.

(BS02618)

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**Analysis of Air Passenger and Cargo Flows of Mainland's Major Airport and Hub Identification**

✉ CHEUNG Wai Man • HUI Wang Liang  
George# • HUI Yer Van\*

□ 18 February 2003

❖ Hong Kong Dragon Airlines Limited

This project conducts in-depth studies of the air passenger and cargo industry for Beijing, Shanghai, Guangzhou, Shenzhen, and Chengdu. We also study the classification of Mainland airports based on air traffic, economic development and social factors. Each cluster is further analyzed by examining the economic variables (such as GDP, population, industries, etc.) of airport bases. Major characteristics of each airport type are identified.

An air cargo hub serves as a transshipment point and allows for the replacement of direct connection between all airports with fewer, indirect connections. Major hubs will be identified based on the result of clustering analysis. Hinterland analysis and air traffic between hubs will be examined. Historical clustering and future developments will be discussed.

(BS02786)

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**The Impact of Public Investment in Infrastructure in China-A Comparative Analysis of Financing Methods**

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

□ 1 November 2002

❖ Research Grants Council (Earmarked Grants)

The Chinese government drastically changed its fiscal policy stance in 1998. Abandoning the fiscal consolidation initiated during the period of 1993-94, it fought deflation that set off in 1998. Moreover, it sought to redress the imbalance of regional economic development, which threatened to seriously hamper China's social stability and overall economic development. Consequently, a large quantity of funds was committed for infrastructure projects. As a rapidly growing economy with a vast expanse of diverse territory, China's need for infrastructure is enormous. According to World Bank estimates, infrastructure will require US\$75 billion per year for at least 10 years. Thus, financing infrastructure investment is and will be a serious challenge for a long time to come. Hence, the mobilization of domestic household savings to satisfy the demand for infrastructure investment in the entire economy is vital. This study will evaluate how the development of government bonds, money creation, corporate-income tax, and labor-income tax in relation to public investment in infrastructure affect China's macroeconomic performance. We shall modify the existing macroeconomic analytical framework to provide a sufficiently close characterization of the partially reformed economic structure in China and aim to suggest financing method(s) that can be adopted by the Chinese government to sustain rapid GDP growth without high inflation.

(CU02286)

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**Developing and Understanding Competitiveness of Chinese Manufacturing Industries**

✉ LEE Tien Sheng • ZHAO Xiande

- 1 November 2002
- ❖ CUHK Research Committee Funding (Direct Grants)

The purposes of this research project are to study the competitiveness and to evaluate the use of targeted improvement programs of manufacturing companies in four strategic industries of Mainland China: Electronics, Electrical Appliances, Automobiles, Textile and apparel. Companies in this proposed project will be able to position themselves against manufacturing practices and performance of major competitors, including those in Asia-Pacific, the USA and Europe. This will allow the companies to more realistically assess their strengths and weaknesses in a domestic and international context, and to target the most critical areas of improvement.

This project builds on the research tools and methodologies used by the individual members of the proposed research team in the past, as well as a set of Global Benchmarking Tools developed by London School of Business and IBM global services, and observations of at least six separate databases representing over 4,000 companies in the major industries nations. It is proposed to pool these resources together to develop and refine these tools and techniques so they can be used simultaneously to collect research data on Chinese Manufacturing companies in the selected industries located in four representative cities: Shang Hai, Tianjin, ShenZhen and Chong Qing. The data collected will be used to assess competitiveness of Chinese manufactures, investigate the key factors that influence their competitiveness and help these companies to identify critical areas of improvement so that they can become effective competitors in the global market place. As China enters the World Trade Organizations (WTO), more and more companies will have to enhance their competitiveness in order for them to survive and

prosper in the increasingly competitive global market place. This project is designed to help Chinese Manufacturers to enhance their global competitiveness.

(BS02878)

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**Air Cargo Logistics Integration and Consolidation on a 4th Party B2B Platform: Issues and Models**

✉ LEUNG Chi Kin Lawrence • CHEUNG Wai Man • CHU Sung Chi • HUI Yer Van\*

- 1 October 2002
- ❖ Research Grants Council (Earmarked Grants)

The global trend of e-commerce and use of information technology is transforming business operations of the air cargo industry. 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 4th party B2B platform allows the leasing of information infrastructure without requirement of ownership.

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, which 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 0-1 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 inter-related activities.

(CU02288)

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### **Bootstrapping the Unit Root Tests in Small Samples**

✉ LI Hongyi

□ 1 November 2002

❖ CUHK Research Committee Funding (Direct Grants)

Unit root testing is an important procedure in econometrics modeling of nonstationary macroeconomic and financial data. The literature on unit root testing is enormous. Most of the procedures are based on asymptotic theory. Accumulated Monte Carlo evidence shows that in finite sample these asymptotic procedures usually have serious size distortions in testing the unit root hypothesis. Therefore the commonly used tests tend to give misleading results. A direction in which the subject is presently moving is the development of unit root tests with improved size properties. One of the mechanisms for improving the size properties of these tests is related to bootstrap. The main objective of the proposal is to study bootstrapped unit root tests in small samples. It is shown in our preliminary research that when applied to popular unit root tests such as the Phillips-Perron test, the bootstrapped Phillips-Perron test is less sensitive to the bandwidth choice and the temporal dependence in innovations and thus has better size properties than the original procedures. We will set up statistical and econometric models to conduct rigorous investigation of our methodology. Then we will use

Monte Carlo simulation to evaluate the performance of our methods.

(BS02784)

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### **Knowledge Ecology and Firm Performance**

✉ LIANG Ting Peng

□ 1 November 2002

❖ CUHK Research Committee Funding (Direct Grants)

Knowledge management has been a focus in recent organizational and information systems research. It is often argued that good knowledge management will enhance the competitiveness of a firm. It is unclear, however, how this is achieved and whether it is true for all industries. In this proposed research, we intend to develop a model for measuring knowledge ecology in an organization and investigate the relationship among information technology, knowledge ecology in an organization, and its performance. By knowledge ecology, we mean the diversity and intensity of knowledge distribution in an organization. Instrument for measuring knowledge ecology will be developed. Empirical data will be collected to examine the hypothesis that the use of information technology and management of knowledge ecology are positively related to the performance of a firm. The findings will create the new, ecological approach to studying knowledge management, and provide evidences to support the value of knowledge management in organizations.

(BS02809)

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### **Hong Kong - Pearl River Delta (HK-PRD) Economic Integration**

✉ NG Fung Yee Linda • TUAN Chyau

□ 1 December 2002

❖ Donation from Sir Gordon WU

This research contributes to the study of Hong Kong-Pearl Delta (HK-PRD) economic linkages, policy coordination, and irreversible regional economic integration. Focus was put on the significance of the agglomeration effects that have helped the HK-PRD region to promote sustainable regional growth of Hong Kong and PRD. The research results released at the first stage was well received by the Government, research organization, and local/international communities, and at the same time received extensive coverage by mass media locally, nationally, and internationally.

(BS02973)

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**Asia V-Chain - Advanced Strategies and Tools for Virtual Supply Chain Management in Asian Environment**

✉ YEUNG Hoi Yan Jeff • ZHAO Xiande

□ 1 November 2002

❖ Asia-Information Technology and Communications, European Commission

The project aims at providing information and tools for helping Asian SMEs to implement innovative approaches in the field of *Supply Chain Management*, focusing on upstream physical, information and economic values flows, with particular reference to complex industrial situations, such as Inter-firm Networks.

*The target groups* will be Chinese Manufacturing SMEs that will provided with methodologies and techniques that will be designed according to the result coming from V-Chain project (EU V FP funded project; [www.vchain.org](http://www.vchain.org)). *The main activities* will envisage the calibration of V-Chain

methodology and tools to the local requirements, the development of action plans and reference framework for pilot applications that deliver appropriate IT&C initiatives within the Asian selected region.

(BS02936)

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**Strategic Posture and Practices of Logistics Service Providers in Hong Kong**

✉ YEUNG Hoi Yan Jeff • ZHAO Xiande • SUM Chee Chuong\*

□ 1 January 2003

❖ CUHK Research Committee Funding (Direct Grants)

Hong Kong has maintained the position of being the busiest container port and international air cargo handling centre in the world for many years. Both the Government of HKSAR and companies in private sector are trying their best to make Hong Kong as a leading logistics hub in Asia. To become a logistic hub, infrastructure is very important. However, operations management and strategic planning adopted by logistics service providers are equally important in order to keep Hong Kong staying competitive in logistics. This research is the first study that examines different strategic postures of logistics providers and analyses the business performance, technologies, operations objectives and future plans of each strategic type. The differences among the strategic types generate new managerial insight and implications for logistics managers and executives. Through diverse types of method, including in-depth interview with management and employees, survey with service employees and customers, we will study the current and best practices in the areas of market intelligence collection, competitive strategy formulation, operations strategy formulation and prioritization. We will also

examine how Hong Kong logistics companies build competitive/operational capabilities and core competencies to enhance their competitiveness.

(BS02511)

improve customer satisfaction and prevent defection by preventing service failures and properly recovering from service failures.

(BS02397)

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**The Effects of Procedural Fairness, Prior Relationship and Power on Customers' Reactions to Outcome Failures in Service Delivery: A Cross-cultural Study**

✉ ZHAO Xiande • HUI King Man (Dept of Marketing)

☐ 1 January 2003

❖ CUHK Research Committee Funding (Direct Grants)

This project proposes to investigate the moderating effects of culture and value orientation on the relationships between trust, procedure fairness, outcome favorability and various dependent variables including customer satisfaction, complaint intention and intention to switch to other service providers in the context of service failures. This study will extend earlier work on effect of culture on the interactive relationship between procedural fairness and outcome favorability in the context of organization behavior to the context of service failures. This study will also investigate the mediating effects of trust in the above relationships by manipulating and measuring trust explicitly. Furthermore, this study will examine the impact of culture on customer complaint behavior and the intention to switch after experiencing service failures. This study will make significant contributions to the service management literature and cross-cultural theory literature. The result of this study can help understand the cross cultural differences in customers' reactions to service failures, and thus has significant managerial implications in term of how to

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**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	Encoding the Connectivity of Events: A Dynamic Connectionist Approach to Gist Preservation (CU20003) ✉ CHAN Wai Kwong Samuel • TSOU B K*
2001-02	A Feasibility Study of a Frame-based Message Understanding System (BS01502) ✉ CHAN Wai Kwong Samuel
2001-02	A Connectionist-Based Chinese Hypermedia Document Classifier: Using Text Structure and Image as Complementary Media (CS01171) ✉ CHAN Wai Kwong Samuel
2000-01	Air Cargo Logistics Industry Studies in Shanghai and Beijing (BS20005)

	<p>☞ CHEUNG Wai Man • LEUNG Chi Kin Lawrence • HUI Yer Van* • ZHANG Anming*</p>	2001-02	A Study of Operations Strategies and Performances of Small and Medium Enterprises (SMEs) in Hong Kong (BS01941)
2001-02	<p>An ISIS for Establishing Trust in Marketplaces of the E-Commerce Era (BS01539)</p> <p>☞ CHEUNG Wai Man • HUANG Wayne*</p>		<p>☞ LEE Tien Sheng • ZHAO Xiande</p>
2001-02	<p>An IT and Economic Study on the Future of Hong Kong Air Cargo Industry: Long-term Impact of WTO Accession and Direct Links (BS01703)</p> <p>☞ CHEUNG Wai Man • CHU Sung Chi • LEUNG Chi Kin Lawrence • ZHANG Anming* • HU Y V*</p>	2001-02	<p>Air Cargo Logistics Integration and Consolidation on a 3<sup>rd</sup> Party B2B Platform: Issues and Models (BS01508)</p> <p>☞ LEUNG Chi Kin Lawrence • CHEUNG Wai Man • CHU Sung Chi • HUI Yer Van*</p>
		2001-02	<p>Statistical Inference for Time Series with AR Coefficients Near Unity (BS01657)</p> <p>☞ LI Hongyi</p>
2001-02	<p>The Impact of Financial Liberalization in China (SS01294)</p> <p>☞ FUNG Ka Yiu Michael • HO Wai Ming* • ZHU Li Jing*</p>	2001-02	<p>Inter-market Arbitrage Efficiency and Pricing Dynamics of Individual Stocks, Stock Options and Stock Futures. (BS01896)</p> <p>☞ MOK Man Kwong Henry • FUNG K W Joseph* • CHIANG C P Raymond*</p>
2001-02	<p>An Integrated TAM-TTF Model for Internet Banking Acceptance (BS99585)</p> <p>☞ LAI Siu King Vincent</p>	2001-02	<p>An Investigation of Information Sharing in Supply Chains (BS01792)</p> <p>☞ ZHAO Xiande • LEE Tien Sheng</p>
2000-01	<p>Total Quality Management (TQM) Practices and Its Success Factors in Hong Kong Manufacturing Industry (BS00829)</p> <p>☞ LEE Tien Sheng • ZHAO Xiande • LI Eldon*</p>		

## RESEARCH PROJECTS

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### Investors' Behavior in an Emerging Capital Market: The Case of China

✍ HE Jia

☐ 1 November 2002

❖ CUHK Research Committee Funding (Direct Grants)

This project is a systematic study about investors' trading behavior in China's equity market. The study is based on trading and position information of each individual trading accounts provided by a large brokerage house in Beijing. On the academic front, this study is the first one to study trader's behavior in an emerging capital market based in individual trading accounts. On the policy making front, this study will generate useful information to guild the investors' education effort and other regulatory camping initiatives.

(BS02457)

### Ultimate Ownership of Anglo Saxon Corporations: Berle and Mean Revisited

✍ LANG Hsien Ping Larry • YOUNG Leslie

☐ 3 December 2002

❖ Research Grants Council (Earmarked Grants)

Within the US – and increasingly outside as well – the “Anglo Saxon” model of corporate governance is seen as the wave of the future, as alternative models collapse in ignominy. State control, the bank-centred German model, the relationship – and family-based corporate networks of East Asia: all have been discredited by spectacular failures and

eclipsed by the ongoing success of the US and UK economies. Success has lent conviction to the Anglo Saxon model wherein the governance of professional managers by dispersed shareholders is upheld by the rule of law, transparent accounting, and objective financial regulation that ensures a level playing field for the market for corporate control. This model, certainly valid for the high-profile, mega-corporations that are household names in the US, is not only taken for granted in US academic discourse, but is a centerpiece of the Washington Consensus, the advocacy of global free markets by the US Treasury, Wall Street, IMF and World Bank.

This proposal considers the empirical applicability of this ascendant model to its US base, and to Canada, which is close to the US not only in geography but also in culture, politics and legal system. We hypothesize that when we look beyond the high-profile mega-corporations which are too large for any one family or institution to control, the US may be like Germany or East Asia, exhibiting greater ownership concentration on some measures. We hypothesize that the ownership, control and performance of corporate Canada is closer to Continental Europe and East Asia than to the US.

(CU02293)

### Corporate Bond Credit Spreads and Credit Ratings

✍ LI Tao • ZHANG Hua

☐ 1 November 2002

❖ CUHK Research Committee Funding (Direct Grants)

The presence of default risk makes the task of pricing of corporate bonds more difficult. Especially, we not able to directly apply the techniques developed over last several decades on the pricing of

default-free debt to price defaultable bonds. Until recently, researchers have not paid much attention to the issues of pricing corporate bonds. Such situations started to change, mainly driven by the booming of the credit markets, in which many products demand more advanced pricing techniques. In this project, we intend to apply some of the modern results in the defaultable term structure (mainly Duffie and Singleton (1999), Jarrow, Lando, and Turnbull (1997), and Farnsworth and Li (2001)) to build pricing models for the corporate bonds, which are the foundation of pricing credit derivatives. We will analyze the empirical performance of those models by using a fixed income data set maintained by the University of Houston. Furthermore, we also intend to study the some of the empirical issues that are difficult to answer with a concrete pricing model. The proposed research should be useful in the credit markets and be applicable to the studies of sovereign debt, in which the default risk also plays a major role in pricing.

(BS02780)

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### **An Empirical Exploration of Ball and Berk's Critique**

✉ LIU Ming • CHOW Ying Foon • FAN Xing Ting\*

📅 1 January 2003

❖ CUHK Research Committee Funding (Direct Grants)

Contrary to the prediction of CAPM model with market beta risk only, both size and Book/Market equity ratio have now been widely accepted as key components in asset pricing model. The empirically motivated Fama-French (1993) three-factor model, among which two factors (SMB and HML) are related to size and book/market ratio respectively, has

now been used by many as a benchmark asset pricing model. Daniel and Titman (1997) instead of SMB and HML suggests using size and book/market ratio directly in their characteristics-based asset pricing model. The importance of size and B/M ratio, while empirical supported, lacks however visible economic foundation. The discovered relationship between return and size or B/M ratio is generated because of methodology problem as suggested in Ball (1978) and Berk (1995), or at least generated through their suggested mechanism. To the extent that these variables are very likely to be related to irrational or mysterious economic forces, the usage of an empirically motivated asset pricing model with these variables as cornerstones of empirical finance studies appears to be dubious. An econometric analysis of Berk's critique can therefore generate insights on the following issues.

- (1) With a reasonable account of the different stories given rise to the prominence of these two variables, to what extent, does Ball/Berk's critique remain powerful? In other word, is there anything left after we account for many different rationales?
- (2) By systematic examining various reasons proposed in the literature, the research can assess the importance of these competing economic rationales and their impacts on individual equity return.
- (3) The overall research can therefore shed light on the economic meaning of the two important variables size and B/M ratios. The analysis is conducted with instrumental variables approach which controls to a large extent the possible simultaneity bias.

(BS02538)

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### **Expropriation, Economic Performance and Corporate Governance: Evidence from Japan**

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

☐ 1 September 2002

❖ Research Grants Council (Earmarked Grants)

Many policy advisors conjectured that the ownership concentration structure of corporations, associated corporate governance and related party bank lending are some of the main reasons for the weak performance of corporations. This study is an attempt to investigate this nexus, using Japanese data. In particular, we would like to test the expropriation hypothesis raised by Shleifer and Vishny (1997) who argue that “as ownership gets beyond a certain point, the large owners gain nearly full control and prefer to use firms to generate private benefits of control that are not shared by minority shareholders” (p.759). This study will trace the beneficial ownership to locate ultimate the family owners of Japanese 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. The divergence of cash flow rights from control rights creates incentives for ultimate owners to expropriate minority shareholders. In addition, we would examine the role of bank lending in this governance structure. 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 other attributes including the quality of banking systems, the legal and judicial protection of individual shareholders, and the degree of financial disclosure required.

(CU02296)

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**Mixture Type Time Series Models with Application**

✉ WONG Chun Shan

☐ 1 November 2002

❖ CUHK Research Committee Funding (Direct Grants)

Nonlinear time series are found to be useful in many areas of application, for example in ecology, economics, engineering, finance and many others. In the past, the analysis of nonlinear time series mainly concentrated on the modelling of the conditional mean or the conditional variance function. Nearly all the time series models assume that the conditional distributions of the time series are normal. Under this assumption, the marginal and/or conditional distributions of the time series are unimodal and symmetric. However, in real life many time series display features which seem to violate the normality assumption. For example, the classical Canadian lynx data appear to have a bimodal marginal distribution. Sometimes, there are good reasons to believe that the conditional distributions of some time series are multimodal. For example, when the stock market becomes volatile in certain periods, one would expect stock prices to rise or decline sharply and hence a bimodal conditional distribution for stock prices seems appropriate. Recently, new time series models have been proposed which generalize the idea of mixture distributions to the nonlinear time series context. These models are capable of capturing the change of shape in the conditional distributions of the time series. However, there are still many open problems concerning this class of models, such as tools for

modelling and forecasting, and several extensions are possible.

(BS02553)

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**Hedging Weather Risk: The Design, Pricing, and Applications to Hong Kong Disney**

✉ YEH Jia Hsing • CHOW Ying Foon

□ 1 January 2003

❖ CUHK Research Committee Funding (Direct Grants)

Profits of many companies depend on weather conditions, which create uncertainty in cash flow and earnings. For example, public utility companies' revenues and earnings can be adversely affected by summers that are too cool and winters that are too warm. Hedging products in both insurance and derivative form, have emerged to assist utilities in managing these risks. Since 1999, temperature-based weather derivatives have been traded at Chicago Mercantile Exchange, which represent the most current and innovative way for energy firms to deal with weather risks.

Revenue of firms in the recreational industry are also weather sensitive. Examples of theme parks can be handy. Bad weather not only deters people's interest to visit a park, in severe weather conditions (typhoons, for example) when public transportation (airport, train, etc.) shuts down, the park's operation is essentially interrupted. There is nothing even a powerful multinational corporation like Disney can do.

Hong Kong Disneyland, as it will be known, is scheduled to open its first of two phases in 2005. It will be built and operated by a joint-venture company, Hong Kong International Theme Park Ltd., in which the Hong Kong Special Administrative Region Government owns 57% of the shares initially. The

estimated cost of building Hong Kong Disney is HK\$14.1 billion, which will comprise a \$5.6 billion government loan, repayable with interest over 25 years. This will be the largest single item expenditure in Hong Kong since the opening of the Chek Lap Kok airport in 1998.

With such hung stake at hand, it makes good sense to develop a comprehensive risk management strategy. Weather risks, traditionally thought as non-diversifiable and non-manageable, will be assessed in this study. We will provide an overview of the hedging products, design the appropriate instruments for Hong Kong Disneyland, and present pricing methodologies. Related issues such as alternative weather risk control tools and regulatory concerns will also be addressed.

(BS02797)

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**A Study on Share Repurchases in Japan**

✉ ZHANG Hua

□ 1 January 2003

❖ CUHK Research Committee Funding (Direct Grants)

Since the mid 1990s, the Japanese government has gradually relaxed and removed the restriction on corporate share repurchases. This provides an interesting setting for us to study share repurchases outside the United States. In this project, we intent to conduct some preliminary analyses on share repurchase events governed by the Special Case Law 3-1 & 3-2 in Japan. Specifically, we plan to (1) document the market reactions to corporate share repurchase announcements; (2) examine whether and to what extent market responses to repurchase events are related to the methods and terms of repurchase programs as well as firm characteristics; investigate whether the market react differently to



keiretsu-affiliated and independent firms; (3) whether managers in Japan have some market timing skills when they execute announced repurchase programs; document the completion rates of the announced repurchases programs. Because of different corporate ownership and governance structure as well as regulatory and disclosure requirements, Japanese share repurchase events allow us to investigate some issues cannot be (directly) addressed in the U.S. context due to unavailability of the required information.  
(BS02509)

2001-02 Value Creation and Corporate Governance (SS01302)  
✉ CHOW Ying Foon • KEUNG Yiu Ling\*

1999-00 Informed Trading and Uninformed Trading in Stock Market and Option Market (CU99040)  
✉ FONG Wai Ming • CHAN Kalok\*

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.\*

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

Edition      Title/Investigators

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 Internal Capital Market Misallocation and Inefficient External Capital Market - Evidence from Red Chip Companies (CU00021)  
✉ HE Jia

2001-02 The Relation between Price Changes and Trading Volume: A Market Level Analysis (SS01301)  
✉ CHENG Wui Wing Joseph • CHANG Eric C\* • KHORANA Ajay\*

2001-02 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 (SS01303)  
✉ HE Jia • LI Yu\* • SONG Fengming\*

2000-01 Is Financial Deregulation a Panacea? (BS00451)  
✉ CHOW Ying Foon • KEUNG Yiu Ling\*

2001-02 The Likelihood of Innovation Adoption When Multiple Generations of Future Innovations are Expected (BS01570)  
✉ HE Jia

2001-02 Bank Ownership, Control and Related Party Lending: A Comparative Study (SS01304)

	<p>✍ LANG Hsien Ping Larry • YOUNG Leslie</p>	2001-02	Loan Spreads and Bank Risk Capital (SS01305)
2001-02	<p>Heterogeneous Beliefs and Stock Market Volatility (BS01749)</p> <p>✍ LI Tao</p>		✍ THOMAS Hugh Alun Lloyd
1999-00	<p>Clientele, Prepayment and Mortgage Design in the Hong Kong Mortgage Market (CU99058)</p> <p>✍ LIU Ming • CHIANG Chiu Ping Raymond# • HE Jia</p>	2001-02	<p>An Analysis of Automobile Compensation Systems: The Pending Legislation of US "Auto Choice Reform Act" and Its Implication to Hong Kong Motor Insurance Industry (SS01306)</p> <p>✍ YEH Jia Hsing</p>
2000-01	<p>Weak Moments in the Efficient Methods of Moments (CU00023)</p> <p>✍ LIU Ming • CHOW Ying Foon • ZHANG Hua • ZHANG Huibing Harold*</p>	2000-01	<p>A Study on Share Repurchases in Hong Kong (CU00024)</p> <p>✍ ZHANG Hua • CHOW Ying Foon • LIU Ming</p>
2001-02	<p>Ownership Structure, Control and Bank Lending: Evidence from Japan (BS01933)</p> <p>✍ SO Wai Man Raymond • LANG Hsien Ping Larry • YOUNG Leslie</p>	2000-01	<p>Financial Innovation in Incomplete Markets (BS00630)</p> <p>✍ ZHOU Yuqing</p>

## RESEARCH PROJECTS

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### Corporate Reactions of Poorly Performing Chinese Listed Companies

✍ LEUNG Wai Kin

□ 1 January 2003

❖ 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 with 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 difference 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.

(BS02806)

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### Strategy and Information Technology Alignment in Hospitality and Tourism

✍ TSE Eliza Ching Yick • HUI King Man (Dept of Marketing) • CHEUNG Wai Man (Dept of Decision Sciences and Managerial Economics)

□ 1 January 2003

❖ CUHK Research Committee Funding (Direct Grants)

The hospitality and tourism industry contributes significantly to global economic development. The World Wide Web has created new growth opportunities for the industry. To compete in this ever-changing global market, companies must incorporate current and emerging information technology into their business strategies. This e-strategy perspective of the hospitality and tourism industry should be taken with the assumption that business strategy must be co-aligned with information technology strategy.

In this study, we propose a preliminary framework in that strategic role of Web-based technology in the industry is related to (1) strategic orientation and resources; (2) management commitment and IT infrastructures; (3) performance of the company; and (4) technology readiness and satisfaction from customers. We will perform empirical studies to test this theoretical framework and develop a new hospitality management paradigm.

The study results will enable companies to create value by rethinking core competencies, service delivery methods and customer interactions in the hospitality and tourism industry. Both qualitative and quantitative research methods will be adopted to collect primary data. Content analysis, personal interview, multiple-case study, and survey method will be employed. The data will be collected from tourists, hotel guests and hospitality and tourism companies in Hong Kong.  
(BS02731)

<u>Edition</u>	<u>Title/Investigators</u>
2001-02	Corporate Reactions of Poorly Performing Chinese Listed Companies (BS01964) ✉ LEUNG Wai Kin
2000-01	Professionalism and Service Quality in Hospitality and Tourism (CU00001) ✉ TSE Eliza Ching Yick • HUI King Man (Dept of Marketing) • LEE Kam-hon

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

## RESEARCH PROJECTS

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### Constructing Trust-enabling Institutions: A Grounded Theory Approach

- ✉ AU Yuk Fai Kevin • VERTINSKY Ilan\*
- ☐ 1 November 2002
- ❖ CUHK Research Committee Funding (Direct Grants)

The virtues of trust are well-known. Individuals, businesses, communities, and the society as a whole can benefit if people can trust and cooperate with each other. To help establish trusting relations with strangers, individuals may rely on existing trust-enabling institutions (such as voluntary organizations, professional certification associations), or develop new institutions. Trust-enabling institutions can generate and sustain a high level of trust in the society. However, these institutions are a public good: they are beneficial to many but few have incentives to invest in their development or maintenance. In some societies, individuals rely on some existing institutions which ensure a base level of trust, but take few steps to develop trust in specific partners. This results in a low level of trust in the society. Research to date has examined the antecedents of trust and addressed, in part, what factors trigger the emergence of trust-enabling institutions. The dynamic, iterative nature of trust building processes and the complexity of the interactions between individuals and various institutions is yet to be explained. We proposed to develop a grounded theory of how individual action may erode different types of trust within a society and how this erosion may be avoided, by drawing mainly on social embeddedness and institutional

theory arguments as a starting point in our theoretical inquiry. Studies using survey, experience sampling methods, and laboratory experiments will be followed up to rigorously test this emergent theory. The results will have important implications for facilitating cooperation in business and community organizations, especially in low-trust societies like China and Hong Kong.  
(BS02323)

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### Global Entrepreneurship Monitor Hong Kong National Study 2002-2004

- ✉ CHUA Bee Leng • AHLSTROM David Christopher • AU Yuk Fai Kevin • MAKINO Shige • THOMAS Hugh Alun Lloyd (Dept of Finance) • LOW Chee Keong (School of Accountancy) • LAW Cheung Kwok (Faculty Office of Business Administration) • KWOK Siu Tong (Dept of History)
- ☐ 1 January 2002
- ❖ APIB Financial Support Scheme, Asia Pacific Institute of Business • SME Development Fund, Trade and Industry Dept, HKSAR Government

The Global Entrepreneurship Monitor (GEM) Hong Kong project comprises three annual studies to track the level of entrepreneurial activity and development. It has policy implications for the Hong Kong Government and addresses the following questions:

- (1) To what extent does the level of entrepreneurial activity in Hong Kong vary from other countries?
- (2) What makes Hong Kong entrepreneurial?
- (3) What can be done to enhance entrepreneurial activity in Hong Kong?

GEM is an international project that measures entrepreneurial activity. This is carried out by a consortium of researchers interested in

entrepreneurship to study the complex relationships between new venture creation, economic growth, culture, government policies, and national prosperity. Babson College and the London Business School lead the consortium.

Research methods are: standardized surveys of the adult population, detailed assessments by national experts and standardized data from international sources. In-depth interviews with these experts will yield rich data for identifying and assessing the major entrepreneurial issues and conditions in Hong Kong.

GEM Hong Kong will receive \$1,305 million from the SME Development Fund to carry out the studies for 2003 and 2004. The Chinese Executives Club of the Hong Kong Management Association and the Asia Pacific Institute of Business funded the 2002 study. An annual report will outline the features of HK's entrepreneurial environment and policy implications.

(BS02396)

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**Trusting and Being Trusted at Work: The Chinese Context**

✉ LAU Chi Sun Dora

□ 1 November 2002

❖ CUHK Research Committee Funding (Direct Grants)

In this project, we examine the conditions under which trusted others will reciprocate trustors' trust. Current trust research emphasizes trustors' reasons for trusting and the potential benefits of trusting relationships. Relatively unexplored are the responses of trusted others. When an individual places trust on another person, the trusted individual may choose to reciprocate, not reciprocate, or even exploit the vested trust to his/her personal benefits. The reactions of trusted individuals have pivotal

effects on long-term trusting relationships.

The second purpose of this project is to compare the dynamics of trusting and being trusted in the North American and the Chinese context. Chinese business people are known to rely on guanxi in establishing business relationships and practise paternalistic leadership styles. The relative importance of these two factors in the Chinese context is proposed to differentiate the North American and the Chinese patterns in reciprocating trust.

Through this project, we hope to extend the substantive trust theory through a more complete understanding of the iterative trust building process and explore the generalizability and practical implications of trust research in the indigenous Chinese context.

(BS02376)

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**Professional Identification and Job Attitudes: A Study of Lawyers in Hong Kong**

✉ NGO Hang Yue

□ 1 November 2002

❖ CUHK Student Campus Work Scheme

This study examines the impact of professional identification on several job attitudes including job satisfaction, organizational commitment, and career satisfaction. The moderating roles of gender and tenure on the above relationships are also explored. Data are collected from a survey of local lawyers.

(BS02833)

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**Environmental Dynamism, Competitive Advantages and Resources Constraints: What Determines the Success of Small- and Medium-sized Technology-based Enterprises in the United States and Hong Kong**

✉ QIAN Gongming • WANG Yu Long Denis • LEE Li\*

☐ 1 November 2002

❖ CUHK Research Committee Funding (Direct Grants)

Much of the success of our global economy today can be attributable to the growth and performance of small- and medium-sized technology based enterprises (SMTEs). For Hong Kong, the policy makers have decided to promote the growth and development of SMTEs as a new source of competitive advantages for Hong Kong in light of our current continued economic slowdown. This proposed research project is to study which factors determine the success of SMTEs in both the United States and Hong Kong.

Technology industries are different from traditional industries. The differences are characterized by span of product life cycle, requirements for R&D investments, contextual turbulence, and competition for new product share. Consequently, SMTEs experience greater opportunities as well as risks. Opportunities result from an increased worldwide demand for new products and services. Risks can be traced to all of the above features inherent in technology industries. In such circumstances, SMTEs can be highly successful or they can fail easily (Zahra, 1996). In particular, the failure rates in technology (e.g. high-tech) industries are extremely high (McDougall et al., 1994). The question is that in what conditions can an SMTE become successful. In this project, we will place both external environments (in which SMTEs operate) and internal conditions (both advantages and disadvantages inherent in the SMTE) into the framework in which we study how SMTEs can achieve success in such dynamic industries

characterized by technological uncertainties, and international (market) turbulence and hostility. We pay particular attention to any valuable experience or practice HK can draw from the U.S. when she develops its high-tech industries.

(BS02561)

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### International Transitions and Diversification Strategies in Asia

✉ WANG Yu Long Denis • PENG Mike\*

☐ 1 November 2002

❖ CUHK Research Committee Funding (Direct Grants)

How do organizations in emerging economies craft diversification strategies during institutional transitions? In South Korea, the post-1997 environment calls for reduced corporate scope. In post-1997 Thailand, both reduction and increase of corporate scope can be found. What is less clear, however, is the mechanisms with which institutional transitions impact diversification strategies. Enhancing our understanding of this critical issue is especially urgent and timely as numerous Chinese conglomerates jockey for position in different industries in preparation for China's anticipated entry into the WTO, in the absence of evidence suggesting whether a conglomeration strategy is likely to add or destroy value during institutional transitions.

Addressing such a gap, our project develops an institutional perspective on corporate diversification. We focus on three broad questions: (1) What are the institutional determinants of the scope of the firm over time? (2) What leads some firms to increase their scope while others to reduce their scope? (3) How do changes in diversification strategies affect firm performance?

Focusing on China and using Korea and Thailand as two reference points, the project calls for a three-phase methodology using a triangulation of conceptual, qualitative, and quantitative methods. The project builds on the PI and Co-I's proven track record, and aims to (1) yield significant insights into the dynamic relationship among institutional transitions, diversification strategies, and firm performance in emerging economies; (2) generate high-visibility publications; and (3) provide relevant and timely findings that may be helpful as Chinese firms prepare for the changing institutional environments under the WTO.  
(BS02532)

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

Edition      Title/Investigators

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\*

2001-02      An Empirical Investigation of Guanxi Network in Chinese and Non-Chinese Settings (BS01316)  
 ✉ CHOW Hau Siu Irene • NG Ignace\*

1999-00      Exploring Managerial Influence Behaviors that Cross Borders (CU99050)  
 ✉ FU Pingping • GARY Yuki\*

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\*

2001-02      Characteristics and Processes of Top Management Teams in Chinese High Tech. Entrepreneurial Firms: A Longitudinal Study (BS01976)  
 ✉ FU Pingping • TSUI Anne\* • FARR James\*

2000-01      Cross-cultural Differences in Group Member Expectations and Outcomes (CU00026)  
 ✉ HUI Chun • ROUSSEAU Denise\*

2001-02      Managing in Polychronic Times: Cross-cultural Comparisons of Temporal Norms and Communication Medium (SS01309)  
 ✉ HUI Chun • TURNER Jeanine Warisse\*

2001-02      Sources of Trustworthiness Evaluations: Self and Others' Perspectives (BS01549)  
 ✉ LAU Chi Sun Dora

2001-02      Strategic Orientations of Top Management Teams in State-Owned Enterprises in China (SS01310)  
 ✉ LAU Chung Ming



1999-00	Technology Sourcing through FDI: The Case of Asian Multinationals in the US, UK, and Japan (CU99052) ✍ MAKINO Shige	Taiwan Pollution Intensive and Environmental Protection Firms" (SS01311) ✍ TSAI Soo Hung Terence • DONG Xin Bao* • LIU Xue* • LU Yuan
2001-02	Population Dynamics of International Market Expansion (BS01994) ✍ MAKINO Shige • CHAN Man Kuen Christine#	2000-01 "Development, Validation, and Application of an EQ Model in the Work Place" (CU00038) ✍ WONG Chi Sum • LAW Kenneth S* • WONG Ping Man*
2001-02	"Environmentalism and Business Management in the Greater China Region: The Cases of Mainland, Hong Kong, and	

## RESEARCH PROJECTS

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### A Choice Model under Ambiguous Risk

✉ JIA Jianmin • DYER James S\*

□ 1 November 2002

❖ CUHK Research Committee Funding (Direct Grants)

The purpose of this research project is to develop a new choice model under ambiguous risk, and to investigate its empirical validation based on some experiments. Ambiguous risk has been identified as a critical issue in decision making since the publication of Ellsberg's (1961) paradox, which demonstrated that typical choices made by subjects faced with ambiguous probabilities violate Savage's (1954) subjective expected utility theory. In this research effort, we propose a generalized expected utility model based on the assumption that an individual first uses the mean value of the ambiguous probability to evaluate the alternative, and then considers the ambiguity effect on the preliminary evaluation using second-order beliefs. Ambiguity about probability is treated as a second order uncertainty modeled by a distribution. Then a decomposition approach is used to separate the effects of risk and ambiguity on decision evaluation. Our model included several proposed models as special cases. It is particularly useful in determining risk premium and "ambiguity premium" for pricing an alternative with ambiguous risk as often encountered in insurance and marketing decisions. (BS02388)

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### The Role of Counterfactual Thoughts in the Formation of Justice Perceptions

✉ KWONG Yuk Yee Jessica

□ 1 November 2002

❖ CUHK Research Committee Funding (Direct Grants)

This research examines how people evaluate the justice of an outcome. Current justice theories have emphasized on the role of social comparison information as a reference standard for outcome evaluations. An outcome is perceived as unfair when it is evaluatively worse than that of others. This research underscores a supplementary view that counterfactual thoughts generated in response to an outcome itself also play a part in our outcome perceptions. This process is particularly relevant when people do not know the outcome of others. To illuminate the role of counterfactuals in the outcome evaluation process, this research will focus on two key issues in the counterfactual thinking process. Using hypothetical scenarios, Study 1 will examine how the availability of counterfactual thoughts influences outcome perceptions. It is expected that an outcome for which counterfactuals are highly available would be judged as more unjust than one for which there are no highly available counterfactuals. Study 2 will examine how the direction of the counterfactual construction relates to outcome evaluations. It is hypothesized that an outcome that mainly triggers better imagined alternatives would be perceived as more unjust than one that triggers worse imagined alternatives. This research will enrich our understanding on the process of outcome evaluations. In addition to social comparison information, our outcome perceptions are also subject to the influence of counterfactual thoughts. And that factors that have been linked to the counterfactual thinking process will impact on how we evaluate an outcome.

(BS02595)

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**Consultancy on the Development of a Super CRM System**

✍ LAU Kin Nam • LEUNG Pui Lam William (Dept of Statistics)

□ 15 January 2002

❖ Standard Chartered Bank

A super CRM system is developed for a leading bank in HK by fusing different types of bank data to identify opportunities in cross selling, utilization enhancement and customer retention.

(BS01905)

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**An Analytical CRM Project of Bank of China (HK)**

✍ LAU Kin Nam • FAN Kin Keung Dennis (Dept of Finance)

□ 16 December 2002

❖ Bank of China (Hong Kong)

While traditional campaign management selects customers for a particular product, this project proposes to select products to cater the needs and priorities of each customer. The proposed research consists of two major compounds:

- (1) Data cleansing, fusing and mining.
- (2) Integrating bank strategies with customer information.

(BS02379)

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**The Prospect List Modelling for PCCW**

✍ LAU Kin Nam • FAN Kin Keung Dennis (Dept of Finance) • LEUNG Pui Lam William (Dept of

Statistics) • TSUI Yiu Ming (Information Technology Services Centre)

□ 11 April 2003

❖ PCCW Teleservices (Hong Kong) Limited

Data mining models are constructed to identify key attributes for effective customer targeting and segmentation. The data mining results are subsequently used to develop optional contact strategies for PCCW.

(BS02819)

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**Survey on Retirement Planning in Hong Kong**

✍ LAU Kin Nam

□ 6 May 2003

❖ CITIC Ka Wah Bank Limited

A survey is conducted to evaluate opinions of the general public on retirement planning.

(BS02787)

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**Female Role Orientation of Chinese Women: Conceptualization and Scale Development**

✍ SIN Yat Ming Leo

□ 1 November 2002

❖ CUHK Research Committee Funding (Direct Grants)

This project addresses the conceptual and measurement issues related to the study of female role orientation (FRO) of Chinese women. In this study, FRO is defined as the common roles preferred and held by Chinese women. A number of scales, such as the Autonomy Inventory Score (Arnott, 1972) and Feminism Scales (Dempewolf, 1972), have been developed to measure FRO in previous studies. However, these scales suffer from two major

limitations. First, these scales are narrowly focused and fail to include the richness of FRO. For example, the Autonomy score contains ten items focusing only on the dimension of women's autonomy. Respondents are classified into either liberals or traditionalists according to their scores on the scales. We propose that FRO should be operationalized as a multidimensional construct rather than a unidimensional construct. These dimensions should truly and adequately reflect the traditional roles held by women and the new roles created by recent economic and social changes. Second, the constructs and measure of FRO discussed so far were developed in the context of Western culture, which may not be adequate to capture the underlying dimensions of indigenous Chinese cultural values. To have a reliable and valid scale in measuring the female roles preferred and held by Chinese women, the FRO construct should incorporate basic and related dimensions as well as the essence of Chinese culture.

To develop a reliable and valid measure for FRO, this project will first review the concept of FRO and its important dimensions from a Chinese context. Then, following Churchill's (1979) procedure, a series of studies and analyses will be conducted with data collected from women in Mainland China, Hong Kong and Taiwan to assess the psychometric properties of the proposed scale.

(BS02957)

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**The Impact of Internet on Competition - The Cases of Air Tickets and Stock Trading**

✉ TANG Fangfang • CHOW Ying Foon (Dept of Finance) • ZHANG Junxi\*

☐ 1 September 2002

❖ Research Grants Council (Earmarked Grants)

We plan to investigate the pricing behavior between traditional travel agencies, online operators of the major travel agencies, and online branches of airlines selling directly to travelers in Hong Kong, the mainland of China and Singapore.

We also plan to research on the commission fee structures of securities industry in Hong Kong, and the mainland of China, for both online and offline trading.

(CU02310)

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**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	The Adaptability of WOM (Word-of-Mouth) Communication in an On-line Setting (BS00875) ✉ CHAN Hak Sin
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*
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