

## RESEARCH PROJECTS

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### **An International Comparison of Corporate Financial Policy**

✉ FAN P. H. Joseph • Titman Sheridan\* • Twite Garry\*

☐ 1 October 2003

❖ Research Grants Council (Earmarked Grants)

Prior research has documented that there are large cross-country variations in capital structures (debt-equity mix) and debt maturity structures that cannot be explained by firm- or industry-level factors known to influence firms' decisions on these financial structures. The sample in our pilot study includes about 1,400 chemical companies that are located in 46 different countries. While chemical companies located within a country have relatively similar capital structures, there are large differences in the capital structures of chemical companies across countries. In general, this project will examine if the location of a firm has a greater effect on the capital and debt maturity structures of the firm than its industry affiliation has, and if cross-country differences in these structures can be explained by observed institutional differences. In particular, these institutional factors include a country's institutional investment activities (pension funds, insurance companies, and investment companies), the activities of information intermediaries (auditors and financial analysts), and a country's financial contracting environment indicated by its tax system, legal system, and the quality of public governance. Our analysis will be performed on a large sample of publicly traded companies over the last decade and location close to 50 countries.

Although country factors do likely matter as much as firm- or industry-level variables in determining corporate financial policy, they have just begun to attract researchers' close attention. Our analysis will provide important evidence on the roles of institutional factors in corporate financial policy. (BS03533)

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### **The Effectiveness of Audit Committee in Relation to its Structure, Role and Functions: Asia Pacific Region Evidence**

✉ TONG WU Yew Jen Marian • NG Yick Man Andy

☐ 1 December 2004

❖ CUHK Research Committee Funding (Direct Grants)

The audit committee is one of the core elements in corporate governance. Effectively structured audit committee would contribute substantially to good corporate governance. Recent corporate failure and financial scandals have thrust into limelight the important role assumed by audit committee in enhancing the standard of corporate governance. Despite its relative importance it remains an anomaly that the establishment of audit committee is not mandated in a number of jurisdictions. In addition, the framework adopted although apparently similar in structure nonetheless differs in certain respects. Taking cognizance of the foregoing, this study also addresses two principal issues namely:

1. To examine and thereafter summarise the structure, role, duty and responsibility of audit committee in the jurisdictions of the countries in the region; and
2. To make preliminary recommendations in the context of facilitating the establishing of a more harmonized framework for audit committee

within the region.

The methodology adopted involved a review as well as questionnaire survey of current practices the latter of which was extended to selected organization in the region. The results obtained were analysed and then benchmarked against the practices in selected countries outside the region. The feasibility of installing an effective mechanism for audit committees depends in parts on the findings. However this project is unlikely to render any absolute and/or exhaustive solution to this issue. Instead it seeks to solicit more ideas and feedback and to initiate the research process which would eventually reach an optimum, feasible and practical model to be adapted to suit the peculiar requirements of different jurisdictions.

(BS04442)

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### **Public Governance, Corporate Governance and the Value of Hong Kong Listing**

✍ WONG Tak Jun • ZHANG Tianyu#

☐ 1 December 2004

❖ Hong Kong Exchanges and Clearing Ltd

This proposal comprises of two related projects. The first project would study 1) how public governance influences the corporate governance of mainland companies listed in Hong Kong, and 2) whether the better law and enforcements of the Hong Kong markets would limit government's political influences on corporate governance. The second project would 1) investigate how government's political influences, as measured by the board and corporate ownership structures, affect the transparency and performance of the Chinese listed firms; and 2) whether Hong Kong listing would limit government influence on mainland listed firms' corporate transparency and performance.

(BL04715)

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### **The Study of Related Party Transactions in China**

✍ WONG Tak Jun • Ming JIAN\*

☐ 1 June 2005

❖ CUHK Research Committee Funding (Direct Grants)

This project attempts to provide large sample evidence of opportunistic related party transactions in China where economic institutions, legal system and corporate structures are conducive to such dealings. In China, the controlling party are usually the largest shareholders, and the government backing these shareholders. Prior research showed that large shareholders in China are over-represented (Fan & Wong 2004) and government tends to intervene the listed companies through more direct control of the companies (Fan, Wong & Zhang 2005), which makes the companies vulnerable to expropriation by these controlling parties. Related party transaction would be an important means in achieving these purposes when the government, especially that of the local government can exert influence in a number of companies (listed or unlisted) bearing in mind political objectives other than shareholders' value maximization. Anecdotal evidence suggested that the controlling shareholders use related party transactions to boost up the earnings of the listed companies, and when possible, divert resources out for their own benefits by means of related party lending, etc. In this project we would like to examine if this propping and tunneling behavior is prevalent in Chinese listed companies, and, which companies under what circumstances are more likely to introduce this kind of opportunistic behavior.x.

(BS04963)

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**Ownership Structure, Investor Protection and Analyst Following**

✉ WU Yuwu Woody • HAW In-mu# • Lee Seok Hwang\*

☐ 1 November 2004

❖ Research Grants Council (Earmarked Grants)

The objective of this study is to examine the effect of stock ownership structure and investor protections on analyst following in the non-US setting. The concentration of ownership and the divergence between cash rights and voting rights may create an incentive for the ultimate controlling shareholders to expropriate minority shareholders. To mask their wealth expropriation activities and avoid external monitoring and potential legal penalty, controlling shareholders are likely to withhold or mispresent information. This suggests that firms with concentrated ownership and greater degree of divergence between cash flow and voting rights are more likely to have poor information environment. Using a comprehensive firm-level ownership data for nine East Asian economies and thirteen Western European countries, this study investigates the effects of ownership concentration and separation of controlling owners' control rights from cash flow rights on analyst following. This issue is of interest because ownership and control structure affect both information availability (quantity and quality) and outside investors' interest. This study further examines whether the negative impacts of cash flow-control rights divergence on analyst following are less severe in countries with high level of investor protection.

(CU04437)

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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>
2002-03	Professionals' Duties and Liabilities in China: The Case of Certified Public Accountants (CU02277) ✉ JIANG Zhaodong • WANG Liyan*
2003-04	The Audit Effect on Information Asymmetry and Valuation in the Capital Markets (BS03814) ✉ LAM Chee Keung • YAW Mensah*
2003-04	The Motivation for Participative Budgeting (BS03667) ✉ LUI Man Ching Gladie
2002-03	Flexibility or Signaling? An Investigation of Stock Repurchase (BS01789) ✉ RUI Meng
2003-04	How Do Taxes Affect Dividend-Valuation? (BS03445) ✉ RUI Meng • WANG Steven*
2003-04	The Effect of Audit Committee Composition on Banker Perceptions of Auditor Independence: China Evidence (BS03741) ✉ TONG WU Yew Jen Marian • NG Yick Man Andy
2003-04	Audit Markets and Legal Environments around the World (BS02693) ✉ WONG Tak Jun • CHOI Jong Hag*

- 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#
- 2001-02 An International Comparison of the Value-Relevance of Alternative Accounting Data (BS01931)  
✍ YOUNG Danqing • MENSAH Yaw Mireku#
- 2002-03 Concentrated Stock Ownership and Price-Leading-Earnings Effects in East Asia (BS02631)  
✍ WU Yuwu Woody • HWANG Lee Seok#
- 2002-03 Value Relevance of Reported Cash Flows in the Emerging Capital Market of China (BS02562)  
✍ WU Yuwu Woody • HAW In-mu#
- 2003-04 Concentrated Stock Ownership and Price-Leading-Earnings Effects in East Asia (BS03663)
- 2003-04 The Association Between Accounting Standards, Corporate Restructuring and the Informativeness of Accounting Earnings: Evidence from Japan (BS03493)  
✍ YOUNG Danqing • FERGUSON Michael John

## RESEARCH PROJECTS

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### Generating Explanatory Hypotheses from Financial Texts: A Feasibility Study

✉ CHAN Wai Kwong Samuel

☐ 1 December 2004

❖ CUHK Research Committee Funding (Direct Grants)

Although most quantitative financial data are largely analyzed by the traditional techniques of artificial intelligence or data mining, the abundance of on-line electronic financial news articles has opened up new possibilities for intelligent systems that can extract and organize relevant knowledge automatically in a usable format. Information extraction (IE) is widely recognized as one of the more successful technologies that has arisen from the field of computational linguistics, but most of the typical IE systems require a hand-built dictionary of templates and are then subject to ceaseless modification to accommodate new patterns that are observed in the text. In this research, we propose a novel intelligent system for knowledge discovery from texts (KDT) that deals with the issues of shallow language pattern learning and language inference. Our shallow language pattern learning is based on two major, but complementary, linguistic factors: *lexical similarities* and *sentence structures*. The system takes full advantage of a huge number of sentence patterns in a Treebank, while preserving robustness and without descending into formalism. To accomplish linguistic inference from financial news articles, a conceptual representation of sentence meaning will be investigated in conjunction with the patterns that are extracted. As a result, the knowledge that is

extracted can be made available to subsequent sentence inference processes, which are crucial to any investment decisions. Rather than discovering the associations between the numerical data in financial news articles, the intelligent system will reveal novel explanatory hypotheses about the events appeared in the articles by collating the knowledge that is learnt from a financial news corpus. A five-dimensional vector of objective function will be investigated in this pilot study.

(BS04761)

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### A Natural Language Front-End: Synergy between a Chinese Treebank and Verb Dictionaries in a Connectionist Model

✉ CHAN Wai Kwong Samuel • FRANKLIN James\* • LAI Tom\*

☐ 1 December 2004

❖ Research Grants Council (Earmarked Grants)

Case frame, as proposed by most linguists, is one of the most important structures that can be used to represent the meaning of sentences. Although several criteria for recognizing case frames in sentences have been considered in the past, none of the criteria serves as a completely adequate decision procedure. In this research, our primary goal is to design a front end that can accept sentences in natural language as input. A shallow but effective sentence chunking process with a novel case annotation technique will be developed. Second, to overcome the data sparseness and the word sense ambiguity problems that may appear, linguistic knowledge encoded in two Chinese verb dictionaries is used to identify the most suitable case filler for each phrase of the input sentence in a connectionist activation network. The network is used to handle all the possible case frames that the verb may have. To

justify the statistical significance of our front end, evaluation of over 15,000 Chinese sentences will be examined. Comparison with other similar systems will also be investigated.

(CU04438)

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**A Technical Feasibility Study of a String-to-Structure Mapping in Generating Explanatory Hypotheses from Financial Texts**

✉ CHAN Wai Kwong Samuel

□ 1 May 2005

❖ CUHK Research Committee Funding (Direct Grants)

String data naturally exists in many applications including financial documents, e-commerce data and investment event sequences. While most quantitative financial data are largely analyzed by the classical techniques in artificial intelligence or data mining, the abundance of on-line electronic financial news articles has opened up new possibilities for intelligent systems that can extract and organize relevant knowledge automatically in a usable format. In this technical feasibility study, we will study a *String-to-Structure Mapping* which will be used to generate hypotheses from financial texts. The mapping is an approximate search technique that deals with the issues of shallow language pattern learning and language inference in financial news articles. Our approximate search technique is based on two major, but complementary factors: *lexical* and *sentence structures similarities*. The technique takes full advantage of a huge number of sentence patterns in a financial string database, while preserving robustness and without descending into any language formalism. Our search can be formulated by specifying a string/pattern and a threshold. As a result, the explanatory hypotheses can be generated by properly

retrieving the relevant portion, which has a high degree of similarities with the input query, from the database.

(BS04323)

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**Job Shop Scheduling of Minimizing Weighted Tardiness Using A Hybrid Genetic Algorithm**

✉ CHEUNG Wai Man • LEUNG Chi Kin  
Lawrence

□ 1 December 2004

❖ CUHK Research Committee Funding (Direct Grants)

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

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).

We will also examine the potential of extending the GA-Heuristic framework to solving multi-objective scheduling problems.

(BS04772)

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**Investigating Distributed Document Management in Semantic Web**

✉ DU Timon Chih Ting

□ 1 December 2004

❖ CUHK Research Committee Funding (Direct Grants)

The World Wide Web has become the medium of information, just like a well-organized library providing much information. With the growth of World Wide Web, the volume of information has increased rapidly. Nowadays, to locate needed information is not an easy task, even with the help of sophisticated search engines such as Google or AltaVista. The problem arises because the current Web content is designed for human consumption rather than computer manipulation. Therefore, little help can be provided by computers.

The Semantic Web provides a solution to this problem. The Semantic Web structures the meaningful content of Web pages into semantic data for both humans and machines. In the design, a computer can send software agents to roam from page to page following the meaning of the semantic data to carry out tasks.

This study will investigate two issues: (1) how the Web is being changed from the media of information into the media of documents; and (2) how knowledge management is being conducted in the Semantic Web. A document management system will be built to experiment with the coordination and operations of the Semantic Web. Both the efficiency and effectiveness of its performance will be evaluated.

(BS04306)

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**A Privacy and Security Framework for EPC Network Infrastructure**

✉ DU Timon Chih Ting • CHEUNG Wai Man • CHU Sung Chi • WONG Wai Chi Mavis

□ 20 June 2005

❖ GS1 Hong Kong

The objective of this Study is to suggest a privacy and security reference framework to facilitate the management of RFID-based information by the EPC Network for partners in business chains. Primary Study effort will be put on the privacy and security issues on the EPC global network. Privacy and security related technology, such as PKI, will be discussed with respect to the suggested framework. From an information perspective, privacy deals with the proper use of what information, while security ensures the access to information is as intended. Traditionally, these issues have been studied for users of offline nature. Recent studies for online users create a wealth of plausible approaches. Based on these current findings in the literature, and a survey of local parties in the business chains here in Hong Kong, the research team at the Center of Cyber Logistics will identify key research issues in security and privacy for RFID-driven business chains. A framework for reference will then be proposed.

(BS04840)

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**Macroeconomic Effects of Public Pension Reform in China**

✉ FUNG Ka Yiu Michael

□ 1 December 2004

- ❖ CUHK Research Committee Funding (Direct Grants)

China has a rapidly aging population for two main reasons, the “one-child policy” and substantial improvements in life expectancy, which means that the number of retired workers is growing much faster than the number of newly employed who are paying into the pension system. Hence, China's pension system will inevitably undergo significant changes. The old social security system was predominantly a defined-benefit, pay-as-you-go (PAYG) type, but it became inoperative as economic reforms pushed millions of Chinese out of work and into early retirement. One of the major objectives of public pension reform in China has been to transform the system from a sole PAYG system into a partially funded system in which the individual's pension benefit is jointly financed by a social pooling account and his/her own individual account. The objective of this study is to ascertain how the ongoing reform of the public pension system is affecting China's macroeconomic performance, given the country's fiscal deficit. By offering a positive analysis of how the economy is affected by different public pension systems, we aim to put forward institutional arrangement(s) for social insurance that will allow the Chinese government to sustain rapid GDP growth.

(BS04358)

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**Bootstrapping Stationarity Test Based on M-Estimators**

- ✉ LI Hongyi • XIAO Zhijie\*
- ☐ 1 January 2005
- ❖ Research Grants Council (Earmarked Grants)

In empirical economic and financial research, it is extremely important to study whether or not a time series data is stable around some long-term trends. We propose a new stationarity test to examine the stability of economic and financial time series data. The test will be useful in better modeling and forecast of the economic and financial data. The proposed test is unique compared to the existing ones in the literature. It has an advantage over the other tests because it is based on robust estimation for time series data.

We will discuss the theoretical properties of the proposed stationarity test and then compare its performance to the other existing tests. We will further investigate the performance of the proposed test when the sample size of the data is relatively small which is typical for many macroeconomic variables. Existing tests are all based on the assumption that there is a large sample of data available. We will provide alternatives about how the test can be improved when there is only a small sample of data available.

The findings of this project will be important from both the theoretical and empirical perspectives in economic and financial research.

(CU04443)

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**A Theoretical Model for Volatility Smile and Skew**

- ✉ MOK Man Kwong Henry • CHANG Eric Chieh (Finance)# • Ng Kai Wing\*
- ☐ 1 May 2005
- ❖ CUHK Research Committee Funding (Direct Grants)

We will develop an information feedback equilibrium model to explain the forms and formation of volatility smile and skew. The whole implied volatility



surface is derived via an equity-option trading model with stochastic interest rates, in which the implied volatility information is fed back from the Black-Scholes (1973) model. Our model would encompass the stylized facts on different forms of the volatility smile by incorporating the sign of the bond-equity price correlation, the historical volatility value, changing from the European to an American option structure, and even by changing between put and call option structures.

(BS04327)

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**An Investigation of Process Integration in Supply Chains**

✉ ZHAO Xiande • HUI King Man (Marketing) • AU Yuk Fai Kevin (Management) • YEUNG Hoi Yan Jeff • LEE Tien Sheng

□ 1 December 2004

❖ CUHK Research Committee Funding (Direct Grants)

Process integration among different trading partners within a supply chain has received increasing attention from academic researchers and practitioners in recent years. However, our knowledge of what influences or enables process integration between trading partners, and how process integration in the supply chain influences the performance of the supply chain and firms within the supply chain, is still very limited. This study aims to identify the factors that influence process integration and the performance of the supply chain and develop a measurement instrument for process integration. The study also proposes and empirically tests a model of supply chain process integration and its effect on performance. The factors that are identified to influence supply chain integration include trust, relationship commitment among the trading partners,

and the perceived strategic importance of supply chain integration. We will empirically test the reliability and validity of the instrument and the model using data collected from manufacturing companies within a supply chain. Statistical analyses will be performed to investigate the relationships between the factors that influence supply chain process integration, the degree to which the processes are integrated, supply chain performance, and the performance of the company within the supply chain.

The model developed from this study will greatly enhance our understanding of what drives supply chain process integration and how process integration influences performance. The instrument developed and tested for measuring supply chain process integration and the factors that influence process integration can be used in future studies. Findings from the study can help companies enhance their global competitiveness by developing and managing relationships with their trading partners that will enable them to have an effective integration of key processes within the supply chain

(BS04689)

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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>
2001-02	A Connectionist-Based Chinese Hypermedia Document Classifier: Using Text Structure and Image as Complementary Media (CS01171) ✉ CHAN Wai Kwong Samuel

2003-04	Analyzing Query and Passage using Shallow Semantic Annotation in Chinese Question Answering System (BS03816)	✍ FUNG Ka Yiu Michael • HO Wai Ming* • ZHU Li Jing*
	✍ CHAN Wai Kwong Samuel	
2003-04	Government Land Sale, Housing Market, and Business Cycle (CU03128)	2003-04 An Economic Analysis of Sex Ratio at Birth: Causes and Consequences (BS03710)
	✍ CHEUNG Kwok Hung Francis • NI Shawn*	✍ FUNG Ka Yiu Michael • LEUNG Chi Ming Michael (School of Public Health)
2003-04	A Hybrid Genetic Algorithm for Job Shop Scheduling Problems of Minimizing Weighted Tardiness (BS03859)	2003-04 An Investigation of Competitiveness of Manufacturing Companies in Selected Industries of Mainland China (BS03954)
	✍ CHEUNG Wai Man • LEUNG Chi Kin Lawrence	✍ LEE Tien Sheng • ZHAO Xiande
2003-04	Supply Chain Hub Study in Hong Kong and Pearl River Delta (PRD) (BS03304)	2002-03 Identification of Standards and Protocols for the DTTN (BS01311)
	✍ CHEUNG Wai Man • DU Timon Chih Ting • FUNG Ka Yiu Michael • YEUNG Hoi Yan Jeff • ZHAO Xiande	✍ LEUNG Chi Kin Lawrence • CHU Sung Chi • CHEUNG Wai Man • HUI Yer Van*
2003-04	Investigating Real-Time Vehicle Dispatching System in Dynamic Vehicle Routing Problems (BS03581)	2002-03 Air Cargo Logistics Integration and Consolidation on a 4th Party B2B Platform: Issues and Models (CU02288)
	✍ DU Timon Chih Ting	✍ LEUNG Chi Kin Lawrence • CHEUNG Wai Man • CHU Sung Chi • HUI Yer Van*
2001-02	The Impact of Financial Liberalization in China (SS01294)	2002-03 Bootstrapping the Unit Root Tests in Small Samples (BS02784)
	✍ FUNG Ka Yiu Michael • HO Wai Ming* • ZHU Li Jing*	✍ LI Hongyi
2002-03	The Impact of Public Investment in Infrastructure in China-A Comparative Analysis of Financing Methods (CU02286)	2003-04 Health, Income Inequality, and Economic Growth (BS03860)
		✍ LI Hongyi
		2001-02 Inter-market Arbitrage Efficiency and Pricing Dynamics of Individual Stocks,

	Stock Options and Stock Futures. (BS01896) ✍ MOK Man Kwong Henry • FUNG K W Joseph* • CHIANG C P Raymond*	2002-03	Hong Kong - Pearl River Delta (HK-PRD) Economic Integration (BS02973) ✍ NG Fung Yee Linda • TUAN Chyau
2003-04	Corporate Performance and Time Evolution of the Chinese Stock Markets: A Symbolic Data Analysis Approach (BS03705) ✍ MOK Man Kwong Henry • WANG Huiwen*	2003-04	An Investigation of Operations Strategy in Mainland China and Hong Kong (CU03146) ✍ ZHAO Xiande • LEE Tien Sheng • SUM Chee Chuong*

## RESEARCH PROJECTS

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### Retirement Income in Hong Kong: How Much is Enough?

✉ CHAN Wai Sum

☐ 30 September 2001

❖ Research Grants Council (Earmarked Grants)

Historically, the Hong Kong Government has taken a *laissez-faire* attitude to retirement protection of the residents. However, over the past five years or so, the Government has been actively calibrating its retirement security policy. In August 1995, the Mandatory Provident Fund (MPF) Ordinance was passed. It is expected that the MPF scheme will be fully implemented in December 2000. Recently, numerous talks, seminars and advertising campaigns on retirement protection in Hong Kong have been launched. Achieving financial security in retirement is becoming a common goal of many Hong Kong residents today. The first step in the attainment of this goal is the establishment of retirement income objectives. Because they measure the amount of income needed at retirement, *income replacement ratios* are the key element in quantifying such goal. Unfortunately, there have been very few (if any) publications on replacement ratios in Hong Kong. Reliance has been placed on North American and European institutions' research results. However, the uniqueness of Hong Kong's economic and cultural conditions makes such reliance highly questionable. This research project attempts to build a model for determination of appropriate income replacement ratios for Hong Kong residents. The degree of income replacement that would be provided by the MPF scheme will be studied through

actuarial simulations. The results from this project can assist individuals, employers and public policy makers in their efforts to ascertain the amount of income needed to maintain an individual's (or a family's) pre-retirement standard of living during the retirement period.

(SS01760)

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### Estimation of Stock Return Volatility with High-Frequency Data

✉ CHOW Ying Foon

☐ 1 June 2005

❖ CUHK Research Committee Funding (Direct Grants)

High-frequency financial data are observations on financial variables taken daily or at a finer time scale, and are often irregularly spaced over time. These high-frequency financial data sets have been widely used to study various market microstructure related issues, including price discovery, competition among related markets, strategic behavior of market participants, and modeling of realtime market dynamics. Moreover, high-frequency data are also useful for studying the statistical properties, volatility in particular, of asset returns at lower frequencies. However, most studies to date have been concentrated on developed markets such as the stock markets in US or UK. The objective of this project is to investigate domestic stock market and concentrate on the statistical properties of asset returns' volatility in comparison with that in other countries.

(BS04746)

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### Consultant Work for the Wealth Management Platform (WMP) of CITIC Ka Wah Bank Limited

✍ CHOW Ying Foon

☐ 10 June 2005

❖ CITIC Ka Wah Bank Limited

The following professional comments and expertise on the Wealth Management Platform developed by The CITIC Ka Wah Bank Limited would be provided:

- Review and comment the functionality of the new platform
- Review the questionnaire of the risk profile analysis
- Make comment on the scorecard of Time horizon risk, Financial risk and Emotional risk
- Make comment on the mechanism of the assets allocation
- Make any suggestion to the wealth management platform in different aspects such as procedure, functions, information captured, etc.
- Propose critical logic which can enhance the platform.

(BS04923)

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### Qualified Foreign Institutional Investors (QFIIs)

✍ HE Jia

☐ 1 January 2005

❖ Research Grants Council (Earmarked Grants)

QFIIs have been adopted in several other emerging capital markets, including Taiwan, India, Brazil, and South Korea. To learn the experience of them is valuable for implementing this in China. In this project we focus the experience of Taiwan since the process development of financial system there is very close to what has happened in mainland of China.

(CU04447)

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### Firm's Choice of Financing Means Under Private Benefits of Control

✍ HE Jia

☐ 1 June 2005

❖ CUHK Research Committee Funding (Direct Grants)

This project extends the model of Stein (1992) in order to study how the firms of different profitable abilities under the existence of private benefit of control choose their means of financing, including issuing bonds, equities and convertible bonds. The existence of private benefits of control motivates the "good" firms to issue convertible bonds financing, and when facing the probabilities of stock-based financial distress, the "bad" firms can issue convertible bonds by the specially revised downward terms. These bring on the multiple equilibria of market, and the costless equilibrium in the Stein's model is not the unique one. Firms' issuing convertible bonds is the result of game equilibrium of the controlling shareholders of various firms and outside investors. The behavior of controlling shareholders pursuing the private benefit of control bring the market more uncertain factors, increase the agent cost of firms' financing, and intensify the market volatility and speculative behavior. So it is necessary to control them. The conclusions of this paper are useful complements to the theories of convertible bonds, and useful reference to the departments of government establishing relevant policies.

(BS04354)

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### Strategic Trading and Asymmetric Information

✍ LI Tao

- 1 December 2004
- ❖ CUHK Research Committee Funding (Direct Grants)

The Kyle model assumes that the market makers are always certain that there exists an informed trader. While this assumption makes the model tractable but also makes it difficult to apply to some markets, e.g., the currency exchanges markets, in which insider trading is less severe. This project is trying to extend the Kyle model (Kyle (1985)) and Back (1992) to a setting in which market makers do not know whether a strategic trader is informed. With common prior beliefs, market makers need not only to update their value estimate as in the Kyle model, but also to update their probability estimate that the strategic trader has private information, based on the observed cumulative order flows. The interactions of the two updating rules play a vital role to determine the properties of the equilibrium asset price. In particular, we would like to study the dynamics of market depth and asset price volatility. (BS04376)

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### **Momentum Profits Before and After Portfolio Formation**

- ✉ LIU Ming
- 1 December 2004
- ❖ CUHK Research Committee Funding (Direct Grants)

The price-momentum is not limited to the post-formation period. For a symmetric pre-formation period (the periods up to 12 months prior to the portfolio formation period), we discover an equal amount of momentum profits. Furthermore, no significant momentum profit is found in the post-formation period for the momentum portfolio

when we benchmark the expected returns based on the cross-section returns during pre-formation and formation periods. Consequently, the post-formation momentum profit is not abnormal. In fact, it is the pre-formation momentum profit that needs to be explained. This research attempts to explain the pre-formation momentum returns. All rational models that are applied with post-formation returns will be applied to show that pre-formation momentum is just as mysterious. In particular, we will look at the exposure to earning surprise factor, PMN, as proposed in a recent work of Chordia and Shivakumar (2003), to explain the pre-formation momentum profit. Our results on pre-formation momentum returns are important as many micro-structure based explanations (Hong and Stein (1999), among others) as well as the explanation of Chordia and Shivakumar (2003) depend crucially on a particular sequence of events and that abnormal returns in the post-formation period is a micro-level response to the events in the formation period according to these explanations. (BS04410)

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### **Calendar Effects and the Role of Feng Shui in Market Trading**

- ✉ McGUINNESS Paul Brian • T. Thomas Alexander BIRTCH (Faculty Office of Business Administration)#
- 10 June 2005
- ❖ CUHK Research Committee Funding (Direct Grants)

The general role of Feng Shui in Chinese societies is widely appreciated. Less so, is the potential role that Feng Shui might play in motivating trading and investment decisions. However, there is evidence that retail investors in Hong Kong, in particular, are

receptive to the role of Feng Shui beyond the traditional boundaries that might relate to such diverse things as the positioning of furniture, access to buildings, the positioning of windows and so on (in relation to optimizing energy flows), as well as to timing of important family events (such as weddings) on auspicious days. The widely reported Feng Shui Index of Credit Lyonnaise SA, for instance, which has been used to predict general movements in the market over a Western calendar since the early 1990s is an example of the role that Feng Shui might play in motivating investment decisions.

Going beyond the traditional boundaries, we would like to specifically explore how the Feng Shui calendar might figure in enticing investors to trade on days that are propitious according to established Feng Shui. Similarly, there may be days in such calendars that lead to considerably less investor interest, particularly at the retail end of the market. Our objective is to see if Feng Shui calendar day effects are evident in market returns and trading volumes. To get a handle on this issue, widely used Feng Shui calendars (of which there are a number) have to be identified and translated. We wish to hire a research assistant to help us in this endeavour by converting the description of calendar days from Chinese into English. Thomas Birtch and I would then do all the necessary statistical analysis ourselves by relating the translated calendars to various trading effects across stocks that are likely to be predominantly of interest to retail investors. For this purpose, we will identify relatively liquid small-cap stocks. We believe that this topic would be of great interest and would allow us to target a very respectable internationally-refereed journal either within the finance or management area.

(BS04694)

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### **Catastrophic Risk Management in China: The Case of Flood Risk**

✉ YEH Jia Hsing

☐ 1 May 2005

❖ CUHK Research Committee Funding (Direct Grants)

The history of China is full of natural catastrophic events. Floods, earthquakes, winds, draughts, etc., strike frequently and take heavy tolls on human lives and property. As the economy evolves and population expands, the frequency and severity of the damages these catastrophes caused appear to be increasing over the time. In recent years, frequent floods are of a particular concern to many Chinese people. This study will utilize two methodologies to estimate flood risks and develop techniques to deal with flood damages. Depending on the availability of sufficient and credible time series data, this project will consider two kinds of estimation methods: the Markov models and Monte Carlo simulation will be appropriate for complete data, while the fuzzy mathematical methods are particularly useful for data that are relatively incomplete and insufficient. The focus of flood risk management considered in the paper will be twofold: (i) a traditional insurance approach such as the national flood insurance programme adopted in the US or the commercial insurance approach in Europe, and (ii) a capital market alternative solution such as the securitization of catastrophe risk (e.g., catastrophe bonds). We will design the institutional details of the two mechanisms and compare these two approaches based upon the simulation results.

(BS04459)

**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>		
		2003-04	Insiders and Outsiders: The Choice between Informed, Arm-Length Straight Debt, and Convertible Bonds (BS03377) ✍ 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*	2003-04	Investors' Behavior in an Emerging Capital Market in a Transition Economy: The Case of China (CU03483) ✍ HE Jia
2001-02	Value Creation and Corporate Governance (SS01302) ✍ CHOW Ying Foon • KEUNG Yiu Ling*	2001-02	Bank Ownership, Control and Related Party Lending: A Comparative Study (SS01304) ✍ LANG Hsien Ping Larry • YOUNG Leslie
2003-04	A Comparative Study of Asymmetric Information and Family Ownership (CU03152) ✍ FONG Wai Ming • LANG Hsien Ping Larry	2003-04	An Empirical Investigation of A Class of Defaultable Term Structure Models (BS03646) ✍ LI Tao
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*	2003-04	Efficient Estimation of Equity Risks (CAPM Beta) With Sorting on Multiple Instruments (CU03133) ✍ LIU Ming • CHOW Ying Foon
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
		2003-04	Securitization, Capital Structure and Financial Intermediation (CU03135) ✍ THOMAS Hugh Alun Lloyd



2003-04	Actuarial Applications of Mixture Gaussian Time Series Models (CU03136) ✍ WONG Chun Shan • CHAN Wai Sum*	2002-03	Ultimate Ownership of Anglo Saxon Corporations: Berle and Mean Revisited (CU02293) ✍ YOUNG Leslie • LANG Hsien Ping Larry
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) ✍ YEH Jia Hsing	2003-04	Share Repurchases in Japan: Long-term Price Performance and Strategic Trading (BS03925) ✍ ZHANG Hua

## RESEARCH PROJECTS

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### **Institutional Investors, Herding, and Firm Performance**

✉ LEUNG Wai Kin • WANG Ko\*

☐ 1 December 2004

❖ CUHK Research Committee Funding (Direct Grants)

Studies in the finance literature indicate that the trading behavior of institutional investors affects stock prices and that institutional shareholder activism helps discipline managers' behavior. Since most of these studies use the aggregate holdings of all (or different types of) institutions in a firm as a proxy for the level of institutional participation, it is implicitly assumed that institutional investors (or certain types of institutional investors) move in tandem when they buy or sell shares in a firm. In reality, however, we often observe that while some institutional investors aggressively buy a stock, other institutional investors may actively sell the same stock.

We propose to extend the literature in six significant ways. First, we will examine if all institutional investors do move in tandem, that is, they buy and sell the same stocks in a given period. Second, to get a clearer picture, we will examine the performance of firms experiencing the largest changes in institutional investors. This analysis of change in institutional ownership can provide more insights into trading behavior than if only the level of institutional participation is examined (as is the case in some of the previous studies). Third, we will analyze if institutional investors can profit from changes in their portfolios in a short period by

moving in and out of stocks. Fourth, we study if institutional investors can foresee the future events of a firm and move accordingly. Fifth, we will see if different types of institutional investors make different decisions and if their decisions have a different impact on a firm's performance. Sixth, we will bring in international evidence by comparing the evidence in the U.S. with that in Hong Kong, where the cross-holdings of firms' stocks are prevalent. This comparison will enhance our understanding about corporate control and governance issues.

(BL04570)

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### **Determinants of Business Strategy and Performance: A Comparative Study of the Hotel**

✉ TSE Eliza Ching Yick • Jogaratnam, Giri\* • Lan Li\*

☐ 1 December 2004

❖ CUHK Research Committee Funding (Direct Grants)

The primary purpose of this study is to assess selected internal and external contextual variables affecting the hotel industries in China (including Hong Kong) and the USA, examine how these variables shape the adoption of business strategy and explore implications for financial performance. Confronted with an increasingly competitive and dynamic environment, it is becoming ever more important for hotel managers to understand and accurately gauge internal and external forces. By doing so, they can develop reasoned, yet distinctive methods of adapting to, and exploiting environmental opportunities. Researchers adopting the perspective of environmental determinism argue that there is no "best" strategy, and that a given strategy will not be equally effective under different environmental conditions. Contingency theorists suggest that

successful performance results from the appropriate alignment of endogenous factors such as strategy and structure with exogenous context variables such as competitive environment. A variety of both qualitative and quantitative data collection methods, techniques, and resources will be employed to develop valid measures and appropriate indicators for the variables being assessed. The ultimate intent of this type of research would be to make strategic prescriptions for hoteliers that have grounding in empirical findings, especially when faced with uncertain economic conditions.  
(BS04554)

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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>
2003-04	Understanding HR Flexibility in the Context of Firms and their Environments (BS03409) ✍ WAY Sean Alexander • FAY Charles H* • HUSELID Mark A* • SNELL Scott A*

## RESEARCH PROJECTS

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### **Outsourcing Strategic Source of Organizational Success or Failure**

✍ AHLSTROM David Christopher • BRUTON Garry\* • KUANG Yeh\*

☐ 1 September 2004

❖ National Sun Yat Sen University

Initially qualitative information will be gathered in the United States, Taiwan, and the PRC on outsourcing. These rich illustrative stories will be employed to ground the research to ensure that the questions being asked are valid and relevant. From this data an academic article one or two initial articles will be produced that discuss the topic and establishes the research parameters that need to be investigated. A practitioner focused manuscript will also be generated.

From the information gathered a questionnaire will be developed and distributed to a relevant sample. This large data base sample will then be used to produce one to three academic focused articles on the strategic uses of outsourcing that produce the greatest success, and the network structure associated with it. (BS04768)

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### **The Effects of Lean Production Work Practices on Occupational Stress: A Case of Hong Kong Owned Manufacturers in the Pearl River Delta**

✍ BIRTCH CHEUNG Fung Tung Flora • T. Thomas Alexander BIRTCH (Faculty Office of Business Administration)# • Cooper, Cary L.\* • Gill Colin G.\* • Conti, Robert, F.\*

☐ 1 December 2004

❖ CUHK Research Committee Funding (Direct Grants)

The primary purpose of this study is to examine the consequences of lean production (LP) work practices on occupational stress and worker health (i.e., physical and psychological) in Hong Kong owned factories located in the Pearl River Delta (PRD). LP is considered to be the standard for competitive manufacturing (Krumwiede & Leikam, 2001). And, heightened competition has placed considerable pressure on manufacturers to implement LP methods, especially for Hong Kong firms with production located in the PRD (e.g., Gold Peak, Johnson Electric). Research suggests that LP has greater practical appeal in terms of productivity and quality than traditional forms of mass production (Womack, et al, 1990:80). Yet, evidence also suggests that LP creates a fast paced, intensive, and high stress work environment, raising concerns about its long-term toxic health effects on production workers. Literature on LP related stress effects is limited and provides little insight into the stress effects of specific LP work practices, particularly in the Chinese context. Managers can no longer ignore the potentially harmful side effects of LP on worker health (e.g., absenteeism, turnover, high medical costs). We intend to undertake empirical research that uses both qualitative and quantitative longitudinal methods of inquiry to test and explore the effects of specific dimensions of LP on stress. This is the first known undertaking of its kind in China. In addition to extending the current body of knowledge and opening occupational stress research in a promising new direction, the study will also provide Hong Kong manufacturers with much needed guidance on reducing worker stress whilst at the same time allowing them to achieve cost, quality and lead time objectives. The success of manufacturing is

especially important to Hong Kong, which is not only the largest foreign investor in manufacturing in the PRD (i.e., US \$79.0 billion and 53,300 factories) but also relies on producer related services for 50% of its GDP and 40% of its labour force employment (i.e., 1.5 million jobs) (FHKI, 2003). The results also have important implications for the well being of Chinese production workers, corporate and social responsibility, and the long-term viability of Hong Kong manufacturers located in China.

(BS04529)

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### Gender Differences in Networking: The Impact of Identity, Justice, and Rank

✉ CHOW Hau Siu Irene • Ng Igance\*

☐ 1 December 2004

❖ CUHK Research Committee Funding (Direct Grants)

This paper examines gender differences in networking behaviors. In particular, the study focuses on whether the preference for male network associates by female managers is affected by perceived unfairness toward women, ability to bring about change and the cultural values of these managers. We extend the existing research by going beyond gender difference in network pattern, to focus on whom female managers network with from three perspectives, (1) culture value and status, (2) discrimination and justice, (3) level of involvement and participation in decision making. More specific, first, existing literature suggests that women prefer to network with people with higher status for instrumental support. We investigate the influence of Chinese culture values and hierarchical rank on women's preference on network pattern. The second perspective links to female's perception of organizational justice. The perceived discrimination

toward women will be analyzed based on exit and voice model. Third, individual difference matters in response to perceived justice. Whether individuals will leave the organization or take collective action to fight for justice depends on chance to participate in decision-making and ability to bring about change. This study seeks to test the hypotheses with multiple predictors. Implications for research and management practices will be provided.

(BS04380)

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### Chief Executive Officer Values, Human Resource Systems, and Firm Outcomes

✉ FU Pingping • TSUI Shuk Ying Anne\* • HUI Chun • WU Wei Ku\* • Li Yongjuan\* • Li Lan\*

☐ 1 July 2004

❖ Research Grants Council (Earmarked Grants)

The phenomenon about the influence of leader attributes and behaviors on the functioning and outcomes of social systems has fascinated scholars and practitioners alike for many years. However, the research literature about this phenomenon is staggering yet incomplete. The proposed study aims at clarifying and confirming how a top leader's personal values affects one type of mediating variable (firm HR systems) and several types of outcomes (employee organizational commitment, OCB, firm profitability, asset growth, etc.). By studying this issue in the Chinese context, the proposed research will contribute to the larger literature on executive leadership and HR systems by constructing a theoretical linkage between personal values and organizational practices (and subsequent results) missing to date and also provide guidelines for Chinese firms for achieving the desirable outcomes.

(CU04457)

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**The Roles of Extra-Roles of Employees: A Multi-Level Role-Based Study of Employee Extra-Role Performance**

✉ HUI Chun

□ 1 August 2004

❖ Research Grants Council (Earmarked Grants)

Researchers and practitioners alike have long recognized the importance of employee extra-role performance to the efficient and effective functioning of the organization. Katz (1964, p. 132) has ventured to say that “an organization which depends solely upon its blue-prints of prescribed behavior is a very fragile social system.” Relatively few researchers, however, have theoretically explained how extra-role performance contributes to organizational effectiveness. Still fewer paid attention to the multi-level extra-roles that employees may need to take on to ultimately benefit an organization. A conceptualization of employee extra-roles and how they contribute to organizational effectiveness would provide a foundation for theorizing employee behaviors and contributions, and suggest practical guidelines for managers to manage such contribution.

The present proposal is an attempt to conceptualize a typology of employee extra-roles at the individual, group and organizational levels and to examine how extra-roles relate to work unit effectiveness using role and identity theories. Our conceptualization suggests ways to encourage employees change the way they work, take on increasing responsibilities, and actively contribute to the accomplishments of group and organizational objectives and effectiveness (Lawler, 1986). In the first phase of this project, we will use a deductive-inductive approach to generate a typology of employee extra-roles and develop measures for these roles. In the second phase, we

shall examine how work unit climate affects the enactment of extra-roles by employees and how role enactment would encourage employees to endorse a broader definition of their job responsibilities. We will also compare the predictive validity of our employee extra roles typology against other forms of extra-role performance measures on work unit effectiveness.

(CU04458)

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**Strategic Orientation and Corporate Entrepreneurship of Firms in Transitional Economies: The Case of Poland and China**

✉ LAU Chung Ming • BRUTON Garry Don

□ 1 June 2005

❖ CUHK Research Committee Funding (Direct Grants)

This project is an extension of an earmarked grant project (CUHK 4310/01H). The original project was a study of the strategic orientation of Chinese firms. The project was completed in last November. Data from 600 firms have been collected and several papers have been written. As a spin-off of the project, data from a survey of Russian firms were also collected and compared. A paper was written and presented in a conference. The paper is now close to submission to a top-tier journal.

This request for funding is primarily for additional data collection from another transitional economy -Poland. Poland represents transitional economies in which privatization is relatively more successful than Russia. However, it is a smaller economy than China, and has a very different institutional environment. So, taking stock of the corporate entrepreneurship and strategic orientation of Polish firms, it is able to identify the institutional effects on different orientations and firm behaviors. It is

proposed that the firms in Poland is more aggressive than those in Russia, but less competitive than Chinese firms.

The study will employ a survey approach and 200 software firms in Warsaw is the target. Additional data from 150 Polish SOEs will also be collected, with the assistance from a Polish professor. The co-investigator is now a Fulbright Research Professor in Poland, who will spend his sabbatical at CUHK from TCU.

(BS04453)

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**Strategic Planning Among Chinese Firms**

✉ YOUNG Michael Norman • Brian Boyd\* • Heli Wang\*

☐ 1 December 2004

❖ CUHK Research Committee Funding (Direct Grants)

Little is known about the strategic management processes and practices of indigenous Chinese firms. There is no major empirical study that specifically examines strategic planning processes of Chinese firms along with their antecedents, outcomes and moderators. Thus, this study aims to fill a gap in the strategic management literature. We will examine the literature on strategic management practices of Chinese firms and use the information garnered to develop a model of strategic planning of Chinese firms.

This model will provide testable hypotheses for important, and yet unanswered questions, such as: Do Chinese firms engage in formal planning? How do they formulate strategy? Do western models of the strategic planning process apply to Chinese businesses? Are strategic planning practices related to financial performance? Does strategic planning differ according to ownership structure? How do uniquely

Chinese factors, such as *guanxi*, affect strategic planning processes? Do the first firms that engage in strategic planning have a competitive advantage (e.g., Powell, 1992)? We will use established construct measurement of the strategic planning process developed by one of the Co-Is (Boyd & Reuning-Elliott, 1998) and structural equation modeling to explore these important issues in depth. We will collect data via survey and/or interviews across a broad spectrum and from a large sample of Chinese firms.

(BS04834)

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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>
2002-03	Constructing Trust-Enabling Institutions: A Grounded Theory Approach (BS02323) ✉ AU Yuk Fai Kevin • VERTINSKY Ilan*
2003-04	Social Networks and Trust: The Interplay Between Trust-Enabling Institutions and Individual Action (BS02680) ✉ AU Yuk Fai Kevin
2003-04	Constructing Trust-Enabling Institutions: A Grounded Theory Approach (CU03144) ✉ AU Yuk Fai Kevin • VERTINSKY Ilan*
2003-04	Cultural Intelligence Measurement Project (BS03385)

	✍ AU Yuk Fai Kevin		
2000-01	Service Quality and the Congruency of Employee Perceptions and Customer Perceptions (CU00032)	2001-02	Population Dynamics of International Market Expansion (BS01994)
	✍ CHEUNG Wai Hung Gordon • HUI King Man (Marketing)		✍ MAKINO Shige • CHAN Man Kuen Christine#
2002-03	Global Entrepreneurship Monitor Hong Kong National Study 2002-2004 (BS02396)	2003-04	Legitimation and Competition Process of International Market Entry (BS03648)
	✍ CHUA Bee Leng • AHLSTROM David Christopher • AU Yuk Fai Kevin • MAKINO Shige • THOMAS Hugh Alun Lloyd (Finance) • LOW Chee Keong (School of Accountancy) • LAW Cheung Kwok (Faculty Office of Business Administration)# • KWOK Siu Tong (History)		✍ MAKINO Shige • CHAN M Christine*
2003-04	Innovation, Attention to Detail and Outcome Orientation: How to Manage Them (BS03550)	2003-04	What Strategies Should Small and Medium-Sized Enterprises Use: A Comparison of Technology Industries and Traditional Industries (CU03139)
	✍ HUI Chun		✍ QIAN Gongming • Chuck C. Y. KWOK* • LI Lee*
2002-03	Trusting and Being Trusted at Work: The Chinese Context (BS02376)	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)
	✍ LAU Chi Sun Dora		✍ TSAI Soo Hung Terence • DONG Xin Bao* • LIU Xue* • LU Yuan
2003-04	Trusting and Being Trusted at Work: The Chinese Context (CU03147)	2003-04	Institutional Transitions and Diversification Strategies in China (CU03148)
	✍ LAU Chi Sun Dora • Sandra L. ROBINSON*		✍ WANG Yu Long Denis • PANG Mike*
2001-02	Strategic Orientations of Top Management Teams in State-Owned Enterprises in China (SS01310)	2000-01	Development, Validation, and Application of an EQ Model in the Work Place (CU00038)
	✍ LAU Chung Ming		✍ WONG Chi Sum • LAW Kenneth S* • WONG Ping Man*



- 2003-04 Development of Effective Emotional Intelligence (EI) Training Programs for Hong Kong Students & Employees (BS03665)  
✍ WONG Chi Sum • LAW Kenneth S\* • WONG Ping Man\*
- 2003-04 Innovation Diffusion among Member Firms in a Business Group (BS03429)  
✍ YIU Wing Yee • HOSKISSON Robert E\*
- 2003-04 Government, Business Groups, and Innovation Strategies during Institutional Transition in China Tunneling:

## RESEARCH PROJECTS

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### **Provision of Consultancy Services: A Study on HK Enterprises' Views on Growth, their Strategies & Readiness**

✍ CHAN Chi Fai Andrew • MAK Yuen Kwan# • TO Yuen Weun (Psychology)

☐ 20 December 2004

❖ IBM

The China market is growing very rapidly. The project studies systematically from the Hong Kong Enterprises (SMEs"or local companies") perspective on the acceptance and readiness on the growth of Hong Kong businesses which, supposedly, could be greatly benefited by the PRC effect. Specifically, the project aims to identify the issues having positive and/or negative impact on the growth of SMEs. The key issues will be constructively publicized to seek the support from the Government of HKSAR and various sectors to facilitate the substantial growth of SMEs. In addition, the project will investigate the rationale of low IT adoption level among SMEs and the kind of IT services or solutions that the SMEs might rely on.

(SS04864)

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### **Service Relationship and Consumer Reaction to Service Failure: A Cross-Cultural Study**

✍ HUI King Man • AU Yuk Fai Kevin (Management) • ZHAO Xiande (Decision Sciences and Managerial Economics)

☐ 1 January 2005

❖ Research Grants Council (Earmarked Grants)

Prior researchers have demonstrated that service relationships can also mitigate the negative consequences of service failure. Although consumers may feel dissatisfied in cases of service failure, they may still exhibit significant repatronage intentions as a result of an on-going relationship with the service provider. The first objective of the project is to examine the effects of the length and the type of a service relationship on consumers' reaction to service failure and how the effects may vary between (a) two different types of service failure: process failure (i.e., failure in the service delivery process) and outcome failure (i.e., failure in the service outcome); and (b) two different behavioral responses: repatronage intentions and complaint intentions. Moreover, service relationships should inculcate trust in the service provider, which in turn should lead to various positive responses of consumers. The second objective of the proposed project is to examine trust as a mediator between a service relationship and consumers' reaction to service failure. Finally, since the effect of trust is expected to vary between cultures that foster interdependent self-construals and those that foster independent self-construals, the third objective of the proposed project is to examine in a cross-cultural context the effect of a trusting service relationship on consumers' reaction to service failure.

(CU04461)

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### **The Effect of Customer Satisfaction Uncertainty on the Service Quality Evaluation**

✍ JIA Jianmin • GAO Chongyan

☐ 1 May 2005

❖ CUHK Research Committee Funding (Direct Grants)

For customer-centered firms, the evaluation of service quality should depend on customer satisfaction, which is typically described as a distribution in customer surveys due to the variation of service delivering and the difference of customers. This paper investigates the effect of customer satisfaction uncertainty on the managers' evaluation of service quality. We expect that there is a "reflection effect" in the evaluation of service quality. When service quality is in the positive domain of customer satisfaction ratings, managers would be averse to uncertainty and try to maintain consistency and dependability in service delivering. On the other hand, when service quality is in the negative domain, they would prefer uncertainty and look for possibilities and opportunities for making a change. There is also an asymmetric effect such that the managers' evaluation of service quality is more sensitive to customer dissatisfaction than customer satisfaction. We will propose a model based prospect theory that can capture these phenomena in the evaluation of service quality.

(BS04550)

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### Escalation of Commitment: A Regret Perspective

✉ KWONG Yuk Yee Jessica • WONG Kin Fai Ellick\*

☐ 1 October 2004

❖ Research Grants Council (Earmarked Grants)

Escalation of commitment refers to a decision bias wherein decision makers tend to commit to a failing course of action in an attempt to turn the sunk costs around. The mechanisms underlying escalation of commitment may explain such diverse behaviors as shown by managers who refuse to consider project withdrawal and by organizations that stick with a

failing venture even when the outcome becomes questionable.

By adopting a cognitive perspective, previous research has offered considerable insights into this phenomenon (Staw, 1976, 1997; Brockner, 1992). Despite the premium placed on the *cognitive* processes of escalation of commitment, it is surprising that little scientific research has been conducted to illuminate the *affective* processes involved. In this research, we seek to break new conceptual ground by formulating a model of escalation of commitment from an emotional perspective.

As a starting point, we focus on the interplay between regret and escalation of commitment. We argue that the tendency for individuals to escalate commitment to a decision is governed by an urge to minimize their regret. By integrating the literature on regret and the research on escalation of commitment, we attempt to offer a complementary explanation for why and how people tend to escalate their commitment to a failing decision. We also study the effects of situational factors that are related to regret on escalation tendency. The results will help organizational decision makers to improve the quality of their decisions by promoting their awareness of various antecedents or contextual factors that heighten their escalation tendencies.

(CU04462)

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### Data Mining Project (Phase 2): Customs, Oriented Selling and Marketing

✉ LAU Kin Nam • JIA Jianmin • FAN Kin Keung Dennis (Finance)

☐ 13 June 2005

❖ PCCW Teleservices (Hong Kong) Limited

All types of data provided by PCCW will be integrated and analyzed to derive marketing strategies and actionable marketing plans.

(BS04770)

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**Customer Relationship Management Orientation:  
The Construct, Antecedents, Consequences, and  
Moderators**

✉ TSE Ching-biu Alan • SIN Yat Ming Leo

☐ 1 December 2004

❖ CUHK Research Committee Funding (Direct Grants)

Though CRM is a very hot topic in the management discipline, very little attention has been given to its definition and implementation. Given its widely acknowledged importance, one might expect the concept to have a clear meaning. On the contrary, a close examination of the literature reveals a lack of clear definition, no careful attention to measurement issues, and virtually no empirically based theory. As a result, business practitioners striving to embrace CRM into everyday practices have no specific guidance as to what precisely a CRM orientation is; what activities they should pursue to build a stronger relationship with their customers; and whether the firms they are managing have achieved a satisfactory level of CRM orientation. Further, the literature pays little attention to the contextual factors that may make a CRM orientation either more or less appropriate for a particular business. The antecedents and consequences of a CRM orientation are also a mystery. By virtue of the wide array of benefits afforded by being CRM oriented, and the fact that business practitioners striving to implement a CRM philosophy have had no specific guidance governing what precisely a CRM orientation is, we

attempt in this research to achieve the following objectives:

1. To synthesize the literature on the subject;
2. To provide a theoretical framework for clarifying the sub-dimensions of the customer relationship management construct based on a comprehensive review of the literature and the field interview we have conducted;
3. To construct a model that includes the antecedents and consequences of a customer relationship management orientation based on a comprehensive review of the literature and the field interview we have conducted; and
4. To test the model with empirical data obtained from firms in Hong Kong.

(BS04401)

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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>
2002-03	A Choice Model under Ambiguous Risk (BS02388) ✉ JIA Jianmin • DYER James S*
2003-04	A Measure of Loss Aversion and Reference-Dependence Models of Consumer Choice (CU03149) ✉ JIA Jianmin
2002-03	The Role of Counterfactual Thoughts in the Formation of Justice Perceptions (BS02595) ✉ KWONG Yuk Yee Jessica

2003-04	Mining Newsgroup Postings to Understand Traveler Concerns and Opinions (BS03699)	✍ LAU Kin Nam • LEE Kam-hon (School of Hotel and Tourism Management)	✍ SIN Yat Ming Leo
1989-90	Currency Investors' Behaviour and Exchange Rate Forecasting (AB00137)	✍ MUN Kin Chok	2002-03 The Impact of Internet on Competition - The Cases of Air Tickets and Stock Trading (CU02310)
2003-04	The Influence of In-Group versus Out-Group Bias on Evaluation of Blame on Service Employees (BS03439)	✍ POWPAKA Samart	✍ TANG Fangfang • CHOW Ying Foon (Finance) • ZHANG Junxi*
2002-03	Female Role Orientation of Chinese Women: Conceptualization and Scale Development (BS02957)		1989-90 Cultural Differences in Family Decision-Making (AB88037)
			✍ YU Hung Hsua Julie
			1989-90 The Impact of Cultural Values on Consumer Behaviour and Acceptance of Specific Products (AB90045)
			✍ YU Hung Hsua Julie • ALBAUM Gerald*

