

RESEARCH PROJECTS

The Audit Effect on Information Asymmetry and Valuation in the Capital Markets

✍ LAM Chee Keung • YAW Mensah*

☐ 1 December 2003

❖ CUHK Research Committee Funding (Direct Grants)

This proposal examines the extent to which the capital markets anticipated the likelihood of accounting problems by firms audited by Arthur Andersen & Company, and its spillover effect on all client firms of Andersen. Essentially, we argue that auditor reputation may have valuation implications for clients of auditing firms suspected of poor internal quality controls and/or lack of integrity at the firm level. The succession of accounting related problems principally by firms audited by Arthur Andersen, beginning with Waste Management and Sunbeam Corporation in 1998, followed by, in rapid succession, Enron Corporation (January 2002), Global Crossing (February 2002), Worldcom (June 2002) and Qwest (July 2002) leads to the inference that the audit processes or judgments exercised by Arthur Andersen were decidedly of lower quality than those of the other Big 5 auditing firms, and possibly even below those of the non-Big 5 auditing firms. It follows then that investors would ultimately assign a higher risk of accounting-related problems by firms audited by Arthur Andersen than those of the clients of other auditing firms.

(BS03814)

The Motivation for Participative Budgeting

✍ LUI Man Ching Gladie

☐ 1 December 2003

❖ CUHK Research Committee Funding (Direct Grants)

A significant omission from the majority of empirical studies on participative budgeting is an explicit statement about the reasons for its existence. In their review of the literature, Shields and Shields (1998) found that most studies implicitly adopt the reasons assumed in their research. More importantly, none of the studies reviewed report empirical evidence regarding whether their assumed reason for participative budgeting is consistent with the reasons participative budgeting exists in their survey sample. Shields and Shields argue that a desirable, if not necessary, condition for research on participative budgeting to make more systematic progress in developing a general theory is to focus on understanding why it exists.

The purpose of this research is to examine the extent to which participative budgeting is used for the commonly assumed motivation and information reasons. The reasons to be studied in this research are in terms of both intrinsic and extrinsic motivation. The evidence will be presented in three parts. First, this study directly assesses the degree to which survey respondents perceive motivation and information to be reasons for participative budgeting. Second, it investigates the extent to which the relationship between theoretical antecedents and each of the two assumed reasons for participative budgeting corresponds with the relationship between those antecedents and participative budgeting. Third, this study also examines the degree to which each assumed reason mediates the relationship between participative and performance.

(BS03667)

How Do Taxes Affect Dividend-valuation?

✉ RUI Meng • WANG Steven*

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❖ CUHK Research Committee Funding (Direct Grants)

The manner in which dividend and capital gains taxes affect the dividend-valuation link has long been debated among accounting and financial economists. This controversy is fueled by the inconclusive empirical results from two dominant approaches to studying the subject: ex-dividend day studies and dividend tax capitalization studies. Our project will empirically test the valuation of dividends by capital market participants, and how taxes moderate this valuation. China will be used as the research site because its tax system (which only taxes dividends above a specified level) offers unique advantages for differentiating alternate hypotheses. The findings will help to advance theory, assist companies in refining their dividend policies, and aid the formulation of tax policies that are related to dividends and capital gains. With China rapidly becoming a major participant in global capital markets, evidence that is gathered from the country can not only help to advance academic theory, but can also provide timely information to investors and investment professionals.

(BS03445)

The Effect of Audit Committee Composition on Banker Perceptions of Auditor Independence: China Evidence

✉ TONG WU Yew Jen Marian • NG Yick Man Andy

□ 1 December 2003

❖ CUHK Research Committee Funding (Direct Grants)

The question of auditor independence has been an important concern to regulators, the accounting profession, and the business community, particularly after a number of financial scandals and corporate failures in recent decades. Although external auditors are generally regarded as public watchdogs overseeing the corporate financial reporting process, in some cases they are perceived more likely to adopt their client's position in ambiguous cases. Regulatory bodies in many countries have suggested the establishment of audit committees to mitigate management pressure on auditors. Since 1978, compulsory audit committees have been required for companies listed in the New York Stock Exchange (NYSE). Approximately 84% of listed companies in the UK had established audit committees by 1994. There is an audit committee in most of the top 150 listed companies in Australia. The Treadway Commission (1987), the Public Oversight Board (1993), and the Kirk Panel (1994) in the US, in addition to and the Macdonald Commission (1988) and the Cadbury Committee (1992) in the UK, have suggested that audit committees play important roles in corporate governance and in enhancing the quality of financial reporting. The Australian Stock Exchange (ASX) even requires that companies state reasons should they not set up an audit committee.

However, many regulatory bodies have suggested that audit committee are only effective when their members are independent of management. The NYSE and NASDAQ had co-sponsored a Blue Ribbon Committee (BRC) that made such a recommendation. Recently, the NYSE and NASDAQ mandated that all large listed US companies have an audit committee that is comprised of at least three independent directors. The ASX's

listing rules also propose that audit committee members should be independent of management.

There is relatively scarce study in this area has been carried out in China where new concept of corporate governance is developing in recent years. Audit committee is one of the core elements in corporate governance and the implication of the composition is of utmost important. This study will examine the effects of audit committee composition on bankers' perceptions of auditor independence in China. Bankers' views will be solicited, as they are an important group of financial statement users. They are very concerned with the creditability of financial statements, as they are responsible for making decisions on company loan applications.

(BS03741)

Audit Markets and Legal Environments around the World

✍ WONG Tak Jun • CHOI Jong Hag*

□ 1 September 2002

❖ Research Grants Council (Earmarked Grants)

Theories predict that auditors serve important governance functions in that capital-raising firms often appoint Big Five auditors as a bonding mechanism and risky firms often hire Big Five auditors as signals to communicate with outside investors. Using a set of firm-level data across 39 countries from *Worldscope*, this paper studies if and how national legal environments affect auditors' abilities to fulfill these governance roles. On the one hand, a country's poor legal environment may significantly weaken the auditors' governance functions, lessening their role as a bonding mechanism and a credible signal. On the other hand, Big Five auditors may play a stronger governance role in weaker legal environments because they are

good substitutes for legal protection of outside investors and risky firms find Big Five auditors more affordable due to lower litigation costs. Our empirical results support the latter view that Big Five auditors fulfill a strong governance function in weak legal environments.

(BS02693)

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

✍ WU Yuwu Woody • LEE Seok Hwang*

□ 1 December 2003

❖ 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 Asian 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 lights on the extent of expropriation of minority shareholders in East Asian corporations and provide useful insights to regulators to enhance the corporate governance structure.

(BS03663)

The Association Between Accounting Standards, Corporate Restructuring and the Informativeness of Accounting Earnings: Evidence from Japan

✉ YOUNG Danqing • FERGUSON Michael John

📅 1 December 2003

❖ CUHK Research Committee Funding (Direct Grants)

In Japan and other East Asian economies such as Hong Kong, Korea, Singapore and Taiwan, corporate control or influence is often achieved through the use of pyramid structures, cross-shareholdings and management appointments rather than the ownership of the voting shares. As a result, consolidation accounting based on the ownership concept allows corporations to transfer debts or losses to those unconsolidated but controlled or influenced

companies, reducing the usefulness of accounting information and the effect of market discipline. Recently, the Japanese government has made sweeping changes to its accounting standards, including revised consolidated accounting rules that replace ownership with an effective control or influence concept in determining the scope of consolidation. Because the new standard makes it more difficult to exclude losses or debts from the consolidated financial report, it is expected that the new standard will force many companies to engage in painful restructuring activities to improve performance, and that reported accounting profits under the new standard will better reflect companies' economic activity. Therefore, the purpose of this study is to empirically investigate whether this accounting change significantly increases Japanese managers' incentives to take merger, acquisition, and disposition activity, and whether accounting earnings based on the new standard have greater information content for market participants.

(BS03493)

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

Edition	Title/Investigators
2000-01	The Effect of Non-audit Services on Audit Quality (BS00608) ✉ FERGUSON Michael John • YOUNG Danqing
2002-03	Professionals' Duties and Liabilities in China: The case of certified Public Accountants (CU02277) ✉ JIANG Zhaodong • WANG Liyan*

2000-01	The Effects of Clients' Corporate Governance and Management Integrity on Audit Qualifications: An Empirical Study in Hong Kong (CU00006)	2001-02	Auditing and the Information Content of Interim Report in the A-share Market of China (SS01288)
	✍ LAM Chee Keung • HO Shun Man Simon# • FERGUSON Michael John • ZHOU Yuqing (Dept of Finance)		✍ WU Yuwu Woody • HAW In-mu# • QI Daqing#
2002-03	Effect of Bankruptcy Risk, Corporate Governance and Accounting Quality on Audit Fees in Hong Kong around the Asian Financial Crisis (BS02430)	2001-02	Timing of Earnings Announcements in China: Determinants and Stock Market Consequences (BS01885)
	✍ LAM Chee Keung		✍ WU Yuwu Woody • HAW In-mu# • QI Daqing#
2000-01	Further Evidence on Pricing Initial Audit Engagements (BS00536)	2002-03	Concentrated Stock Ownership and Price-Leading-Earnings Effects in East Asia (BS02631)
	✍ LEE Suk Yee Dominica		✍ WU Yuwu Woody • HWANG Lee Seok#
2002-03	Analysts' Earnings Forecast Accuracy in the Chinese Capital Market (BS02938)	2002-03	Value Relevance of Reported Cash Flows in the Emerging Capital Market of China (BS02562)
	✍ LUI Man Ching Gladie		✍ WU Yuwu Woody • HAW In-mu#
2002-03	Flexibility or Signaling? An Investigation of Stock Repurchase (BS01789)	2001-02	An International Comparison of the Value-Relevance of Alternative Accounting Data (BS01931)
	✍ RUI Meng		✍ YOUNG Danqing • MENSAH Yaw Mireku#
2002-03	Chinese Auditors' Ethical Behavior in an Audit Conflict Situation: A Research Note (BS02358)		
	✍ TONG WU Yew Jen Marian		

RESEARCH PROJECTS

Analyzing Query and Passage using Shallow Semantic Annotation in Chinese Question Answering System

✍ CHAN Wai Kwong Samuel

☐ 1 December 2003

❖ 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 relevant information. There is a great demand for a Question Answering (QA) system that can accept natural language queries and identify the relevant answers in a large text collection. However, the robustness of most sophisticated Natural Language Processing (NLP) techniques which aim to provide a deep syntactic analysis is highly in doubt when they come to real world applications. While they are too computationally expensive to be applied in large collection of texts, it is also a laborious task to develop a detailed syntactic specification for Chinese real texts which usually do not conform to any classical grammatical structures. This research proposes a shallow but effective QA system for text analysis as well as for semantic retrieval. A novel annotation technique which is based on the syntactic and semantic tags of a latest Chinese Treebank will be developed. Another characteristic of our approach is to make use of context and domain information to formulate appropriate queries as well as to single out the relevant paragraphs in passage

retrieval. One of the key ideas in our approach is to move away from keywords and pure syntax-driven approaches and their associated limitations in Chinese QA. The strategy to overcoming the brittleness of natural language processing systems is our another major emphasis. A preliminary pilot experiment has been developed to justify our shallow semantic annotation. Results suggest that it is a computationally viable approach to annotating questions and passages in QA systems. (BS03816)

Government Land Sale, Housing Market, and Business Cycle

✍ CHEUNG Kwok Hung Francis • NI Shawn*

☐ 1 August 2003

❖ Research Grants Council (Earmarked Grants)

The purpose of the project is to analyze the effect of Hong Kong government land sales. We develop a theoretical model that can account for the macroeconomic interactions of land sale, labor, capital and the housing market. Our model is designed for analyzing the effects of government land sales on households with diverse housing ownerships and for examining how timing of land sales influences the dynamics of business cycles. An important feature of our model is that housing price may deviate from its fundamental value. Furthermore, in Hong Kong, real estates often serve as collaterals of small business owners; hence fluctuations of housing price affect credit availability. Bearing in mind these issues, the proposed research offers a theoretical framework for recommendations on government policy on land sales. In addition to the theoretical analysis we will also conduct an empirical analysis of the land policy of Hong Kong government. We estimate the impact of government

land sales and simulate effects of alternative policies on Hong Kong's business cycles.

(CU03128)

A Hybrid Genetic Algorithm for Job Shop Scheduling Problems of Minimizing Weighted Tardiness

✉ CHEUNG Wai Man • LEUNG Chi Kin
Lawrence

□ 1 December 2003

❖ CUHK Research Committee Funding (Direct Grants)

A hybrid framework integrating a heuristic with a genetic algorithm (GA) is proposed for job shop scheduling of minimizing weighted tardiness. Relative to scheduling that optimize makespan or flow time, due-date related problems are usually much more computational complex and are classified as strongly NP-hard.

The proposed hybrid algorithm has two interrelated strategies: 1) improve the performance of a heuristic with the GA, and 2) improve the computational efficiency of the GA with a heuristic. In essence, for each new generation of schedules, the GA determines the first operation of each machine and a heuristic determines the assignment of remaining operations. Schedules with inferior tardiness will be discarded before the next round of evolution.

Extensive numerical experiments will be conducted for different levels of due-date tightness. It intends to show whether the hybrid framework can achieve significant improvement as compared to 1) using heuristics alone and 2) a well-recognized heuristic-improvement strategy (lead-time iterations).

(BS03859)

Supply Chain Hub Study in Hong Kong and Pearl River Delta (PRD)

✉ CHEUNG Wai Man • DU Timon Chih Ting • FUNG Ka Yiu Michael • YEUNG Hoi Yan Jeff • ZHAO Xiande

□ 15 January 2004

❖ DHL International (HK) Limited

Objective:

1. To understand the supply chain of different industries in Pearl River Delta area (inclusive of Hong Kong) in analyzing the physical flow, information flow and EVA comparison.
2. To understand the competitive position of Hong Kong as a supply chain hub in Pearl River Delta

Scope:

1. Cover cities in Pearl River Delta e.g. Dongguan, Shenzhen, Guangzhou, Zhongshan, Hong Kong
2. Cover major industries in different cities
3. Cover supply chain flow: physical flow, transportation mode, information flow
4. Cover EVA analysis and comparison between different flows e.g. Yantian and Hong Kong container port comparison, Chap Lap Kok Airport and Guangzhou Airport comparison
5. Cover reasons why Hong Kong should be chosen as supply chain hub in Pearl River Delta, what are the competitive positioning
6. Cover air express, air freight, ocean freight
7. Cover international transportation i.e. from Pearl River Delta to overseas as major, inclusive of PRD to overseas via HK.

(BS03304)

Investigating Real-time Vehicle Dispatching System in Dynamic Vehicle Routing Problems

✉ DU Timon Chih Ting

□ 1 December 2003

❖ CUHK Research Committee Funding (Direct Grants)

For e-Business where delivery of physical products is required, an efficient logistics system is a major component. However, the e-Business environment increases the degree of uncertainty of logistics service. This is especially true for e-Business that reschedules vehicle-dispatching plans based on changing customer orders. Essentially, such situations call for a real-time vehicle routing system (VRP) or dynamic VRP (DVRP).

Since DVRP is a combinatorial optimization problem with NP-hard difficulty, it is most commonly solved via either heuristic approaches or metaheuristic approaches. A heuristic algorithm obtains solutions quickly (but quality of solutions is not guaranteed) while the metaheuristic algorithm generates good quality solutions in relatively longer time. This study proposes a two-phase approach to incorporate the features of both heuristics and metaheuristics. In brief, a “momentum” value is assigned to each system event (such as order placing) and a threshold “momentum” value would trigger the activation of respective algorithms. Here, a metaheuristic algorithm is activated when the threshold value is reached; otherwise, simple heuristic algorithms are implemented. We show that this approach is both robust and efficient in solving DVRP problems.

Moreover, a real-time vehicle dispatching system will be developed to collect experimental data as well as for system implementation. To determine the system parameters, a series of experimental designs will be conducted.

(BS03581)

An Economic Analysis of Sex Ratio at Birth: Causes and Consequences

✉ FUNG Ka Yiu Michael • LEUNG Chi Ming Michael (School of Public Health)

□ 1 December 2003

❖ CUHK Research Committee Funding (Direct Grants)

In spite of the fact that the biologically normal “sex ratio at birth” (SRB) for humans is approximately 105 males per 100 females, a biased SRB is common in Asia. For instance, in China the figure rose from 108.5 in 1981 to more than 116 in 2002, according to the national census. From a societal perspective, this biased SRB creates a potential marriage squeeze, and a significant portion of men will be unable to find mates in the future. From an economic perspective, if familial unions are productivity enhancing, then the potential difficulty in family formation may adversely affect the overall productivity in the economy. By offering a positive economic analysis, the objective of this study will be to ascertain the causes and consequences of a growing unbalanced sex ratio. Our research will contribute to the understanding of parental decisions in gender control and educational investment in children, taking into account the effects of a skewed SRB. On the policy front, we will study the various incentives of the one-child policy and attempt to understand how the policy affects the sex ratio and economic performance of China.

(BS03710)

An Investigation of Competitiveness of Manufacturing Companies in Selected Industries of Mainland China

✉ LEE Tien Sheng • ZHAO Xiande

□ 1 December 2003

- ❖ CUHK Research Committee Funding (Direct Grants)

The purposes of this research project are to investigate the manufacturing practices and performance 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 industrial 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 manufacturers, 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.

(BS03954)

Health, Income Inequality, and Economic Growth

✉ LI Hongyi

□ 1 December 2003

- ❖ CUHK Research Committee Funding (Direct Grants)

The relationships between health, income inequality, and economic growth have long attracted researchers as well as practitioners from many disciplines including economics, sociology, physiology, etc. While these issues have been extensively investigated because of their importance, existing studies are largely limited to examining the empirical relationships among income distribution, economic growth, and various measurements of health such as health expenditure, health care, and life expectancy. Understanding the previous research work is difficult without adequately considering health, income inequality, and growth in well-constructed theoretical models that analyze the mechanisms through which economic growth and income inequality affect, and are affected by various measurements of health.

The project intends to fill the gap in the literature by proposing several carefully constructed theoretical models to study the relationships between economic growth, income inequality, and health. We believe that the theoretical models can help us to analyze the relationships effectively, comprehensively, and systematically. The conclusions derived from the theoretical models, on the other hand, are necessarily subject to extensive empirical tests from different perspectives. Therefore this project will also investigate empirically the validity of our theoretical

conclusions regarding the relationships between economic growth, income distribution, and health using newly compiled data in income inequality and health. Such a joint approach would give us new insights into the relationships being studied. Our project will also study the empirical relationships from a practical point of view among health care, health expenditure, income inequality, and economy growth in various cross-country international comparisons and within-country studies. Given the importance of the issues investigated here, our results will provide both the public and private sectors policy guidelines towards a better allocation of resources to improve the health of a population, reduce income inequality, and at the same time maintain economic growth.

(BS03860)

Corporate Performance and Time Evolution of the Chinese Stock Markets: A Symbolic Data Analysis Approach

✉ MOK Man Kwong Henry • WANG Huiwen*

□ 1 December 2003

❖ CUHK Research Committee Funding (Direct Grants)

The Chinese stock markets attract worldwide attention because of their unprecedented origin, rapid development, and potential opportunities. Previous research studies mainly *price* performance (i.e. stock returns) and typically they find unusual return/volatility features in emerging markets. In this project, we will compare four dimensions of *corporate* performance (i.e. price performance, profitability, stock valuation, and company efficiency) of the Chinese stock markets in Shanghai and Shenzhen, and trace the time evolution of these company attributes over time from 1995 to 2003.

Analyzing the corporate performance gives us insights into the market's latent structure and developmental stage, and possible cross-market diversification.

Unlike previous research, which uses only single quantitative or categorical values in their analysis, we will use symbolic data analysis (SDA) developed by Diday (1988). The outputs of SDA preserve the internal variation of the input data and thus provide more information than traditional analysis methods. We will compare our results with similar tests that use standard data analysis methods. We will extend the standard partial least squares (PLS) regression to symbolic partial least squares (SPLS) regression to incorporate interval data and then use it to study the effects of explanatory variables on the four dimensions of corporate performance. The next task is to combine the four corporate performance variables and the explanatory variables to form a new attribute matrix and then use a three-way data analysis and a time line to compare and trace the development of these corporate attributes over time from 1995 to 2003.

(BS03705)

An Investigation of Operations Strategy in Mainland China and Hong Kong

✉ ZHAO Xiande • LEE Tien Sheng • SUM Chee Chuong*

□ 1 September 2003

❖ Research Grants Council (Earmarked Grants)

Our study aims to examine the operations strategies, priorities and practices of companies in three cities of Mainland China and Hong Kong within six industries. Our study will identify a taxonomy of operations strategies and compare (1) the emphases placed on different operations priorities and management

programs, (2) competitive strengths in operations priority areas, and (3) business performance. We will also examine how the transformation from planned economy to market economy in different regions and industries of China influence the choice of operations priorities and analyze the relationship between competitive environment, operations and the company's performance. Through these analyses and comparisons, we aim to identify the best practices and provide important benchmarking information for companies to improve their competitiveness through enhancement of their operations capabilities. Furthermore, we will test and extend existing theory of operations strategy in the dynamically changing Mainland China and Hong Kong economies. The research results will enhance our understanding of how companies choose to emphasize different operations capabilities to help them compete in different competitive environment. (CU03146)

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

Edition	Title/Investigators
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 Connectionist-Based Chinese Hypermedia Document Classifier: Using Text Structure and Image as Complementary Media (CS01171) ✉ CHAN Wai Kwong Samuel

2002-03	Learning Explicit Context Representation in Chinese Texts: A Statistical Enhanced Connectionist Approach (BS02937) ✉ CHAN Wai Kwong Samuel
2001-02	An IT and Economic Study on the Future of Hong Kong Air Cargo Industry: Long-term Impact of WTO Accession and Direct Links (BS01703) ✉ CHEUNG Wai Man • CHU Sung Chi • LEUNG Chi Kin Lawrence • ZHANG Anming* • HU Y V*
2002-03	Trust, Trust Building, Risks, and Internet Shopping (BS02618) ✉ CHEUNG Wai Man • CHANG Man Kit*
2002-03	Analysis of Air Passenger and Cargo Flows of Mainland's Major Airport and Hub Identification (BS02786) ✉ CHEUNG Wai Man • HUI Wang Liang George# • HUI Yer Van*
2001-02	The Impact of Financial Liberalization in China (SS01294) ✉ FUNG Ka Yiu Michael • HO Wai Ming* • ZHU Li Jing*
2002-03	The Impact of Public Investment in Infrastructure in China-A Comparative Analysis of Financing Methods (CU02286) ✉ FUNG Ka Yiu Michael • HO Wai Ming* • ZHU Li Jing*
2001-02	An Integrated TAM-TTF Model for Internet Banking Acceptance (BS99585)

	✍ LAI Siu King Vincent		✍ MOK Man Kwong Henry • FUNG K W Joseph* • CHIANG C P Raymond*
2002-03	Developing and Understanding Competitiveness of Chinese Manufacturing Industries (BS02878)	2002-03	Hong Kong - Pearl River Delta (HK-PRD) Economic Integration (BS02973)
	✍ LEE Tien Sheng • ZHAO Xiande		✍ NG Fung Yee Linda • TUAN Chyau
2002-03	Identification of Standards and Protocols for the DTTN (BS01311)	2002-03	Asia V-Chain - Advanced Strategies and Tools for Virtual Supply Chain Management in Asian Environment (BS02936)
	✍ LEUNG Chi Kin Lawrence • CHU Sung Chi • CHEUNG Wai Man • HUI Yer Van*		✍ YEUNG Hoi Yan Jeff • ZHAO Xiande
2002-03	Air Cargo Logistics Integration and Consolidation on a 4th Party B2B Platform: Issues and Models (CU02288)	2002-03	Strategic Posture and Practices of Logistics Service Providers in Hong Kong (BS02511)
	✍ LEUNG Chi Kin Lawrence • CHEUNG Wai Man • CHU Sung Chi • HUI Yer Van*		✍ YEUNG Hoi Yan Jeff • ZHAO Xiande • SUM Chee Chuong*
2001-02	Statistical Inference for Time Series with AR Coefficients Near Unity (BS01657)	2001-02	An Investigation of Information Sharing in Supply Chains (BS01792)
	✍ LI Hongyi		✍ ZHAO Xiande • LEE Tien Sheng
2002-03	Bootstrapping the Unit Root Tests in Small Samples (BS02784)	2002-03	The Effects of Procedural Fairness, Prior Relationship and Power on Customers' Reactions to Outcome Failures in Service Delivery: A Cross-cultural Study (BS02397)
	✍ LI Hongyi		✍ ZHAO Xiande • HUI King Man (Dept of Marketing)
2002-03	Knowledge Ecology and Firm Performance (BS02809)		
	✍ LIANG Ting Peng		
2001-02	Inter-market Arbitrage Efficiency and Pricing Dynamics of Individual Stocks, Stock Options and Stock Futures. (BS01896)		

RESEARCH PROJECTS

A Comparative Study of Asymmetric Information and Family Ownership

✍ FONG Wai Ming • LANG Hsien Ping Larry

☐ 31 December 2003

❖ Research Grants Council (Earmarked Grants)

It is a common knowledge that common laws and the “Anglo-Saxon” model of corporate governance can effectively protect diffuse shareholders, hence we would like to raise one question as how investors interpret the occurrence of potential costs at the presence of large controlling families under the “Anglo-Saxon” model, like the US. The influential role of the controlling families in the US may generate information asymmetry because of their incentives in obtaining the necessary information to control corporate policies that worsen the liquidity of the equity markets. This study relies on stock liquidity that prior studies have demonstrated its usefulness in measuring information asymmetry. We will examine the relationship between liquidity and (1) the presence of US families, (2) divergence of cash flow right from control right of families, (3) means of enhancing control in the hand of US families. As a robustness check, we will include Canadian economy since Canadian and US economies are virtually the same except that the Canadian ownership structure is even more concentrated. By conducting a joint test of differences of some specific coefficients between the US and Canada, we may be able to infer some specific elements of regulations/practices in each country that allows its investors to immune from the information asymmetry of families.

(CU03152)

Insiders and Outsiders: The Choice between Informed, Arm-Length Straight Debt, and Convertible Bonds

✍ HE Jia

☐ 1 November 2003

❖ CUHK Research Committee Funding (Direct Grants)

The problem in current Chinese security market is one of the hottest debate problems in China. To further develop the market we must understand that the market cannot be the place just for raising money. It also should play the role to resolve adverse selection and moral hazard problems due to asymmetric information between insiders and outsiders. This project considers the choice between informed, arm-length straight debt, and convertible bonds by considering adverse selection and moral hazard problems.

(BS03377)

Investors' Behavior in an Emerging Capital Market in a Transition Economy: The Case of China

✍ HE Jia

☐ 31 December 2003

❖ Research Grants Council (Earmarked 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.

(CU03483)

An Empirical Investigation of A Class of Defaultable Term Structure Models

✍ LI Tao

☐ 1 December 2003

❖ CUHK Research Committee Funding (Direct Grants)

One of the significant differences between Treasury bonds and corporate debt is the default risk (credit risk). Although the literature of default-free term structure models, both theoretical and empirical work, has kept expanding since the seminal work of Cox, Ingersoll, and Ross (1985) and Vasicek (1977), little such research on defaultable term structure has been done relatively until very recent. Several defaultable term structure models have been proposed. Duffie and Singleton (1999) model the dynamics of default by a process of hazard-loss rate, they do not model credit ratings explicitly. Jarrow, Landon, and Turnbull (1997), Lando (1998), and Li (1997) do explicitly model credit ratings. All of those models mentioned above are theoretical work in nature, empirical testing of defaultable term structure models is still rare in the literature. One exception is Duffee (1999), he uses a data set collected by Lehman Brother to test a model based on Duffie and Singleton (1999) in a firm by firm basis that circumstances the difficulty of modeling the migrations of credit ratings.

In this proposed research, I plan to use a fixed income data set that has details of transactions to estimate and test defaultable term structure models

that is originally proposed in Li (1997) and further developed in Farnsworth and LI (2001). The theoretical models used her not only incorporate the migrations of credit ratings but also has the flexibility to utilize the techniques that have been developed in the huge literature of default-free term structure model. The readiness of applying existing techniques is one of the key motivations of Duffie and Singleton (1999). As we know that one of key factors to understand the Treasury bond market and their derivatives is to model the term structure of interest rates. Similarly to understand the defaultable bond markets and derivatives associated with those securities is to model the term structure of credit spreads. The proposed research intends to investigate how well the currently available models can fit the data and to provide some guidance and clues for the future research in the area of defaultable term structure modeling.

(BS03646)

Efficient Estimation of Equity Risks (CAPM Beta) With Sorting on Multiple Instruments

✍ LIU Ming • CHOW Ying Foon

☐ 1 July 2003

❖ Research Grants Council (Earmarked Grants)

To understand the risk structure of common equities return has been a major task of finance academics. The Nobel-prize winning work of Capital Asset Pricing Model (CAPM), for a long time a leading paradigm of modern finance, has recently been demonstrated as empirically not useful (Fama and French, 1992, among many others). This empirical failure of CAPM, however, may be caused by the inefficiency of the estimation method of equity market risk, or CAPM beta.

In this project, we aim to developing an empirical strategy that estimates CAPM beta in a more efficient fashion. The methodology relies on sorting, or grouping equities of similar risk attributes, to mitigate the adverse effects of the large idiosyncratic noises in estimation and inference. In contrast to the conventional practice which sorts on only one or two equity risk characteristics, such as pre-ranking beta and market capitalization, we propose new methodology of successive sorting that enables us to sort and combine the information in multiple risk characteristics. Black, Jensen and Scholes (1972) intuitively pointed out that a better efficiency is possible if we sort on a variable that bears a higher correlation with the underlying beta. By sorting on many sorting variables, and combining information of many variables, a higher efficiency is guaranteed as we are able to achieve an even higher correlation with the underlying beta.

Hong Kong takes pride in itself as one of the major financial centers in the world. The project sets to provide a basic and fundamental understanding of the risk structure of financial markets. It develops new econometric strategy and rediscovers the empirical relevance of the CAPM theory. It is therefore very important to the region as well as the world.

(CU03133)

Securitization, Capital Structure and Financial Intermediation

✉ THOMAS Hugh Alun Lloyd

☐ 1 December 2003

❖ Research Grants Council (Earmarked Grants)

Securitization, the sale of fixed-income assets to special purpose, bankruptcy-remove, entities (SPEs) financed by issues of new, asset backed securities, is an important device in the toolkit of finance.

Worldwide, assets such as mortgages, credit card debt, receivables, license cash flows, and bad debts have been securitized. While securitizations have surged, and hold out the promise for helping Chinese banks to solve problems of undercapitalization, the academic study of securitization has lagged. Using the frameworks of value at risk and the optimal capital structure of corporations, the study will build theoretical frameworks of securitization and test them using econometric analysis. Securitizations achieve “100 percent debt financing of assets” with the use of credit support. That credit support, typically in the form of subordinated tranches, limited guarantees and/or subordinate lines of credit, are first loss financings analogous to shareholders equity in a corporation. Securitizations are structured to limit first loss financings to the minimum - limiting the amount of credit support to the value at risk for some acceptably low likelihood of loss occurrence. The asset structures of SPEs are extremely simple - typically each SPE has but one class of fixed income assets - and the proportion of credit support can be viewed as the optimal capital structure of the securitized assets. I will investigate the motives for and effects of securitization. I will specify a family of models of securitization and test the models on banks, other financial institutions and non-financial institutions using a variety of publicly available data bases.

(CU03135)

Actuarial Applications of Mixture Gaussian Time Series Models

✉ WONG Chun Shan • CHAN Wai Sum*

☐ 1 August 2003

❖ Research Grants Council (Earmarked Grants)

The investment-linked insurance products become increasingly popular in Hong Kong. In 2001, the volume of new investment-linked insurance business overtakes the volume of new traditional insurance business. The introduction of the investment-linked insurance products creates new challenge to the actuaries. Over years, actuaries have been using rather static approach to analyze the investment guarantees for these products. However, these approaches are found to be sub-optimal and may affect the profitability and stability of insurance companies. Recently, insurers are encouraged by the regulator to apply stochastic approach in the valuation of the investment guarantees. Although the stochastic approach should be superior to the static approach, it is not completely defined by the regulator. In particular, the regulator does not suggest any model to the actuaries for the stochastic adequacy test. Several popular stochastic models are being adopted just because of simplicity. Recently, new stochastic models have been proposed in the statistics literatures, which may be useful in the stochastic adequacy test of investment-linked insurance products. The class of mixture Gaussian time series models is particularly promising in this aspect. In this project, the actuarial applications of the mixture Gaussian time series models will be developed. Upon the completion of this project, the insurance industry could be benefited from a more superior approach to deal with the investment-linked insurance products.

(CU03136)

Share Repurchases in Japan: Long-term Price Performance and Strategic Trading

✉ ZHANG Hua

□ 1 December 2003

❖ CUHK Research Committee Funding (Direct Grants)

In this project, I plan to study share repurchases in Japan with focus on long horizon share price performance and whether insider manager behave strategically when they implement repurchase programs. Specifically, I plan to a) document market initial reactions to corporate share repurchase announcements; b) examine long-term share price performance after announcements and identify salient factors that influence the performance; c) whether long-term share price performance for keiretsu-affiliated and independent firms are different; d) whether managers in Japan behave strategically when they execute announced repurchase programs; e) finally, compare and contrast results from this project with those in previous studies on share repurchases in the United States. 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.

Please note that I have completed a related project that examines the initial market reactions to share repurchases in Japan, which has been published in an "A" Journal.

(BS03925)

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*	2001-02	Bank Ownership, Control and Related Party Lending: A Comparative Study (SS01304) ✍ LANG Hsien Ping Larry • YOUNG Leslie
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	Heterogeneous Beliefs and Stock Market Volatility (BS01749) ✍ LI Tao
2001-02	Value Creation and Corporate Governance (SS01302) ✍ CHOW Ying Foon • KEUNG Yiu Ling*	2002-03	Corporate Bond Credit Spreads and Credit Ratings (BS02780) ✍ LI Tao • ZHANG Hua
2000-01	Internal Capital Market Misallocation and Inefficient External Capital Market - Evidence from Red Chip Companies (CU00021) ✍ HE Jia	2000-01	Weak Moments in the Efficient Methods of Moments (CU00023) ✍ LIU Ming • CHOW Ying Foon • ZHANG Hua • ZHANG Huibing Harold*
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*	2002-03	An Empirical Exploration of Ball and Berk's Critique (BS02538) ✍ LIU Ming • CHOW Ying Foon • FAN Xing Ting*
2002-03	Investors' Behavior in an Emerging Capital Market: The Case of China (BS02457) ✍ HE Jia	2002-03	Expropriation, Economic Performance and Corporate Governance: Evidence from Japan (CU02296) ✍ SO Wai Man Raymond • LANG Hsien Ping Larry • YOUNG Leslie
		2001-02	Loan Spreads and Bank Risk Capital (SS01305) ✍ THOMAS Hugh Alun Lloyd
		2002-03	Mixture Type Time Series Models with Application (BS02553) ✍ WONG Chun Shan

2001-02	An Analysis of Automobile Compensation Systems: The Pending Legistration of US "Auto Choice Reform Act" and Its Implication to Hong Kong Motor Insurance Industry (SS01306)	✍ YOUNG Leslie • LANG Hsien Ping Larry
	✍ YEH Jia Hsing	2000-01 A Study on Share Repurchases in Hong Kong (CU00024)
		✍ ZHANG Hua • CHOW Ying Foon • LIU Ming
2002-03	Hedging Weather Risk: The Design, Pricing, and Applications to Hong Kong Disney (BS02797)	2002-03 A Study on Share Repurchases in Japan (BS02509)
	✍ YEH Jia Hsing • CHOW Ying Foon	✍ ZHANG Hua
2002-03	Ultimate Ownership of Anglo Saxon Corporations: Berle and Mean Revisited (CU02293)	

RESEARCH PROJECTS

Understanding HR Flexibility in the Context of Firms and their Environments

✍ WAY Sean Alexander • FAY Charles H* • HUSELID Mark A* • SNELL Scott A*

☐ 20 November 2003

❖ CUHK Research Committee Funding (Direct Grants)

Human resource (HR) flexibility has been proposed as an important construct in management research and practice. However (to date) a valid measure of the HR flexibility construct has not been developed. A key objective this research project is to develop a valid measure of HR flexibility. Items for this new measure (a) are based upon the work of numerous scholars and (b) were generated with the assistance of several senior management scholars and practitioners. Using the survey responses from 142 senior HR managers (study 1), exploratory factor analysis and internal consistency assessments were used to refine this new HR flexibility measure¹. To provide further evidence of the construct validity of this new (5 scale; 21 item) HR flexibility measure - using the survey responses from 200 senior HR managers (study 2) - confirmatory factor analysis will be conducted and convergent and discriminant validity estimates will be inspected. Finally - using survey responses from a sample of 200 couplets² (study 2) - structural equation modeling will be used to empirically examine an integrated model of antecedents and consequences of HR flexibility. In sum, this research project is expected to provide management researchers with a valid measure of HR flexibility as well as further enable management

scholars and practitioners to understand the HR flexibility construct and its domain.

¹ Study 1 data collection and data analysis were completed on 11-30-2002. All other analysis will use study 2 data; study 2 data collection is currently in progress and will be completed by 12-12-2003.

² 1 couplet= 1 senior HR manager respondent from the firm +1 senior (other, non-HR) manager respondent (e.g. C.E.O.; President; Vice President; etc.) from the firm. Data was collected from two sources to ameliorate common source / common method concerns raised when collecting data from a single source.

(BS03409)

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

Edition	Title/Investigators
2001-02	Corporate Reactions of Poorly Performing Chinese Listed Companies (BS01964) ✍ LEUNG Wai Kin
2002-03	Corporate Reactions of Poorly Performing Chinese Listed Companies (BS02806) ✍ 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

2002-03 Strategy and Information Technology
Alignment in Hospitality and Tourism
(BS02731)

✍ TSE Eliza Ching Yick • HUI King
Man (Dept of Marketing) •

CHEUNG Wai Man (Dept of
Decision Sciences and Managerial
Economics)

RESEARCH PROJECTS

Constructing Trust-Enabling Institutions: A Grounded Theory Approach

✉ AU Yuk Fai Kevin • VERTINSKY Ilan*

☐ 1 December 2003

❖ Research Grants Council (Earmarked 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. There are three mechanisms for generating trust in a society. First, certain institutions help ensure that people behave in a trustworthy manner (i.e. non-opportunistically). For example, in a strong regulatory system or a tight network of relationships, individual action can easily be observed and assessed, and the group can reward trustworthy behaviours and punish opportunistic behaviours. Second, individuals can assess other's behaviours, on a one-on-one interaction, over time, by taking gradually more risks and evaluating the outcomes. Third, partners can develop affective bonds and act for mutual benefit. This study examines the interplay between these three mechanisms in the Chinese society and in the Canadian society. 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. In other words, people do not trust others easily, especially strangers. 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 propose 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. We commit ourselves to discovering a more complete theoretical framework through direct contact with experienced individuals and their various institution-building efforts.

(CU03144)

Innovation, Attention to Detail and Outcome Orientation: How to Manage Them

✉ HUI Chun

☐ 1 December 2003

❖ CUHK Research Committee Funding (Direct Grants)

The purpose of this research is threefold: First, to study the interplay between innovation (e.g. new ideas and designs), attention to detail (e.g. quality management) and outcome orientation (e.g. productivity) – the key factors in the successful competitiveness of organizations today. More specifically, the research will identify the interrelationships between these factors – whether they compete or complement each other. Second, to

identify the structural factors and the organizational mechanisms that enhance each of the above three organizational values. Third, to study the effects of the cultural values on organizational performance outcomes such as number of innovations, quality, and delivery time and cost. The moderating effects of paternalistic leaderships and personal dispositions on the above relationships will be studied. In the first phase of the proposed study, we shall interview executives of hi-tech companies in China to study their perceptions of organizational culture, and success and failure factors in this industry especially in China. We shall also adapt and validate the scales used in the present study. Sound psychometric properties of the scales not only help to establish the validity of the results, but also clarify the nature of the constructs measured for both researchers and practitioners. In the second phase of the proposed study, we shall test our theoretical framework.

(BS03550)

Trusting and Being Trusted at Work: The Chinese Context

✉ LAU Chi Sun Dora • Sandra L. ROBINSON*

☐ 1 September 2003

❖ Research Grants Council (Earmarked 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.

(CU03147)

Legitimation and Competition Process of International Market Entry

✉ MAKINO Shige • CHAN M Christine*

☐ 1 September 2003

❖ Research Grants Council (Earmarked Grants)

This study will examine two important research questions. The first question is how social processes affect foreign firms' international market entry decisions. This study represents one of the first attempts to propose that a foreign firm's market entry decision represents an organizational response executed to gain legitimacy, rather than economic outcomes, in a given institutional environment. Building on the organization ecology theory, the study hypothesizes that a firm's own and other firms' experiences would have significant effects on the likelihood of the firm's international market entry.

Using a longitudinal database with a population sample of international market entry decisions made by Japanese firms between 1987 and 2001, the analysis is designed to unveil the dynamic process of international market entry. The second question is how governments facilitate the legitimation processes of international market entry. By conducting interviews with managers and government officers in developing countries such as China, we will investigate how host country governments can attract inward investments by facilitating the legitimating processes of local markets.

(BS03648)

What Strategies Should Small-and Medium-sized Enterprises Use: A Comparison of Technology Industries and Traditional Industries

✉ QIAN Gongming • Chuck C. Y. KWOK* • LI Lee*

□ 1 September 2003

❖ Research Grants Council (Earmarked Grants)

Small- and medium-sized enterprises (SMEs) have contributed significantly to economic growth and employment in both Mainland China and Hong Kong. However, a prolonged economic slowdown in Hong Kong and substantial environmental changes (e.g. entry into the WTO) in Mainland China have posed greater challenges on these firms. This proposed research project is to study how SMEs in Hong Kong and Mainland China can regain and develop their competitive advantages in increasingly changing external environments. We focus our attention on SMEs that operate in both traditional and technology industries by drawing on the experience of U.S. SMEs. In the past years, we have successfully conducted empirical studies on U.S. SMEs (based solely on secondary and archival data) in both

industries, and identified various strategies used effectively to maintain and enhance their competitiveness. The key question is how much in their method that we can make use of when we deal with both Chinese and Hong Kong counterparts. In this project, we will investigate what strategy SMEs of Hong Kong and mainland China can adopt given rapidly changing external environments and also how strategy selected can affect SMEs' performance in these different industries.

(CU03139)

Institutional Transitions and Diversification Strategies in China

✉ WANG Yu Long Denis • PANG Mike*

□ 1 August 2003

❖ Research Grants Council (Earmarked Grants)

How do organizations in emerging economies raft diversification strategies during constitutional transitions? What are the mechanisms with which institutional transitions impact diversification strategies? Enhancing our understanding on these initial issues is especially urgent and timely as numerous. Chinese conglomerates enter a new era of global business competition and integration with the WTO. Our project develops an institutional perspective on corporate diversification. We focus on these aims: (1) What are the institutional determinants of the scope of the firms over time? (2) What leader some firms to increase while others to reduce their scope? And (3) How do changes in diversification strategies affect firms performs.

(CU03148)

Development of Effective Emotional Intelligence (EI) Training Programs for Hong Kong Students & Employees

✉ WONG Chi Sum • LAW Kenneth S* • WONG Ping Man*

□ 1 December 2003

❖ CUHK Research Committee Funding (Direct Grants)

After three years of research in Hong Kong supported by a RGC grant, we have collected pilot scientific evidence that emotional intelligence (EI) has positive effects on Hong Kong people's life attitudes and job outcomes. In our last RGC grant, we have developed scientifically sound EI measures and a work place EI model. It is thus worthwhile to further examine how EI can be enhanced or trained. However, after conducting a comprehensive review on studies concerning EI both manually and electronically, we found little direct evidence demonstrating the effectiveness of existing EI training programs. In this project, we will examine the potential trainable antecedents of EI. After demonstrating the validity of these trainable antecedents, we will recommend training activities that may be included in effective EI training programs. Thus, the following are the three objectives of this project: (1) further investigate the antecedents and outcomes of EI both for school children and workers; (2) examine the factors (e.g. family, education and life experiences) that may lead to the development of EI-related abilities for Hong Kong people; and (3) based on the above evidence, examine various training activities that may be effective in enhancing Hong Kong people's EI-related abilities.

(BS03665)

Government, Business Groups, and Innovation Strategies during Institutional Transition in China

Tunneling: Innovation Diffusion among Member Firms in A Business Group

✉ YIU Wing Yee • HOSKISSON Robert E*

□ 1 December 2003

❖ CUHK Research Committee Funding (Direct Grants)

Business groups have been regarded as an "institutional innovation" in transition economies, as this organizational form emerged when pre-existing institutions have not been fully abolished and new effective institutions take time to come into place (Khanna & Palepu, 2000; Qian, 2000). Business groups serve as an engine for fostering economic growth in transition economies (Keister, 2000). The most unique feature of business groups is the patronage relationships with the government that provides restricted access to different types of resources. This research project aims at differentiating the impacts of governments on innovation strategies pursued by business groups. The central premise is that business groups under central government influence will pursue longer-term innovation via internal product innovations, while business groups under local government influence tend to pursue nearer-term innovation via external innovations (acquisitions). The study will also examine the indirect effect of government influence on innovation strategies through business groups' control systems. It is proposed that strategic controls will be used to govern affiliate firms in business groups under central government influence, while financial controls will be used to govern affiliate firms in business groups under local government influence. The proposed relationships will be tested by archival data sources. The implication of the study is that government plays an important role in the transition economy of China.

Governments at different levels of the hierarchy are different in their roles, incentives, and resource portfolios. Their impacts on the choice of corporate innovation strategies, as reflected in the context of business groups, are important in regard to the facilitation of various types, and time orientation, of innovations, which subsequently engineer persistent economic growth and firm's competitiveness in the global arena.

(BS03429)

✍ 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)

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

Edition Title/Investigators

2002-03 Constructing Trust-enabling Institutions: A Grounded Theory Approach (BS02323)
✍ AU Yuk Fai Kevin • VERTINSKY Ilan*

2000-01 Service Quality and the Congruency of Employee Perceptions and Customer Perceptions (CU00032)
✍ CHEUNG Wai Hung Gordon • HUI King Man (Dept of Marketing)

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

2002-03 Global Entrepreneurship Monitor Hong Kong National Study 2002-2004 (BS02396)

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*

2002-03 Trusting and Being Trusted at Work: The Chinese Context (BS02376)

✍ LAU Chi Sun Dora

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

✍ LAU Chung Ming

Dept of Management

- 2001-02 Population Dynamics of International Market Expansion (BS01994)
✍ MAKINO Shige • CHAN Man Kuen Christine#
- 2002-03 Professional Identification and Job Attitudes: A Study of Lawyers in Hong Kong (BS02833)
✍ NGO Hang Yue
- 2002-03 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 (BS02561)
✍ QIAN Gongming • WANG Yu Long Denis • LEE Li*
- 2001-02 Environmentalism and Business Management in the Greater China Region: The Cases of Mainland, Hong Kong, and
- Taiwan Pollution Intensive and Environmental Protection Firms (SS01311)
✍ TSAI Soo Hung Terence • DONG Xin Bao* • LIU Xue* • LU Yuan
- 2002-03 International Transitions and Diversification Strategies in Asia (BS02532)
✍ WANG Yu Long Denis • PENG Mike*
- 2000-01 Development, Validation, and Application of an EQ Model in the Work Place (CU00038)
✍ WONG Chi Sum • LAW Kenneth S* • WONG Ping Man*

RESEARCH PROJECTS

A Measure of Loss Aversion and Reference-Dependence Models of Consumer Choice

✉ JIA Jianmin

☐ 1 October 2003

❖ Research Grants Council (Earmarked Grants)

Previous studies show that consumer choice depends on the status quo or reference point and consumers weigh losses relative to a reference point more than equivalent sized gains. The notions of reference-dependence and loss aversion have been used in studying a wide range of consumer choice problems including reference price effects and the asymmetric effects of pricing, sales promotion, and brand positioning. Following Tversky and Kahneman (1991) (the Nobel Laureate in Economics 2002), the current study proposes an alternative theoretical framework for modeling the effects of reference-dependence and loss aversion and gaining new insights into consumer choice behavior. This research effort assumes a reference-dependent structure of preference based on an anchor (i.e. a reference state) and adjustment (i.e. gains and losses relative to the reference point) consideration. To measure the effects of reference levels on preference and loss aversion, a coefficient of reference structure is defined by the ratio of marginal rates of substitution at two different reference levels. Then, loss aversion can be simply captured when the coefficient is larger than one. The coefficient of reference structure is directly related to the elasticity of substitution, which provides a useful tool for the economic analysis of consumer choice. It is also

shown that the effects of reference levels and loss aversion on preference can be reflected by changes of attribute weights. Several explicit forms of reference-dependent models will be proposed and their applications and implications in consumer choice will be discussed.

(CU03149)

Mining Newsgroup Postings to Understand Traveler Concerns and Opinions

✉ LAU Kin Nam • LEE Kam-hon (School Of Hotel And Tourism Management)

☐ 1 December 2003

❖ CUHK Research Committee Funding (Direct Grants)

The objective of this project is to propose an effective and efficient way of extracting business intelligence from worldwide travel-related newsgroups. Business intelligence thus extracted will help the HKTb to identify potential incoming visitors, understand their interests and concerns, and explore their information needs. The HKTb can then formulate action plans such as providing information to travelers' enquiries, dealing with their negative comments/complaints, and clearing their misunderstandings. In reality, because of the massive amount of newsgroup postings available, and constant changes in their contents over time, manual processing of these textual messages may result in substantial costs. Therefore, the process of monitoring and analyzing newsgroup postings has to be machine automated to be practical. Our research questions are:

Is it possible to automate the text analysis process and attain a reasonable level of accuracy?

Is existing search engine technology effective and efficient enough to analyze vast amount of newsgroup postings? If not, how can we improve it?

How can we automate the process of text analysis on newsgroup postings?

Note: The major concern of reviewers on our UGC proposal is the technical feasibility of using text mining tools for knowledge discovery from massive amount of textual data. Actually, we are currently conducting a large-scale research to analyze newsgroup discussions about the US-Iraq War. We downloaded 114,893 postings from three major war newsgroups. The research purpose is to predict opinion (i.e. support war, against war or neutral) of individual participants in the newsgroups. We constructed a dictionary consisting of 20,375 search terms. This dictionary acts as the knowledge base that associates key words and phrases to one's opinion. We apply data mining techniques in a training sample of 3,997 postings to generate rules for predicting people's opinion. These rules are tested in a validation sample of 999 postings. In this preliminary study, we successfully classified 66.7% of total postings. This preliminary result shows a promising start. We need resources to further revise the dictionary and opinion prediction rules, and to apply the knowledge we learnt in the training sample in the 114,893 postings.

(BS03699)

The Influence of In-Group versus Out-Group Bias on Evaluation of Blame on Service Employees

✍ POWPAKA Samart

📅 1 December 2003

❖ CUHK Research Committee Funding (Direct Grants)

In many service industries (e.g. airlines, hotels), people from different ethnic groups are employed to serve customers from different races. During the service process, a customer has an opportunity to witness a conflict between a service employee and another customer(s). The service provider may be in the same or different ethnic group as the customer who witnesses the conflict. The customer who is in the conflict may be in the same or different ethnic group as the customer who witnesses the conflict. It is quite likely that the in-group bias may play a role in the observing customer's evaluation of the service provider who has conflict with his/her customer.

It is hypothesized that as a result of in-group bias, there would be an additive effect of group membership information. Specifically, we expect that an in-group service provider who has conflict with an out-group customer would be evaluated more favorably than an in-group service provider who has conflict with an in-group customer or an out-group service provider who has conflict with an out-group customer, who, in turn, would be evaluated more favorably than an out-group service provider who has conflict with an in-group customer.

(BS03439)

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

Edition	Title/Investigators
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)

	<p>✍ HUI King Man • AU Yuk Fai Kevin (Dept of Management) • ILAN Vertinsky*</p>		<p>✍ MUN Kin Chok</p>
2000-01	<p>Consumer Preference Uncertainty: Effect of Attribute Conflict in Judgement and Choice (CU00031)</p>	2002-03	<p>Female Role Orientation of Chinese Women: Conceptualization and Scale Development (BS02957)</p> <p>✍ SIN Yat Ming Leo</p>
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