



**Faculty of
Business Administration**

RESEARCH PROJECTS

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

1998-99 Mergers, Acquisitions, and Economic Performance in China (BS98002)
✉ PENG Weigang Mike • LEE Orlan*

Edition Title/Investigators

RESEARCH PROJECTS

Multi-Period Agency Model under the Feltham/Ohlson Framework

- ✉ CHENG Shu Tong Peter
- ☐ 15 September 1999
- ❖ Research Grants Council (Earmarked Grants)

The series of Feltham/Ohlson (henceforth called FO) papers (published between 1991 and 1997) described an asset evaluation model based on accounting numbers. More specifically, the value of the firm is a linear function of its book value and abnormal earnings with a persistent parameter. Abnormal earnings are defined as the difference between actual earnings and a normal return on the book values of assets held. The persistent parameter captures the dynamic effects of the period earnings have on the earnings of subsequent periods. The model presents a normative description of the theoretical value of the firm as a function of accounting variables.

Risk neutrality, linear dynamics, no information asymmetries, and the clean surplus assumptions drive the results of the model. This proposal attempts to use the FO derived equilibrium firm value and its dynamics to construct a two-period principal-agent model with moral hazard.

This research allows the agent to control the persistent parameter in addition to the usual effort input choice. The contract can be written in terms of the company's asset value as described by the FO paradigm using the multi-period principal-agent model of Holmstrom and Milgrom (1987). The researchers derive optimal contract utility functions. (CU99022)

Differential Market Valuation of Disclosure Choices by Foreign Registrants

- ✉ HAW In-mu • Douthett Edward*
- ☐ 15 November 1999
- ❖ CUHK Research Committee Funding (Direct Grants)

This study will examine differential market valuation of alternative financial reporting disclosure choices by foreign registrants listing on U.S. stock exchanges. Foreign companies listing on U.S. stock exchanges are required to report financial information under U.S. Generally Accepted Accounting Principles (GAAP) on Form 20-F using either Item 17 or Item 18 disclosure rules. These two disclosure rules differ in that Item 17 presentation allows exemptions of certain sensitive information (such as industry segments and related party transactions), while Item 18 requires disclosure of all financial information in accordance with U.S. GAAP. Because Item 18 mandates the disclosures of more firm-specific

information than Item 17, the information content of earnings reported under Item 18 disclosure rules is expected to be significantly higher than that of earnings reported under Item 17 rules. Empirically, this means that the returns-earnings associations should be significantly higher for Item 18 foreign firms should not be for Item 17 firms, indicating that the additional disclosures mandated by the SEC in Item 18 filings are useful to investors. Moreover, it is expected that while the return-earnings association of Item 18 foreign firms should not be different from that of (industry and size) matched U.S. firms, the association of Item 17 foreign firms should be significantly smaller than that of matched U.S. firms. (BS99006)

The Making of Administrative Tax Rules in China

- ✉ JIANG Zhaodong
- ☐ 1 December 1999
- ❖ Research Grants Council (Earmarked Grants)

Officials at the Chinese Finance Ministry and State Administration of Taxation can make rules finding on local officials and taxpayers. Those administrative tax rules are supposed to merely interpret and implement tax legislation as adopted by the National People's congress on its standing committee or regulations of the State Council. In reality, they often have greater impact on, or relevancy to, the taxpayers' welfare than broadly phased provisions in legislation & regulations. Despite the importance of administrative rules in tax planning and dispute resolution, how they are made remains little known to the outsiders. This project investigates and analyzes how Chinese administrative authorities make turn rules. It examines & discusses the working of the bureaucrats, interdepartmental relationships and lobbying effects of taxpayers. The study will contribute to the understanding of the country's legal & tax systems. (CU99026)

Year 2000 Contingency Controls of Hong Kong Listed Companies

- ✉ KWONG Kok Shi • LAM Chee Keung • LEUNG Kwan Lap Victor
- ☐ 15 November 1999
- ❖ CUHK Research Committee Funding (Direct Grants)

In this project we study how Hong Kong listed companies cope with the Year 2000 (Y2K) problems. The Y2K issues provide a rare opportunity for studying contingency planning by corporations. It is generally agreed that the lack of a timely response to the Y2K problem can lead to financial losses or even potentially to business failure. Beyond an

organization itself, systems that are not Y2K ready could harm a company's trading partners. Studying the issue in Hong Kong is worthwhile. First, Hong Kong requires all its listed companies to disclose their control procedures to tackle Y2K. Many countries, such as the U.S. allow their firms discretions of not reporting the information. Second, it is argued that Y2K problems may affect developing economies more heavily than the matured ones. Hong Kong is found to be among the very few that are well prepared. Nonetheless, many Mainland Chinese firms, which are believed to be less aware of the Y2K issues are also listed in Hong Kong. Hence, there is a wide spectrum of different firms for studying this issue. The aim of our project is to investigate the association of company characteristics with the firms' intensity of contingency planning. We hypothesize that the effort intensity is increasing in a firm's expected loss from the exposure, the importance of export sales in its income base, whether it is cross-listed, its control culture, its technology level, its management quality and knowledge spillover from its auditor. (BS99007)

Association Between the Investment Opportunity Set and Corporate Policies: Evidence from Hong Kong

- ✉ LAM Chee Keung
- ☐ 15 November 1999
- ❖ CUHK Research Committee Funding (Direct Grants)

This study examines whether and how the differences in a firm's investment opportunity set (IOS) affect its accounting, financial and governance policies. In making investment and employment decisions, firms invest in specialized physical and human capital. These firm-specific investments result in variation in firms' IOS. As a result, the relative costs and benefits of restricting managerial choice, and so the efficient set of accounting, financial and governance policies - are likely to vary across firms as a function of their investment opportunities. The purpose of this study is to employ this IOS theory to provide explanations on a wide set of accounting and corporate practices in Hong Kong. This study may provide insights not hitherto obtained.

Hong Kong provides a fertile setting for testing the IOS theory because of its impressive economic growth in the past decade and its liberal economic policy. We extend the previous studies on this interesting setting by adding corporate governance policies as new independent variables. In the empirical analysis, we will adopt factor analytic techniques to identify IOS of listed firms in Hong Kong. Multivariate regression techniques will then be used to study the associations of accounting,

financial and governance policies of firms with different levels of investment opportunities. (BS99008)

Multinational Transfer Pricing: An Experimental Study of the Effects of National Culture on Negotiated Transfer Pricing Decisions

- ✉ Michael John FERGUSON • LAM Chee Keung • JOYCE Edward J*
- ☐ 1 October 1999
- ❖ Research Grants Council (Earmarked Grants)

This study examines the effects of national culture on experienced managers' judgments in negotiated transfer-pricing decisions. Although negotiation is a common method for setting transfer prices in multinational firms, little is known about the effectiveness or efficiency of this mechanism in cross-cultural settings. In the present study, it is hypothesized that (a) concerns for equitable profit distributions will play a greater role in the transfer-price decisions of managers from more collectivist (the PRC and Hong Kong) vs. individualistic cultures (the US), and that (b) as market price diverges from an equal profit-sharing price, the bias toward the equal-profit price and variance in managers' reservation and transfer-price estimates will be positively related to differences with respect to the value placed on individualism vs. collectivism. Such increase in bias and variance in turn would indicate that negotiation across cultures that differ with respect to the value place on collectivism vs. individualism might be both more costly, and more likely to lead to impasse and suboptimal outcomes than within-culture negotiations. The results of this study will contribute to current research and theory on accounting information and control systems in an international setting, and will also provide practical insight into the effectiveness and efficiency of negotiated transfer-pricing mechanisms in multinational firms. (CU99023)

Corporate Governance: Issues of Effectiveness and Necessity of Existence of Corporate Audit Committees

- ✉ NG Yick Man Andy
- ☐ 1 June 2000
- ❖ CUHK Research Committee Funding (Direct Grants)

Corporate Governance involves "those monitoring and control mechanisms that are put in place by companies with the objective of enhancing shareholders value." (Australian Stock Exchange (ASX), *Disclosure of Corporate Governance Practices by Listed Companies*, 1994, p.1) Audit

Committees are one such Corporate Governance mechanism whereby companies have attempted to respond to the growing public pressure for greater accountability brought on by major corporate collapses. This committee has become mandatory requirement in countries such as the United States, the United Kingdom, Canada, Singapore and Israel. Australia and Hong Kong are not on the list.

Audit Committees have been in existence for more than thirty years now and it is recommended as the cornerstone of Corporate Governance. At the moment Audit Committees are being advocated widely within the auditing profession. All of the professional firms' booklets on the subject are unanimous in their approval. The recent growth in such committees has been associated mainly with changes in the law in the wake of several highly publicized corporate failure and dubious corporate practices which attracted attention recently. In view of all these corporate failure, Audit Committees have been widely recommended as a cure for many corporate ills, but why is it not always true? In recent years, many criticisms and concerns about the effectiveness of Audit Committees have been aroused, some even as serious as questioning the necessity of existence of this specific corporate mechanism.

In this article, we will discuss and examine these issues from different facets to see whether the Audit Committee is really an institutionalised solution. Remedies will be introduced on weaknesses identified in the structure and functions of Audit Committees in order to strengthen Corporate Governance for a better survival of companies especially in a time of financial crisis. (BS99021)

Value-Relevance of Financial Reporting Disclosures in An Emerging Capital Market: The Case of B-shares and H-shares in China

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

☐ 15 November 1999

❖ CUHK Research Committee Funding (Direct Grants)

This project intends to investigate the market valuation of financial reporting disclosures in the emerging capital market of China by empirically examining the value-relevance of accounting earnings and the book value of stockholders' equity measured under different accounting standards. Based on B- and H-shares of cross-listed Chinese firms available only to foreign investors, we will examine (1) whether earnings and the book value of stockholders' equity prepared under the People's Republic of China Accounting Standards (PRC-GAAP) are significantly associated with returns and market-to-book value, (2) whether financial reports prepared under the International Accounting Standards (IAS) or Hong Kong Accounting Standards

(HK-GAAP) provide incremental information over those of PRC-GAAP, and (3) whether the role of financial information in China's emerging stock market is different from that in a mature stock market such as the Hong Kong Stock Exchange.

This project is the first to address these issues. Therefore, it will provide useful inputs into the current debate between the U.S. Securities and Exchange Commission (SEC) and the New York Stock Exchange (NYSE) on whether the SEC should permit equity listings in the U.S. for foreign firms that have adopted the IAS without U. S.-GAAP reconciliation. Moreover, it will also enhance our understanding of the role of accounting information in the process of valuing a firm in the emerging capital market of China and the more matured market of Hong Kong.

(BS99009)

Earnings Management of Chinese Listed Firms in Response to Security Regulations in China's Emerging Capital Market

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

☐ 15 November 1999

❖ CUHK Research Committee Funding (Direct Grants)

This study will examine whether listed Chinese firms manage earnings to meet regulatory benchmarks. First, it will examine whether the earnings management behavior of the listed Chinese firms is consistent with the accounting rate of return on equity (ROE) parameters defined in the regulations for offering stock rights or for avoiding delisting. Under the current security regulations, ROE has to be more than 10% for three consecutive years for the firm to qualify for stock rights offers and be positive in one of the three most recent years to avoid delisting. Second, the study will investigate the types of technology that managers use for such earnings management. The analysis will be based on aggregate and separate line items reported below operating income and discretionary accruals. We will examine earnings management during both the pre- and post-regulation periods.

While prior studies have accumulated findings of income management to achieve regulatory requirements in mature and developed economies, income management as a response to security regulations in transitional economies such as China has yet to be documented. Because listed Chinese firms are practically unable to raise capital through issuing bonds, the rights issue is the primary source of raising capital after their IPO. Thus, it is imperative for managers to meet the 10% ROE regulatory benchmark. This study is the first one to address the earnings management issue under the current regulatory environment in China. As such, this study will enhance our understanding of the

income management behavior in response to security regulations in emerging capital markets of transitional economies such as China. Findings of this study will also provide important inputs to policy makers in fine-tuning financial reporting, auditing, and securities regulations in China.
(BS99010)

International Accounting Differences, Foreign Investment, and Capital Market Integration

- ✍ YOUNG Danqing
- ☐ 15 November 1999
- ❖ CUHK Research Committee Funding (Direct Grants)

This project investigates the relation between capital market integration and differences in accounting standards across countries. A comprehensive index will be developed to measure the difference in accounting standards between countries and the empirical framework developed by Obstfeld (1993) will be adopted to measure the level of capital market integration between countries. Then the relationship between them will be tested while other factors such as exchange rate variability, international diversification benefits, and governmental control over capital flows are controlled.

This project also investigates how investors make foreign investments in countries where information of corporate profits is prepared based on accounting rules that differ significantly from those of investors' home countries. More specifically, this project examines whether investors use some "coping mechanisms" to overcome accounting differences in these countries. The two coping mechanisms that will be examined are (1) use of earnings forecasts by local security analysts, and (2) use of cash flows rather than earnings when making investment decisions. If the results show that investors adopt these coping mechanisms, the project will further examine whether these coping mechanisms are sufficient to overcome accounting differences.
(BS99011)

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>
1998-99	Firm Performance and the Timing of Annual Report Releases: The Case of China (BS98029) ✍ HAW In-mu
1998-99	A Study of Job Choice Decision of Public Accounting Firms by Accounting Graduates: An Application of Analytic Hierarchy Process (BS98022)

	✍ HO Shun Man Simon • CHAN Siu Yeung*
1997-98	Tax Dispute Resolution in China (CU97423) ✍ JIANG Zhaodong
1998-99	Voluntary Financial Statement Disclosure of Local Listing and China Concept Companies in Hong Kong (BS98003) ✍ LAM Chee Keung
1998-99	Auditor Reputation and Independence (BS98030) ✍ LAM Chee Keung • ZHOU Yuqing (Dept of Finance)
1996-97	The Determinants and Valuation Effects of Financial Disclosure and Related Choices by Listed Chinese Enterprises (CU96401) ✍ LEE Suk Yee Dominica • CHOW Chee Woo# • TANG Yun-wei* • WU Yuwu Woody • HAN Jerry C. Y.*
1998-99	An Empirical Study of the Information Content in Earnings Classification of Listed Companies in Hong Kong (BS98004) ✍ LUI Man Ching Gladie • LEW Yee Hong Albert#
1998-99	The Association Between Financial and Auditor Characteristics and Auditor Negligence in Audited Financial Statements: A Regional Empirical Study (CU98066) ✍ MAJID Abdul • GUL Ferdinand Akthar Khan# • LOW Pek Yee*
1998-99	Disclosure of Corporate Environmental Issues – A Hong Kong Study (BS98028) ✍ NG Yick Man Andy
1998-99	Corporate Disclosure Policy and Price Anticipation of Earnings (CU98067) ✍ QI Daqing • WU Yuwu Woody • ZHANG Hua (Dept of Finance)
1998-99	Value Relevance of Earnings in an Emerging Capital Market: The Case of A-shares in China (BS98031) ✍ QI Daqing • HAW In-mu • WU Yuwu Woody
1998-99	A Study of the Concepts of Chinese Accounting Control and Their

	Applications in the Ching Dynasty (BS98032)	≈ WU Yuwu Woody • QI Daqing
	≈ TONG WU Yew Jen Marian • CHAN Koon Hung# • LEW Yee Hong Albert#	1998-99 Implementation of International Accounting Standards and Chinese Financial Reporting (BS98001)
1998-99	Outside Monitoring and Earnings Management: The Case of Management Buyouts (BS98005)	≈ YANG Chao Lai Lloyd • TANG Qingliang*

RESEARCH OUTPUTS AND PUBLICATIONS

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- <P001269> **Ng, Andy Y.** "Audit Committees: The Bad News". *Company Secretary* vol.10 no.6, pp.34-37. Hong Kong, 2000.06.
- <P001667> **Ng, Andy Y. and P. Ho.** "Back Duty Investigations from an Auditing Perspective". *The Prospective Accountant* pp.62-67. Hong Kong, 2000.01.
- <P002051> **Low, Chee Keong.** "Corporate Governance in Malaysia". *Financial Markets in Malaysia* ed. by Low C.K. Chapter 22, pp.436-451. Kuala Lumpur: Malayan Law Journal, 2000.
- <P002052> **Low, Chee Keong.** "Revisiting the Regulatory Framework of Capital Markets in Malaysia". Paper presented at the One Day Symposium on Financial Markets in Malaysia: Challenges in the New Millennium. Kuala Lumpur, Malaysia, 2000.05.25.
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RESEARCH PROJECTS

Lexical Cohesion and Boundary Detection in Chinese Discourse: A Computational Approach

✉ CHAN Wai Kwong Samuel • Tsou B K*

□ 1 December 1999

❖ Research Grants Council (Earmarked Grants)

Recent research in the computer processing of natural language has increasingly turned to text processing beyond the sentence level. This has come from increasing recognition that negotiation of meaning in verbal transactions is achieved within the framework of a discourse. In text linguistics, there is much ongoing research in finding textual regularities on the basis of empirical investigations. Among many factors which contribute to *discourse coherence*, *lexical cohesion* has been identified as an important feature which underlines the structure of a wholesome text, distinguishing it from a non-text. Lexical and semantic repetition as well as rhetorical continuity, in conjunction with other related overt and covert linguistic markers, contribute to textual coherence by creating cohesive ties within the text. Given the increasing recognition of discourse structure in the fields of information retrieval, textual summarization and machine translation, there is a critical need for the in-depth study of an implementable quantitative model on *lexical cohesion*, especially for Chinese. The main objective of this project is to devise a quantitative model of discourse segmentation based on the study of lexical cohesion as well as other related linguistic features in Chinese. What distinguishes it from previous studies is that attention is not primarily focused on itemizing cohesive features across a text but on investigating how they combine with other linguistic features to organize text into a coherent whole. The model will identify discursively salient text segment boundaries from an existing large Chinese corpus. Boundaries in discourse are based on the manifestation of theme identification and discourse structure understanding. The detection of boundaries, therefore, subsumes the functions of topic marking and inter-sentential connection. This project will focus on Chinese expository and argumentative texts which usually consist of long sentences with little punctuation and textual demarcation. A mechanism will be developed for selecting the most representative segments within the boundaries and the production of readable summary from a text.

(CU99196)

Designing an Air-Express Courier's Distribution Network

✉ LEUNG Chi Kin Lawrence • CHEUNG Wai Man • HSU Cheng*

□ 1 August 1999

❖ Research Grants Council (Earmarked Grants)

In 1998, the new international airport opened in Hong Kong. Other airport-related infrastructure facilities have also been developed or are being developed, resulting in major changes in transport structure as well as a shift in customer demand.

For an air-express courier, the objective is to be able to deliver customer packages to the airport on time and on the same day of pickup. The schedule is typically very tight, and processing and travel times are closely monitored. With the opening of the new airport, air-express couriers must adjust their network design to improve customer service, capitalize on potential opportunities, and minimize cost.

In this research, the researchers plan to develop a network planning methodology suitable for air-express couriers where a close relationship between design and operations exists. The two-phase methodology consists of first using a mixed zero-one LP to determine a least-cost distribution network; this network then forms the basis of a simulation model which analyzes the network's operational characteristics. The methodology will be accompanied by careful examination of the major design issues and the performance measures in the air-express service operations. A comprehensive real-life case study based on DHL(HK) will be documented.

(CU99037)

A Framework for a Logistics E-commerce Community Network: The Hong Kong Air Cargo Industry

✉ LEUNG Chi Kin Lawrence • CHEUNG Wai Man

□ 1 May 2000

❖ CUHK Research Committee Funding (Direct Grants)

E-commerce has brought new challenges as well as opportunities to the air cargo industry. With careful planning and cooperation among industry agents and with e-commerce as an enabler, the air cargo industry can be transformed into one that can provide customized services to individual shippers at the cost level of mass production. The key component is in the setting up of a third-party e-commerce community network. In this research the researchers present a framework for such a network, which extends the traditional business-to-business e-commerce to e-commerce at the industry level. The proposed infrastructure differs from traditional portals in that it features the online integration of business transactions. It provides a virtual market for agents of the air cargo industry, enabling them to develop and engage in logistics integration. It also facilitates tracking and tracing, and minimizes

unnecessary travel and inventory costs - thus achieving Supply Chain Management at the industry level. The establishment of a global community network will be a challenging endeavor. The researchers provide an implementation scenario for the air cargo industry in Hong Kong. (BS99025)

Impulse Response Asymptotics and Long Horizon Prediction in Cointegrated VAR Models

- ✉ LI Hongyi • XIAO Zhijie*
- ☐ 15 November 1999
- ❖ CUHK Research Committee Funding (Direct Grants)

Vector autoregression models (VARs) and reduced rank regressions (RRRs) are widely used in modeling macroeconomic and financial time series. The VARs are especially useful in the estimation of the inter-relationships between a set of time series and in the forecasting of these time series. Important theoretical developments have been made in the recent econometrics literature regarding the VAR modeling and forecasting of vector time series with some unit roots. However, impulse response asymptotic theory for the more general nonstationary VAR models with deterministic trends has not yet developed in the existing literature, although many macroeconomic time series are usually characterized as an integrated process with deterministic trends. Moreover, when the system has near unit roots, long horizon forecasts based on both the VARs and the RRRs are biased and no longer optimal even asymptotically. In this project, the researchers will first develop impulse response and forecast error variance asymptotic theory for nonstationary VAR models with deterministic trend. Second, modified estimation for impulse response will be proposed to improve efficiency. Third, new approaches that will improve the long horizon forecasts for VAR models with some roots near unity will be proposed. The forth issue is the construction of prediction confidence intervals based on the asymptotic theory developed here. On the empirical part, the performance of the newly developed approaches will be evaluated using simulation methods and, in particular, applied to the empirical long horizon forecast of important macroeconomic and financial time series data of a selection of countries including the US and Hong Kong. The project has important implications in the study of nonstationary time series models. The research can be further extended into an earmarked grant project to examine various nonstationary time series models in tests for unit root and cointegration. (BS99012)

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>
1998-99	A Study on Consumption, Rent, and Housing Price in Hong Kong (BS98027) ✉ CHEUNG Kwok Hung Francis
1997-98	A Java-Based Architecture for Adaptive Information Systems Integration (CU97032) ✉ CHEUNG Wai Man • YEE Lester W.*
1998-99	Using Genetic Algorithm and Heuristics for Jobshop Scheduling with Sequence-Dependent Setup Times (BS98026) ✉ CHEUNG Wai Man
1997-98	A Theory of Product Design Strategies: From Total differentiation to Fashion Cycles (BS97005) ✉ CHIU Yiu Wah • YANG B. Rachel*
1998-99	Bargaining, Competition, and Investment Choice (CU98071) ✉ CHIU Yiu Wah • CHATTERJEE Kalyan*
1998-99	Economic Growth and Growth Convergence in China (BS98006) ✉ CHOI Hak
1997-98	A Longitudinal Investigation of Using an Internet-Based GSS System to Support Networked Team Building and Team Work (BS97030) ✉ LAI Siu King Vincent • HUANG Wei#
1998-99	The International Information Systems Strategy of the Foreign-based MNC Affiliates. (BS98007) ✉ LAI Siu King Vincent
1998-99	Reputation Effect in Repeated Negotiations (CU98076) ✉ LEE Ching Chyi • ZWICK Rami*
1998-99	Freezing the Master Production Schedule under Capacity Constraints (BS98017) ✉ LEE Tien Sheng • ZHAO Xiande*
1998-99	Optimal Machining Conditions with Costs of Quality and tool Maintenance (BS98008) ✉ LEUNG Chi Kin Lawrence
1998-99	Bootstrapping Time Series Models with Integrated Processes (CU98078) ✉ LI Hongyi • XIAO Zhijie*

1998-99 Small Sample Test for the Null of
Stationarity (BS98025)
✉ LI Hongyi

RESEARCH OUTPUTS AND PUBLICATIONS

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RESEARCH PROJECTS

Mortgages: Finance Economic Growth or a Bubble?

- ✉ CHOW Ying Foon • LIU Ming
- 15 November 1999
- ❖ CUHK Research Committee Funding (Direct Grants)

A significant portion of Hong Kong's financial resources has been allocated to finance residential mortgages. While the aspiration of home ownership of general public should be supported, it has often been argued that a large part of such aspiration is not genuine. That is, a large component of such aspiration is a yearning to speculate on the housing market, which will create a property price bubble in the economy. The financial resources involved in such a bubble, if used in any other productive means, could result in a significant boost of the productivity of the local economy. In this project, we intend to investigate the relationship among the type of mortgages offered, borrower's choice problem and the general economic conditions. The variety of residential mortgage loans in Hong Kong has been mostly limited to the fully amortizing adjustable rate mortgages (ARM). Among them, 35% are of the variable tenor (VRT) type and the other 65% are of the variable payment (VRP) type. For a VRT type ARM, the maturity of the mortgage loan changes whenever there is an interest rate adjustment. For a variable payment type ARM, instead the monthly installment changes. While the use of VRP ARM is common in other mortgage markets, the prevalence of the VRT ARM is unique to Hong Kong. Through this project, the researchers hope to find answers to the following questions: What special function does the VRT ARM provide to the Hong Kong society? Does the existence of the VRT ARM facilitate the homeownership of the working class in Hong Kong since the VRT ARM shield the borrowers from the volatile interest rate movement? Or does the existence of the VRT type ARM help identifying certain special characteristics of the borrowers crucial to the efficient risk sharing? What is the uniqueness of Hong Kong which gives rise to the prevalence of the variable tenor ARM?

(BS99014)

Informed Trading and Uninformed Trading in Stock Market and Option Market

- ✉ FONG Wai Ming • CHAN Kalok*
- 1 November 1999
- ❖ Research Grants Council (Earmarked Grants)

Extensive evidence shows that stock and option prices are interrelated. However, there is very little

understanding about how stock and option prices are affected by trades in these two markets. Since an informed investor could trade in either the stock market or option market, whether stock or option trades have more information content becomes an interesting question. Also, the extent of informed trading will affect bid-ask spread. It is an open empirical question how bid-ask spreads in stock and option markets are affected by their trades. Furthermore, in option market, there are different option contracts for traders to choose. Which option contract an informed trader will choose depends on the liquidity and leverage of the contract. The proportion of informed trading and uninformed trading could vary across different contracts. Several issues are explored in the project. First, the researchers compare the information content of stock trades with that of option trades based on their price impact and bid-ask spread impact in both markets. Second, the researchers examine the extent of informed trading across different option contracts, and see how it is related to liquidity and leverage of the contracts. The analysis will include both the U.S. market and Hong Kong market. The outcome of the project should have both academic value and practical implications.

(CU99040)

Internal Capital Market Misallocation and Inefficient External Capital Market: Evidence From Red-chip Companies

- ✉ HE Jia • CHEN Zhiwu*
- 11 November 1999
- ❖ CUHK Mainline Research Scheme

This project investigates the performance and the structure of red-chips. Red-chip companies are companies registered in Hong Kong representing provincial governments or various branches of central government of China. They raise capital from international capital market and it is then allocated to many of these companies which are well diversified engaging in business in financial services, trade, real estate and tourism in Hong Kong and Mainland of China. On one hand, the structure of the red-chip company provides a way for many otherwise unqualified Chinese companies, due to different accounting standard, corporate governance structure to raise capital through a window company from international capital market. But on the other hand it may create some agency and asymmetric information problems within the organization which may lead to over investment and corruption. The recent collapse of Guangdong International Trust & Investment Corporation "GITIC" and Guangdong Enterprises "GDE" are very significant events. In addition, there is an interesting difference between Red-Chip companies and H-share companies. H-share companies are Hong Kong listed Chinese industrial

companies. Most of these companies have core business lines. To compare Red-chip companies and H-share companies is an interesting exercise to investigate the role of diversification and internal capital market for developing countries. The cost of capital at aggregate level for all red-chip companies is estimated and the relationship between investment and ways of financing are examined.

The reform of the state owned enterprises (SOE) is the key for convert Chinese economy into market economy. Red-chips' problems, the solutions, and their futures reflect, to large extend of SOEs. The study should have important policy implications. (BS99002)

Worldwide Institution's Trading in U.S. Equity Market

- ✍ HE Jia
- ☐ 15 November 1999
- ❖ CUHK Research Committee Funding (Direct Grants)

This project studies stock ownership in U.S. firms by both U.S. and non-U.S. institutional investors from 1997-1998. The issues such as the relationship between the ownership and firm characteristics, the motivations of the holdings and trading of institutions are investigated. Especially, the home bias issue will be studied by comparing the holding behaviors of U.S. institutions and non-U.S. institutions. (BS99015)

Technology Innovations and Financial Policies: An Exploratory Study Using A Unique Database on International Market for Medical Technology

- ✍ HE Jia • LIU John J.*
- ☐ 1 December 1999
- ❖ Research Grants Council (Earmarked Grants)

Since *Schumpeter's* theory of economic development (1912), technology innovation has been the name of the game in the world economy. As convincingly evidenced from then till today, the key to the game is the diffusion/transfer of innovations, including R&D, commercialization, financing, and training. A comprehensive database of adoption patterns of medical diagnosis technology (e.g., CT scanner and MRI) by the U.S. and international customers (e.g., hospitals and clinics) is used in this project. This project conducts an empirical study on what has been void area, namely, interactive corporate financing and investment decisions based on perspective of the demand for technology. (CU99041)

The Curvature and Slope in Credit Spread Term Structure Curve

- ✍ HE Jia
- ☐ 1 May 2000
- ❖ CUHK Research Committee Funding (Direct Grants)

A peak point in a credit spread term structure curve of a given rating has important implications for anticipated migrations of credit rating and shape of credit spread curve. To date, there is no empirical research about whether there are peak points and non-linearities of credit spread curves. This project will conduct an extensive empirical exploration about curvatures and peaks as well as slopes of credit spread curves of various ratings constructed from a large number of individual corporate bonds. The result should be helpful in examining existing models and seeking appropriate new models of credit risk. (BS99028)

Institutional Investors and Value Line Recommendations

- ✍ HE Jia
- ☐ 1 June 2000
- ❖ CUHK Research Committee Funding (Direct Grants)

This project investigates (1) investment behavior of institutional investors, (2) its impact on stock prices, and (3) the relationship between institutional investors and Value line recommendations. This project brings two lines of literatures, institutional investors and newsletter's recommendations together in a unified framework. The results of this project contribute to a better understanding of stock price behavior as well as investment strategies of financial institutions. We try to address the following important questions:

- (1) If the recommendations by Value Lines are actually followed by institutional investors;
 - (2) Whether the recommendation by Value Line is the source of herding among institutional investors;
 - (3) If the recommendation is truly valuable after taking transaction cost into consideration.
- (BS99022)

Related Diversification and Firm Performance

- ✍ LANG Hsien Ping Larry
- ☐ 1 July 1999
- ❖ Research Grants Council (Earmarked Grants)

Employing commodity flow data from input-output (IO) tables, we construct two IO-based relatedness measures to capture *inter-industry* and *inter-segment* vertical relatedness and complementarily. At the industry level, we demonstrate that the new IO-based measures outperform traditional measures based on

SIC codes in describing relatedness. At the firm level, we report that firms increase their degree of vertical relatedness and complementarily over time. The increasing pattern is robust: it is not sensitive to accounting changes in segment definition, different weighting methods and different input-output data employed to construct the relatedness measures. As an application to corporate diversification, we find that vertical relatedness is associated with lower firm value. Complementarily increased firm value only in the 1970s and early 1980s. Its effect has been neutral in more recent periods. We further document that the valuation effects of relatedness can be attributed to firms with more than three business segments, suggesting that relatedness is more relevant to firms pursuing wide diversification strategies. (CU99042)

Clientele, Prepayment and Mortgage Design in the Hong Kong Mortgage Market

- ✉ LIU Ming • CHIANG Chiu Ping Raymond# • HE Jia
- ☐ 1 September 1999
- ❖ Research Grants Council (Earmarked Grants)

In the project, using a dataset we collected, we will empirically analyse the mortgage selection of the local mortgages and locate the clientele of mortgages attracted by the newly offered fixed rate mortgages. By comparing with the clientele composition of the mortgage market prior to 1998, we try to see how the clientele migrates among different modes of mortgage. Second, we model and qualify the prepayment risk in the Hong Kong mortgage market. This information would then shed lights on the reasons for the observed unwillingness to enter a fixed rate mortgage contracts as well as on how to design a good mortgage installment in the future. (CU99058)

A Study on Insider Trading in the Hong Kong Equity Market

- ✉ ZHANG Hua
- ☐ 15 November 1999
- ❖ CUHK Research Committee Funding (Direct Grants)

Insider trading refers to open market trades (sales and purchases) made by corporate officers, directors and large shareholders in their firms. Hong Kong is one of the few markets in the world that tracks the buying and selling activities of insiders in their own companies. There is a consensus that insiders possess superior information about their own firms but they do not necessarily have superior market-wide information. In this study, the researchers plan to investigate the informational content of aggregate

insider trading activity in the Hong Kong equity market. That is, whether aggregate insider trading intensity have a predictive power for future stock market performance. The project is especially interesting because the researchers plan to study a period that covers before, around and after the Asian financial crisis. (BS99016)

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>
1998-99	Business Conditions, Monetary Developments, and Expected Stock Returns and Volatility in Hong Kong During the Linked Exchange Rate Period (BS98009) ✉ CHEUNG Wai Wah Daniel
1998-99	Long Swings with Memory and Stock Market Fluctuations (BS98016) ✉ CHOW Ying Foon • LIU Ming
1995-96	Corporate Finance in Hong Kong and China: Instruments, Incentives and Performance (CU95409) ✉ FAN Kin Keung Dennis • YOUNG Leslie
1997-98	A High-Tech Approach to Innovative Bank Marketing in the Era of Information Explosion (BS97024) ✉ FAN Kin Keung Dennis • CHAN Chi Fai Andrew (Dept of Marketing) • LAU Kin Nam (Dept of Marketing) • LEUNG Kwong Sak (Dept of Computer Science and Engineering) • LEUNG Pui Lam William (Dept of Statistics) • LEUNG Yee (Dept of Geography)
1998-99	The Impact of Portfolio Disclosures on Institutional Trading Motives (BS98024) ✉ HE Jia
1998-99	Risk Management Policy and Ownership Structure (BS98033) ✉ HE Jia
1998-99	The Effect of Ownership, Management and Regulatory Control on Performance of Urban Credit Unions in Zhejiang Province (BS98015) ✉ Hugh Alun Lloyd THOMAS • SHI Jinchuan*

- 1998-99 Diversification, Direct Investments and Announcement Effects: The International Evidence (CU98296)
✍ LANG Hsien Ping Larry
- 1998-99 ARM's Wrestling: An Investigation of Hong Kong Residential Mortgage Market (CU98114)
✍ LIU Ming • HE Jia • CHOW Ying Foon
- 1995-96 Economic Reform of the External Sector: Liberalization of the Exchange System in China (CU95411)
✍ SHIH Yi Chung Elbert • CHOU Win Lin (Dept of Economics) •
- YOUNG Leslie • YU Siu Hung Eden
- 1998-99 On Frogs and Scorpions: Something Never Change (BS98035)
✍ SO Wai Man Raymond • G Geoffrey Booth*
- 1997-98 An Empirical Investigation of the GARCH Option Pricing Model (CU97419)
✍ ZHANG Hua • DUAN Jin Chuan*

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- <P000453> **So, Raymond W. and Yiuman Tse.** "Rationality of Stock Splits: The Target-Price Habit Hypothesis". *Review of Quantitative Finance and Accounting* vol.14, pp.67-84. The Netherlands, 2000.
- <P000853> **Glascok, John L.; Raymond W. So and Chiuling Lu.** "Excess Return and Risk Characteristics of Asian Real Estate Markets". Paper presented in the 1st Annual Conference on Empirical Economics, organized by National Chung Cheng University. p.20. Chia-Yi, Taiwan, 2000.04.16.
- <P001011> **Grace, Bruce K. and Raymond W. So.** "Unsystematic Risk and Agency Costs: A Factor Analytical Approach". *Midwest Finance Association Meeting* p.22. Chicago, USA: Midwest Finance Association, 2000.03.
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- <P001195> **Fan, Dennis K.K. and Raymond W. So.** "A Survey on Capital Structure Decisions of Hong Kong Firms". *Paper presented in the Eighth Conference on Pacific Basin Finance Economics and Accounting, organized by Rutgers University State U of New Jersey* ed. by Capital Structure Survey Hong Kong. Bangkok, Thailand, 2000.06.01.
- <P001196> **Glascok, John L.; Chiuling Lu and Raymond W. So.** "The Relationship Between REITs Returns and Inflation: An Vector Error Correction Approach". Paper presented in the 8th Conference on Pacific Basin Finance Economics and Accounting, organized by Rutgers University State U of New Jersey. Bangkok, Thailand, 2000.06.01.
- <P992274> **So, Raymond W. and Yiuman Tse.** "Rationality of Stock Splits: The Target-Price Habit Hypothesis". Paper presented in the Financial Management Association Meeting, organized by Financial Management Association. Orlando, USA, 1999.10.08.
- <P992697> **Thomas, Hugh.** "A Preliminary Look at Gains from Asset Securitization". *Journal of International Financial Markets Institutions and Money* vol.9 no.3, pp.321-333. 1999.08.

- <P992735> **Lu, Chiuling; Yangpin Shen and Raymond W. So.** "Wealth Effects of the Basle Accord on Small Banks". *Journal of Economics and Finance* vol.23 no.3, pp.246-254. USA, 1999.
- <P993038> **Glascok, John, L.; Chiuling Lu and Raymond W. So.** "The Relationship Between Reits Returns and Inflation: An Vector Error Correction Approach". Paper presented in the 12th Australasian Finance and Banking Conference, organized by University of New South Wales. Sydney, Australia, 1999.12.
- <P993040> **Lu, Chiuling; Yangpin Shen and Raymond W. So.** "Wealth Effects of the Basle Accord on Small Banks". Paper presented in the 12th Australasian Finance and Banking Conference, organized by University of New South Wales. Sydney, Australia, 1999.12.
- <P993496> **Lu, Chiuling and Raymond W. So.** "Price Discovery in the Taipei Residential Real Estate Market". *Review of Pacific Basin Financial Markets and Policies* vol.2 no.4, pp.459-470. USA, 1999.
- <P993940> **McGuinness, Paul.** "' Rolling-Over' HSI Futures: Issues of Timing and Returns". *Asian Journal of Business & Information Systems* vol.4 no.2, p.14. Singapore, 1999.12.
- <P993941> **McGuinness, Paul B.** *A Guide to the Equity Markets of Hong Kong.* 436 pgs. Hong Kong: Oxford University Press, 1999.11.
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RESEARCH PROJECTS

An Empirical Investigation of Service Quality and Profitability Among Hotels in Hong Kong

- ✉ WANG Ko • LEE Tien Sheng (Dept of Decision Sciences and Managerial Economics) • ZHAO Xiande*
- ☐ 1 June 2000
- ❖ CUHK Research Committee Funding (Direct Grants)

This project aims to investigate the relationship between internal service quality management practices, service quality and the profitability of a company or a operating unit in the hotel industries in Hong Kong. We will evaluate the service quality of selected hotels through service quality surveys, investigate and measure internal service quality management practices through in depth case studies, survey of management and front line service staff. Based on data collected and the company's performance data, we will model the relationship between internal service quality management practices, service quality as measured by customer surveys and the profitability and growth of the company.

The subjects of the study are Hotels in Hong Kong. Through this study, the researchers expect to find that service quality is an important factor to influence a company's profitability and the internal quality management practices significantly influence service quality. Companies that adopt breakthrough-service management practices as advocated by Harvard Professors, Heskett, Sasser and Schlesinger (1992, 1997) can provide better service quality to the customers. They will also be able to achieve better profitability. The findings from this study will provide empirical evidence for the service profit chain and guidelines for hotel companies to improve service quality and profitability. (BS99023)

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>
1998-99	A Critical Incident Analysis of Service Encounters in the Hotel Industry: A Customer Perspective (BS98034) ✉ TSE Eliza Ching Yick • LEE Kam-hon (Dept of Marketing)

RESEARCH OUTPUTS AND PUBLICATIONS

- <P991786> **Pyo, Sungsoo and Eliza Ching-Yick Tse.** *Journal of Quality Assurance in Tourism & Hospitality*. The Haworth Hospitality Press, 1999.07.
- <P991787> **Li, Lan; Jack Kivela and Tse, Eliza Ching-Yick.** "The Importance & Competency of Hotel Management Skills: What Students & Managers in Hong Kong are Saying". Paper presented in the 4th Asia Pacific Tourism Association Conference. Tanyang, Korea, 1999.08.18.
- <P992576> **Jogarathnam, Giri; Eliza C. Tse and Michael D. Olsen.** "Matching Strategy with Performance: How Independent Restaurateurs' Competitive Tactics Relate to Their Success". *Cornell Hotel & Restaurant Administration Quarterly* vol.40 no.4, pp.91-95. USA, 1999.08.

RESEARCH PROJECTS

Mood in Foreign Exchange Trading: Cognitive Processes and Performance

- ✉ AU Yuk Fai Kevin
- ☐ 1 June 2000
- ❖ CUHK Research Committee Funding (Direct Grants)

This project aims to examine the effects of mood on the behavior of decision makers in the currency trading markets. Based on a review of the psychological theories and empirical findings which relate mood to decision making and information processing, we tested hypotheses with respect to the impacts of good, neutral and bad moods on the behavior of traders in a previous study which involved a realistic, internet-based simulation of decision making in foreign exchange market (Chan, Au, Wang, & Vertinsky, 1999). It was found that traders in a good mood had an inferior performance compared to those in a neutral or bad mood. Traders in a good mood made less accurate decisions than those in neutral or bad moods. Those in a bad mood were the most accurate in their decisions but invested overly conservatively in their trading. The study is, however, hampered by a potentially faulty procedure used for manipulating the mood of subjects. We will run an improved study in this project to test more rigorously the influence of mood on decision-making process and performance. (BS99024)

Partner Selection in Strategic Alliances in Greater China: What are the Most Important Selection Criteria and Success Factors?

- ✉ David Christopher AHLSTROM • HITT Michael A.* • DACIN M. Tina*
- ☐ 1 November 1999
- ❖ Research Grants Council (Earmarked Grants)

Recent concerns over Hong Kong's competitiveness have led researchers and policy-makers alike to ask what industries Hong Kong firms can be most competitive in. One answer lies in a key organisational form that has emerged in recent years: the strategic alliance. Strategic alliances, which also include joint ventures, are particularly important in Hong Kong as Hong Kong firms have been involved in numerous alliances with firms in the West and the PRC. Equally importantly, Hong Kong firms have been increasingly active as brokers and participants in alliances between Western firms and PRC organisations. Many of the well-known failures of alliances between Western and PRC firms seem traceable to improper partner selection in alliances. Yet the available evidence on this point is sketchy,

particularly in the context of Hong Kong and the PRC. Given the importance of strategic alliances to Hong Kong and PRC industry, this study seeks to investigate the experiences of managers in both Hong Kong and Western firms with strategic alliances. In doing so the researchers seek to determine the criteria used by managers to choose alliance partners, and to identify key factors that may have led to either the success or failure of the alliances. In addition, they want to identify the roles that Hong Kong firms have played in the outcome of alliances. Specifically, they propose that Hong Kong firms have important and at times indispensable roles to play in both brokering and managing alliances between PRC organisations and Western and Japanese firms, and we want to specify the roles Hong Kong firms play in alliance success.

(CU99047)

Venture Capital in Hong Kong: Its Role in High Technology Development

- ✉ David Christopher AHLSTROM • BRUTON Garry*
- ☐ 1 May 2000
- ❖ CUHK Research Committee Funding (Direct Grants)

In the United States the development of high technology ventures including Microsoft, Intel, and Federal Express has become associated with the availability of a large pool of venture capital. Indeed some have argued that venture capital is spearheading the unprecedented surge in high technology development and wealth creation in Silicon Valley, California. There is a need for such funds as traditional financiers, such as banks, are unwilling to provide funds to high risk high technology startups. Hong Kong has identified that high technology ventures will become the focus of its future economic development. It has a well developed community of venture capital professionals present. However, it is unclear at this stage what the impact of this community is now, or will be in the future, on the development of the territory's high technology industry. While venture capital is clearly associated with high technology development in the West, it is unclear if the same role is, or will be, replicated in Hong Kong. Therefore, this research will document the extent of current status of venture capital in Hong Kong, the role such capital now plays in high technology firms in the territory, and what actions would encourage expansion of such investing activities in Hong Kong. It will do so by interviewing venture capitalists and their funded firms in Hong Kong. In addition, selective comparisons will be made with the venture capital industries in Taiwan, the US and Singapore. Taiwan in particular, has been quite successful in developing an indigenous high technology and aggressive

venture capital industry. Similarities and differences will be highlighted and the Hong Kong industry will be analyzed for what may still be needed for the venture capital community to better promote high technology industry in or around Hong Kong. (BS99029)

Exploring Managerial Influence Behaviors that Cross Borders

✉ FU Pingping • GARY Yuki*

☐ 1 August 1999

❖ Research Grants Council (Earmarked Grants)

The ability to exercise influence in culturally-mixed interpersonal networks has been recognized as one of the prerequisite skills and competencies of "global" managers (Smith & Peterson, 1988). As Hofstede (1980) pointed out, the enactment of influence is affected by many factors, but the ways in which influence is accomplished may be somewhat "culture-specific". The study by Fu and Yukl (1998) comparing managers in the US and China shows that national cultural values clearly influence managers' preferences for different influence tactics. The study is designed to continue the earlier research and develop and test an empirical model. The model is designed to predict types of influence behaviors used by managers in a particular country under certain circumstances using cultural values and traditions of that country as well as other key factors such as power, content or direction of the influence attempt. To build the model, additional data will be collected from Hong Kong and Taiwan as well as Australia and Canada. To test the model, data will be collected from other developing countries, such as Turkey and India, and other industrialized countries such as New Zealand and Switzerland, whose values appear in two different cultural blocks according to the GLOBE study. This study, when completed, will be the first one to offer such a useful and comprehensive model. It will contribute significantly to both the academic world as well as the practitioners' world in terms of the making and the connections between national culture and its impact in people's behavior. (CU99050)

Study of Chinese CEOs (Chief Executive Officers): A Value-based Leadership Approach

✉ FU Pingping • HOUSE Robert*

☐ 1 November 1999

❖ CUHK Mainline Research Scheme • CUHK Research Committee Funding (Direct Grants)

Proposed by House and his associates in the early 1990s, the value-based leadership (VBL) theory synthesized the early leadership theories and is based on a number of assertions in several psychological

theories of motivation and behavior. The theory is defined as a relationship between an individual (leader) and one or more followers based on shared values. The essence of the value-based leadership theory fits the Chinese traditional way of thinking. It also corresponds to the way the Chinese Communist Party led the country to liberate itself, and the way it tries to lead the nation now.

By using interviews and questionnaire survey, he designed project is designed to achieve two objectives:

- (1) test the model proposed by House and associates; and
- (2) to propose a leadership theory that will fit the Chinese situation.

The project will be carried out according to the procedures set by the global research on value-based leadership headed by Professor House in order to compare results cross-culturally with other countries. However, additional hypotheses based on Chinese cultural values will also be tested. Thus, when completed, we will be able to achieve the following objectives:

- (1) find out how value-based leadership theory applies to the Chinese context;
- (2) propose a Chinese leadership model based on the Chinese values;
- (3) provide Chinese leaders and managers with useful theoretical guidance in their endeavor to modernize the country; and
- (4) contribute to the world literature on cross-cultural leadership and promote understanding and communication between China and the rest of the world.

(BS99026)

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

✉ LAU Chung Ming

☐ 1 June 2000

❖ CUHK Research Committee Funding (Direct Grants)

The pilot study will primarily be doing case studies of firms in China and Taiwan on top management team's orientation of high-technology adoption and competitive positioning. Since strategic orientation represents a resource allocation priority and is based on a cognitive understanding and interpretation of the external environment and internal resources, an analysis of their choice of technology and how those resources are used in the competitive environment is useful to understand the competitiveness of firms in the region.

The budget will be used to employ four field investigators in China (including Taiwan) to conduct 6 case studies in each city/region. The Principal Investigator (PI) will conduct field interview first (using a grant from CUHK/UST joint AoE grants)

and come up with a list of questions for the field investigators to follow. The field investigators are experienced scholars and are potential collaborators in future projects. The field investigators are responsible to approach suitable firms (under consultation with PI) and conduct the interviews with each firm's top management team (namely, the CEO, production/engineering director, marketing director, and human resource director). It is expected that each investigator can complete interviews for at least six firms.
(BS99027)

Technology Sourcing through FDI: The Case of Asian Multinationals in the US, UK, and Japan

✉ MAKINO Shigefumi

☐ 31 December 1999

❖ Research Grants Council (Earmarked Grants)

There are three purposes of the study. The first purpose is to develop a theoretical basis for asset-seeking Foreign Direct Investment (FDI). Building on the literature of the resource-based view of the firm and economic geography, a comprehensive conceptual model is presented to identify the conditions where asset-seeking FDI will be a viable option for a firm's cross-border technology sourcing. The second purpose is to identify factors that enable or constrain technology sourcing by investing firms. To provide a viable basis for discussion, this study explores the possible linkage between technology sourcing strategies and performance. Managers' perceived success or failure of technology sourcing is used to measure the overall performance of the technology sourcing strategies. Three contingent factors that influence the performance are discussed and compared: host country pull factors (i.e., the availability of target technological assets), company push factors (i.e., absorptive capacity and learning capability), and internalization mechanisms (i.e., a firm's mechanisms of integrating the sourced assets into its existing resource portfolio).

The third purpose is to explain (1) when cross-border technology sourcing becomes successful (or unsuccessful); and (2) how a firm's sourced technological assets are integrated into its existing resource portfolio to build a firm's competitive advantages. A questionnaire survey and detailed field interviews will be conducted to investigate these issues.

(CU99052)

Chinese Technological Collaboration and Innovation Networks in Transition

✉ Richard Steven WHITE • LIU Xielin*

☐ 15 November 1999

❖ CUHK Research Committee Funding (Direct Grants)

Research in diverse national and industrial contexts has shown that the innovation process is a social one, a collective effort involving different actors that brings an idea from conception to implementation. Accordingly, understanding collaborative innovation activity is an important part of understanding innovation performance. The objective of this study is to understand the emergence and evolution of collaborative relationships and innovation networks in China. The researchers will use the pharmaceutical industry in China as an empirical context to study how collaboration among research institutes, universities and manufacturers leads to patents and new products. By gathering longitudinal data on collaboration and performance, the researchers will be able to identify the evolution of network structure and relate this to organizational strategy and innovation performance.
(BS99018)

Transnationalization in China: The Cases of Chinese, European, and North American Corporations

✉ TSAI Soo Hung Terence

☐ 1 May 2000

❖ CUHK Research Committee Funding (Direct Grants)

Transnationalization of western firms is a well-researched and well-recognized phenomenon. The roles of the North American and European in the global economy are vital, as industrialized countries still are the major sources of global investment flow. However, with the increase participation of the Asian enterprises in the global commercial scenes, direction of global investment flow is experiencing changes. Global trend of transnationalization has demonstrated effects on Asia. China (refers to the Mainland China, Hong Kong, and Taiwan collectively), in particular, accounted for the largest outflow of foreign direct investment among the world's newly industrialized countries in 1996. The study of transnationalization of both the Chinese and the western transnational corporations in China is therefore timely and represents a much needed addition to the knowledge base of international business.

Within the context of transnationalization and conforming to the existing categorization of management systems ("Anglo-Saxon", "Communitarian", "Emerging Market"), the proposed research seeks to bridge the gap in the existing literature by addressing both the macro and micro aspects of organizational changes. The proposed research hence constitutes a pioneering and ambitious comparative study employing multi-disciplinary approach.

(BS99030)

Interlocking Directorates as Strategic Networks in Asia

- ✉ WANG Yu Long Denis • AU Yuk Fai Kevin
- 16 November 1999
- ❖ CUHK Research Committee Funding (Direct Grants)

Strategic networks embodied in interlocking directorates, defined as the exchange of board directors among corporations, have increasingly generated academic and practitioner interest around the world. However, such research has been rare in Asia, despite Asian firms' widely acknowledged propensity to engage in networking activities. The absence of interlock studies in Asia is significant, because it is in this part of the world that interfirm networks are believed to be especially important. Intending to address this gap in our knowledge, the researchers propose to explore interlocking directorates among firms in Mainland China, Hong Kong, and Thailand to shed light on the underlying dynamics of strategic networks in Asia. This approach is driven by the theoretical rationale suggesting the importance of interlocks as strategic networks, the methodological consideration due to the relative ease to access data from archival sources, as well as the public policy imperative for more knowledge about Asian firms in light of the financial crisis since 1997. Specifically, the researchers will address three key questions: (1) what are the patterns of interlocking directorates among firms in these economies? (2) What are the antecedents and consequences of strategic networks embodied in interlocking directorates? (3) What are the advantages and disadvantages of these networks? Methodologically, ten case studies will be undertaken. Then the researchers will construct interlocks databases for the top-200 listed companies for these geographical regions, and employ network analyses to quantitatively explore the research questions. The outcome will be multiple academic and practitioner articles, teaching cases, and, possibly, a book. (BS99017)

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>
1998-99	Hierachical Linear Modelling on Intra-cultural Variation (BS98018) ✉ AU Yuk Fai Kevin
1998-99	Multimedia Individualism-Collectivism Culture Assimilator: Scientific Basis and Validity (BS98014)

✉ AU Yuk Fai Kevin • LIM Kai* • BHAWUK Dharm P. S.*

1996-97	CEO Leadership Behaviour and Effectiveness in Hong Kong (BS96030) ✉ CHOW Hau Siu Irene • HOUSE Robert J.#
1998-99	Career Enactment: Career Decisions, Actions, and Mobility Among Hong Kong's Entrepreneurs, Managers and Professionals (BS98012) ✉ CHUA Bee Leng • ARTHUR Michael B*
1998-99	Corporate Turnaround in Hong Kong (BS98013) ✉ David Christopher AHLSTROM • BRUTON Garry*
1998-99	The Globalization Strategies of Hong Kong Firms: Extent and Implications (BS98019) ✉ David Christopher AHLSTROM • Kent Edward NEUPERT# • BRUTON Garry*
1998-99	Globalisation Strategies of Hong Kong Firms: Extent and Implications (BS98040) ✉ David Christopher AHLSTROM • Kent Edward NEUPERT# • BRUTON Garry*
1998-99	Comparison Between Chinese and U.S. Managerial Influence Tactics: A Qualitative Approach (BS98011) ✉ FU Pingping • GARY Yuki*
1998-99	The Nature and Outcome of Psychological Contracts: A Longitudinal Study in a Chinese Context (CU98197) ✉ HUI Chun • CHEN Zhen Xiong* • ROUSSEAU Denise*
1998-99	The Embeddedness of Strategic Management in a Transitional Economy: Diversification Strategies in Guangdong Large Industrial Groups (CU98092) ✉ LU Yuan • YEH Ryh Song# • CHOW Hau Siu Irene • BRUTON Garry D.* • HOSKISSON Robert E.* • LAN Hailin*

1998-99	Diversification and Strategic Management in Large Industrial Groups in Chong Qing, the People's Republic of China (BS98037) ✉ LU Yuan
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1997-98	Ownership Structure and Performance of International Joint Ventures in Japan (BS97015) ✉ MAKINO Shigefumi	✉ QIAN Gongming
1998-99	Joint Venture Ownership Structure and Performance: Japanese Joint Ventures in China (CU98093) ✉ MAKINO Shigefumi	1998-99 Diversification and Corporate Performance in Asian Economies (BS98036) ✉ WANG Yu Long Denis • AU Yuk Fai Kevin
1998-99	Cultural Influences on Women in Management: A Cross-Cultural Investigation (BS98038) ✉ NGO Hang Yue	1998-99 The Impact of Capital Markets on Compensation Incentives, Organizational Slack, and Firm Innovation (BS98039) ✉ YOUNG Michael Norman • LUBATKIN Michael H* • SCHULZE William S*
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- <P994133> **Graen, George B.; Mitsuru Wakabayashi and Chun Hui.** "Third Culture Management Issues in Two-Culture Business Ventures in the United States and the People's Republic of China". *Japanese Journal of Administrative Science* vol.13 no.2, pp.87-98. Japan, 1999.
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- <P994485> **Fu, Pingping (one of the members in a team project).** "Culture Specific and Cross Culturally Generalizable Implicit Leadership Theories: Are Attributes of Charismatic/Transformational Leadership Universally Endorsed?". *Leadership Quarterly* vol.10 no.2, pp.219-256. 1999.

see also <P000154>, <P992394>, <P993551>, <P994439>

RESEARCH PROJECTS

Data Fusion, Data Mining and Decision Support System: Bank Marketing in the Twenty-First Century

- ✉ CHAN Chi Fai Andrew • LAI Siu King Vincent (Dept of Decision Sciences and Managerial Economics) • LAU Kin Nam • LEUNG Kwong Sak (Dept of Computer Science and Engineering)
- LEUNG Pui Lam William (Dept of Statistics)
 - LEUNG Yee (Dept of Geography)

☐ 1 August 1999

- ❖ Hang Seng Bank Limited • Industrial Support Fund, Industry & Technology Development Council

This project proposes a complete information system to serve as a reference model for the demonstration of the potentials of data fusion and mining technologies in uncovering the hidden, yet valuable information for bank decisions and marketing. This innovative information system will be driven by an intelligent decision support system (DSS) that is designed to perform customer segmentation through the navigation of a huge enhanced database. This cleaned and enriched database, which is the most critical design of our system, will initially be derived from multiple proprietary and commercial databases with the application of data fusion techniques. To support the decision reasoning process of the DSS, decision models, knowledge bases, as well as new mining algorithm will be developed. Additionally, a large-scale customer survey will be conducted to validate the result of data fusion. (BS99001)

The Impact of Empowerment on Employee and Customer Satisfaction: A Cross-Cultural Comparison

- ✉ HUI King Man • AU Yuk Fai Kevin (Dept of Management)

☐ 1 December 1999

- ❖ CUHK Research Committee Funding (Direct Grants)

The primary objective of the proposed research project is to examine how variations in social and marketing culture may moderate the impact of empowerment on service employees and customers in North America and PRC. In a collectivist culture with high power distance, service employees from

PRC may be more tolerant to role conflict and ambiguity, and may show less favorable attitudes towards discretion and responsibilities in their jobs. Moreover, members from PRC companies are expected to lag behind their North American counterparts in terms of customer orientation (i.e., determine the needs and wants of customers and deliver the desired satisfaction). This variation in customer orientation may also moderate the impacts of empowerment on the extent of role conflict and ambiguity experienced by service employees.

The researchers plan to conduct laboratory experiments to affirm the effects of empowerment on job satisfaction and service quality. Further, they will also test how a potential moderators, guanxi between a service provider and a customer, may tinker with the impact of empowerment. The researchers will manipulate empowerment by, say, varying the perceived responsibility and active belief of the employees (Eylon and Au 1996) along side with guanxi.

(BS99019)

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>
1998-99	Empirical Studies of Risk-Value Theory and Its Applications (CU98098) ✉ JIA Jianmin • DYER James S.* • INGENE Charles Arthur#
1997-98	The Emerging Roles of Chinese Women: A Comparison of Women Role Orientations, Life Styles and Consumption Values among Women from the PRC, Hong Kong and Taiwan (BS97017) ✉ SIN Yat Ming Leo • TUNG HO Suk Ching S. • CHAN Chi Fai Andrew
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*

RESEARCH OUTPUTS AND PUBLICATIONS

- <P000154> **Sin, Leo Yat-Ming; Oliver Hon-Ming Yau and Danny Wai-Lam Cheng.** "The Impact of Job-Related Stresses on Job Tension and Job Satisfaction: A Cross-National Comparison of Hong Kong and Australian Managers". *International Journal of Management* vol.17 no.2, pp.231-245. UK, 2000.06.
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- <P006767> **JIA Jianmin; FISCHER Gregory W. and LUCE Mary Frances.** "Attribute Conflict and Preference Uncertainty: Effects on Judgment Time and Error". *Management Science* vol.46 no.1, pp.88-103. Maryland, United States of America: INFORMS, 2000.01.
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- <P990380> **Chan, Chi-Fai; Long-Fung Chau and Yuen-Kwan Mak.** "The Internet as a Strategic Marketing Tool: A Case Illustration". *Proceedings of 1999 Annual Conference - Academy of International Business Southeast Asia Region* vol.1, pp.48-52. Melbourne, Australia: Monash University, 1999.07.

- <P992082> **Lau, Kin-Nam; Pui-Lam Leung and Ka-Kit Tse.** "A Mathematical Programming Approach to Clusterwise Regression Model and its Extensions". *European Journal of Operational Research* vol.116, pp.640-652. Amsterdam, 1999.08.
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