



Dean's Message

I would like to welcome our readers to this edition of CUHK Business School's magazine CONNECT. The magazine provides a platform to inform readers of selected business topics through articles written by staff and guest writers.

In this issue, we look at two important research studies, one on invisible links between financial analysts and fund managers in the Chinese market, and the other on option pricing research in the US market.

We also look at the unique role of Hong Kong in China's 'One Belt One Road' initiative and the business opportunities it offers to the city.

In celebrating our MBA 50th anniversary, we are proud to feature the stories of our past and present MBA directors and staff, as well as the experience of one of our MBA alumni.

Situated at the world's doorway to China, with a well-developed foundation in business education and research, CUHK Business School has a unique role in nurturing business leaders of tomorrow. We hope you will find the articles both interesting and stimulating.

Prof. Kalok Chan

Profile: The Chinese University of Hong Kong

- The Chinese University of Hong Kong (CUHK) was established in 1963 after the amalgamation of existing colleges which date back to 1949.
- The Vice Chancellor & President is Professor Joseph J.Y. Sung.
- CUHK has eight faculties (Arts, Business Administration, Education, Engineering, Law, Medicine, Science, Social Science) and 62 academic departments.
- CUHK is ranked 51st in the QS World University Rankings 2015-16 and four of its academic staff have been awarded Nobel Laureates.
- CUHK is based on a collegiate system of nine colleges.
- CUHK has 20,000 students; 2,000 of whom are from outside Hong Kong.

Profile: CUHK Business School

- The Dean is Professor Kalok Chan.
- The Business School is comprised of two schools – Accountancy, Hotel & Tourism Management; and four departments – Finance, Decision Sciences & Managerial Economics, Management and Marketing.
- It has over 4,600 students (full-time/part-time). Each year, over 500 undergraduate and postgraduate business students enroll in international exchange programs during the regular school term.
- CUHK Business School is the first business school in Hong Kong to offer MBA and Executive MBA programs.
- The MBA program was ranked 26th in the world in 2016, and the EMBA program was ranked 31th in the world in 2015 by the *Financial Times*.
- The School runs dual MBA degree programs with HEC in France; Rotterdam School of Management in the Netherlands; and the University of Texas at Austin in the United States. It also runs a joint program with Cambridge Judge Business School in the United Kingdom and MIT Sloan School of Management in the United States; as well as masters teaching partnerships with Tsinghua University and Shanghai National Accounting Institute in China.

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Friends in Need are Friends Indeed – How Friendships Cloak Financial Gain in China

*George Yang, Associate Professor and Director of Master of Accountancy
Gu Zhaoyang, Professor and Director, School of Accountancy*

WHY is it so important in China to understand the invisible links between financial analysts and fund managers? Because these friendships cloak the financial gain both sides might be making - well under the radar of authorities; and ultimately, these hidden biases could damage investment in China, as shown in a research by the Chinese University of Hong Kong (CUHK) Business School.



For the working paper “Friends in Need are Friends Indeed: The Effect of Social Ties between Financial Analysts and Mutual Fund Managers”, Prof. George Yang, Associate Professor and Director of Master of Accountancy Program (full-time) at the School of Accountancy of CUHK Business School, collaborated with fellow academic Prof. Zhaoyang Gu, Professor and Director of the School of Accountancy of CUHK Business School, and Guangqing Li at China Galaxy Securities Co., Ltd. as well as Prof. Zengquan Li, Dean of the School of Accountancy at Shanghai University of Finance and Economics. The paper is the latest in Prof. Yang’s work to examine irregularities in financial markets such as insider trading and the economic effects of business relationships, and the first study to show that benefits run both ways.

“If analysts speak positively about stocks, how do fund managers benefit? We also look at how the analysts benefit themselves from their advice,” says Prof. Yang who has been able to unpick various ways in which both sides seem able to dispense rewards without being detected.

The research makes the point in looking at social rather than business relationships. These are friendships that might be forged when an analyst and fund manager have worked together, even dated back to school or university. Ultimately, the friendships might lead to professional links.

For the purposes of his research, Prof. Yang investigated fund managers and analysts who have previously worked under the same brokerage roof. “They’re more likely to establish social ties, either directly or indirectly through common colleagues,” he says.

The Importance of “Guanxi” in China

While his research might apply more broadly to the United States and other international markets, China has provided a particularly fertile ground for investigation.

As a large and emerging economy, China is renowned for the importance how “guanxi” – or connections – play in daily life. And institutions meant to police irregularities in business are relatively feeble. “In weak legal environments, social networks can be exploited to obtain privileged access to scarce resources or to collude against the public interest,” he explains.

Added to this, analysts in China are powerful figures in the markets, which see more business from individual retail investors than elsewhere

abroad. As a nation, the Chinese have the highest savings rate in the world and individuals pursue investment opportunities keenly. But they are more likely than institutional investors to rely heavily on tips and blogs from established analysts. “Chinese analysts are probably more influential than their Western peers,” says Prof. Yang. In other words, they have more to gain from biased reports.

Since China’s first stock exchange was established in 1990, equity markets and the financial analyst industry have grown rapidly. As of the end of 2012, some 110 brokerages employed more than 2,400 sell-side analysts who regularly issue stock research reports. So how do both analysts and fund managers actually benefit from their social ties? In his research, Prof. Yang found that fund managers exploit their links with analysts to win positive reports of stocks they hold within a portfolio.

“So, as an analyst, I would try and help a fund manager by speaking favorably about the stocks he or she holds, which would encourage a boost in value of their portfolio,” he says.

Apparently, this has a direct effect upon their fortunes. Some 1,200 funds in China managed by 70 mutual fund companies are periodically ranked on performance – based on the price of stock in their portfolios. And these rankings are pivotal in winning new investors and this dictates fund managers’ pay and their chance of promotion.

Paying Back Favors

But what do analysts get in return? This research uncovered two ways in which fund managers pay back the favor.

“Fund managers tend to cast their ‘star analyst’ votes for their connected analysts,” says Prof. Yang.

In fact, fund managers are the main voters for this accolade, which can bring analysts an immediate boost in publicity and a dramatic rise in income.

“We found those with more social connections to fund managers are more likely to be selected as star analysts,” he says.

Another way of rewarding the favor is for fund managers to allocate more trading through their preferred analyst’s brokerage. Commission fees from institutional investors are the main – if not the only – form of revenue for analysts’ pay, and analysts who are socially connected to fund managers are

more likely to receive commissions from their companies, the research found.

"It's natural to question why this commission fee relationship emerges only between certain pairs of fund companies and brokerages and not others," he says. In other words, "primitive" social relationships can lead to transaction based relationships.

Interestingly, although these biases on both sides are extremely difficult to identify, let alone regulate against, they appear not to pass completely unnoticed by the market itself, Prof. Yang says. Additional research shows that the market tends to discount recommendations from connected analysts to buy certain stock within a short time frame – and in the months to follow, stock returns drift down further.

Alarmingly, if there is any bad news about a company, analysts tend not to issue negative comment if the stock is held by their fund manager friends. However, when it comes to good news, they are more likely to recommend the company.

"Admittedly fund managers would prefer accurate and high quality reports before they purchase a stock," says Prof. Yang. "However, once they've established a position, they would like analysts to issue favorable opinions, or at least to withhold any negative ones to maintain the stock price at a high level."

And fund managers appear to be in the know about their analysts' recommendations: they're actually more likely to dump the stock recommended by analyst friends and buy the stock only recommended by analysts that aren't connected.

"These results suggest that the positive nature of connected analysts' recommendations serve to help connected fund managers to 'pump and dump' a stock," says Prof. Yang, adding that the relative unsophistication of many smaller Chinese investors means that analysts' recommendations have great impact on prices, as individual investors are more likely to believe them.

"When mutual fund managers and analysts try to collude with each other, the smaller investors are being cheated out."

However, if this type of cheating was too rampant, analysts would lose credibility, and that's why they mix the odd

“ When mutual fund managers and analysts try to collude with each other, the smaller investors are being cheated out. ”

— Prof. George Yang

biased report with genuine recommendations made on sound judgements. "Otherwise no one would ever believe them," he says.

Implications

While this research focused on equity solely in Chinese rather than international firms, Prof. Yang believes his work has broader implications and that these 'hard to detect' links and biases might operate in other international markets. "The main audience of this paper will be in the US. I definitely believe that a similar phenomenon could be observed in the US and possibly Europe," he says.

"It's so hard for regulators to set rules. Analysts' opinions are purely subjective – you can't tell if they're biased and they can say whatever they want. Nor are the analyst ratings from fund managers subject to regulation. And social networks are much less conspicuous and more difficult to regulate," he says.

"It's virtually impossible to prosecute analysts for their bias. Unless you have hard evidence, you can't establish deliberate bias in court. Opinions aren't illegal."

However, the future is still optimistic. As China moves towards greater economic liberalisation, further market reforms and closer ties with Hong Kong, the Chinese markets will need tighter regulation, he believes.

"Hong Kong has stronger controls against insider trading. Also, as more educated and savvy investors enter the field, the markets themselves might be able to achieve what the government can't."

"I would rely more on market discipline. If this behavior becomes too rampant, the markets will no longer believe the recommendations. That's the purpose of this paper – to help investors become more aware and sophisticated. Eventually, I believe these types of personal relationships will grow weaker," adds Prof. Gu, co-author on the paper.

By Helena Pozniak

Sure Win: New Study on Option Pricing Suggests Arbitrage Opportunities

Cao Jie, Associate Professor and Zhan Xintong, PhD student, Department of Finance



A cutting-edge option pricing research at CUHK Business School reveals flaws in the derivatives markets. The study not only challenges our fundamental understanding of how these markets operate, but it also opens the door to sustainable and predictable profit-making opportunities. The results have turned heads on Wall Street and may rewrite the manual on trading strategies.

It is said that there is no such thing as a free lunch, least of all on Wall Street. Conventional wisdom tells us that financial markets operate efficiently, and that securities – whether it is stocks, bonds, or the derivative instruments they underlie – are priced tightly to eliminate any arbitrage opportunity that may generate risk-free profits.

But a recent finance research by The Chinese University of Hong Kong (CUHK) Business School throws a spanner into those long-held views, specifically in the option markets. The results of the study entitled *Option Return Predictability* reveal that sustained returns from trading delta-hedged options are not only possible, but they are also predictable using basic stock fundamentals such as market capitalisation and return on equity.

Leading the research was Associate Professor Cao Jie of CUHK's Department of Finance and his former Ph.D. student Zhan Xintong who joined Erasmus University Rotterdam as Assistant Professor in Finance this August, alongside Bing Han of the University of Toronto and Qing Tong of Singapore Management University.

The team conducted extensive regression analyses using monthly option data of over 5,000 underlying stocks between 1996 and 2012, which amounts to nearly 160,000 data points. The model

focused on actively traded stocks in the United States across a broad range of industry sectors, screening out small, highly illiquid ones that could potentially skew results.

A delta-hedged or delta-neutral option position involves longing and shorting options and underlying stocks in such a way that the overall payout is the same regardless of stock volatility. The position has to be rebalanced on a regular basis to adjust for fluctuating stock prices. Delta-hedged options are priced using traditional models such as Black-Scholes and stochastic volatility to eliminate any arbitrage gains.

The central question is whether a relationship exists between delta-hedged option gains and well-known stock characteristics used by financial analysts and investors. Of the 12 characteristics studied by the research team, eight of them, namely market capitalisation, cash-to-asset ratio, return on equity, new issuance, idiosyncratic volatility, monthly returns, annual returns and the dispersion of analyst forecast, show a strong correlation with delta-hedged option returns.

That means long-short trading strategies involving delta-hedged options based on those eight stock characteristics can yield stable, predictable profits over time. Their Sharpe ratios –

a commonly used measure of risk-adjusted return – ranged from 0.63 to 2.00 (for perspective, a portfolio of U.S. Treasury bills has a Sharpe ratio of exactly zero). The correlation remains robust regardless of seasonality and market conditions. For instance, the profitability of the option trading strategies did not diminish during the 2008-2009 subprime mortgage crisis.

The predictive power of these stock fundamentals suggests one of two things: either conventional pricing models are flawed, or the option market – with all its modern innovations and the rise of high-frequency algorithmic trading – is not as efficient as previously thought.

While further studies are necessary to understand the exact cause of the abnormal returns, Prof. Cao's research team believes that one possible source of market inefficiency is the insufficient cross-sectional arbitrage activities in the option market. More specifically, trading frictions created by regulatory limits to arbitrage may have played a key role in, ironically, spawning the delta-hedged arbitrage.

Until this anomaly is corrected, arbitrage opportunities continue to exist and risk-free profits in the option market – the proverbial free lunch – are there for the taking. That's why Wall Street traders and fund managers have taken notice of the startling results.

Last October, Prof. Cao presented his research findings to a captivated audience at the Third Deutsche Bank Annual Global Quantitative Strategy Conference in New York. He was subsequently invited to speak at a seminar at Morgan Stanley's head office, hosted by Dr. Peter Carr, the investment bank's Global Head of Market Modelling. Within the same month, his PhD student Zhan Xintong gave similar presentations to a number of New York-based hedge funds and investment firms, including OptionMetrics, Cubist Systematic Strategies, and Two Sigma.

What followed were other high profile speaking engagements, including the 10th Advances in the Analysis of Hedge Fund Strategies Conference in London; the Sixth Risk Management Conference in Mont-Tremblant, Canada; the Fourth Chicago Quantitative Alliance Asia Conference in Hong Kong; and a presentation at Menta Capital LLC in San Francisco.

More recently, in May this year, Prof. Cao presented his research at the 4th annual Asia Bureau of Finance and Economic Research Conference in Singapore, one of the largest events of its kind in Asia Pacific. In June, he presented it at Macquarie Global Quantitative Research Conference, a leading conference for finance industry, and in August, at European Finance Association Annual Meeting in Oslo, Norway, a leading conference for finance academic researchers.

Reactions from the financial community have ranged from excitement and intrigue to amazement and disbelief. To answer the sceptics, Prof. Cao and his team continue to test the robustness of their theory by controlling for "noise" such as stock volatility risk factors and adjusting for transaction costs resulting from the

spread between bids and ask option prices. So far, the findings have held up and the research remains on firm ground.

There have also been questions of a more pragmatic nature: how big the potential market is and whether option traders can make fortunes by replicating the trading strategy on a large scale.

"Our research is relatively new and Wall Street has yet to test it in the actual derivatives markets," says Prof. Cao. "But based on the presentations we have done to date, there is a lot of interest in our discoveries on the streets," he says.

When it comes to risk-free gains, however, popularity can be a double-edged sword.

"As more traders start to take advantage of our trading strategy," Prof. Cao offers a reality check, "we expect the arbitrage to narrow. It may eventually disappear."

That sentiment may have answered, if only preliminarily, the question of what causes the abnormal returns in the first place. Prof. Cao's prediction of narrowing arbitrage suggests that the anomaly uncovered by the study may have far less to do with flaws in the conventional pricing models than market inefficiency and regulatory frictions.

While the study is being discussed and debated in the real world, Prof. Cao has already moved on to analysing other derivative instruments. He is expanding his research from delta-hedged options to raw options and straddles – longing a call and a put option with the same strike price and expiration date – in hopes of discovering a similar pattern.

"We've dug up something interesting and opened a door to a new area of research," says Prof. Cao. "More broadly speaking, our study forces us to examine how much we actually understand option valuation and trading. We hope our work will attract attention from both practitioners and researchers so that more people will focus on this area."

It appears that the professor does not have to wait long for his hope to materialize. His research has already drawn praise from heavyweights in high finance.

"I just wanted to say how impressed I was with your new papers," wrote Euan Sinclair, option trader and author of such definitive treatises as *Volatility Trading and Option Trading: Pricing and Volatility Strategies and Techniques*, in a congratulatory email to Prof. Cao. "For a few years I've been convinced that the next frontier in option trading is using factors like [the ones referenced in your research]."

By Jason Y. Ng

Hong Kong: Super-connector in China's 'One Belt One Road' Initiative

Sir Chow Chung-kong, Chairman, Hong Kong Exchanges and Clearing Ltd. and CUHK Business School MBA Alumnus

CHINA'S 'One Belt One Road' initiative has been raised for more than two years. How to unleash the potential of Hong Kong in this ambitious economic initiative? What are the business opportunities it can offer for Hong Kong? At a recent roundtable forum, the Hong Kong Chief Executive and top-level experts have offered their insights to these questions.

"Hong Kong will be the best placed Chinese city to contribute to the 'One Belt One Road' initiative if the city can leverage its traditional strength of a financial hub and unleash its potential of a 'super-connector' between the Mainland China and the rest of the world."

This is the key message from the roundtable forum jointly organized by China Daily and the Hong Kong General Chamber of Commerce on 29 October, 2015. Under the theme of "Hong Kong Unleashing the Potential of 'Belt and Road' Initiative," the roundtable forum invited a panel of top-level speakers to offer their insights and opinions.

Bridging China and the World

In his keynote speech, Leung Chun-ying, the Chief Executive of Hong Kong SAR Government, said: "Our success has been powered by the twin engines of China and the world - By our 'One Country, Two Systems' arrangement and the deepening economic integration it has offered us, and by our strong connections with the rest of the world."

Leung believes that Hong Kong will be the best placed Chinese city to contribute to the 'One Belt One Road' initiative if the city can take advantage of its strength and find its competitive edges. He said that as a world-class business center, Hong Kong has a mature market environment, a pool of talents who can offer expertise in finance, law, engineering management and many other professional areas, and superb business connectivity with the world. With these strengths, Hong Kong can help build a bridge between the Mainland China and

the rest of the world to enable smooth and efficient flow of goods and services and of capital, playing a significant role as China's 'super-connector' in the 'One Belt One Road' initiative.

"For the country, the 'One Belt One Road' initiative is an unprecedented strategic vision while the promise for Hong Kong is equally outsized. It will help power the future for the Chinese mainland, for over 60 economies along the link and for Hong Kong. All of us can take part in this once-in-a-lifetime journey if we seize the opportunity today," said Leung.

Proposed by President Xi Jinping in 2013 during his visit to Kazakhstan, the 'One Belt One Road' initiative aims to boost trade ties and facilitate economic cooperation involving at least 65 countries and more than 4 billion people, which is about 61 percent of the world population.

With China as the starting point, 'One Belt One Road' comprises the Silk Road Economic Belt and the 21st Century Maritime Silk Road. The former aims to establish a cohesive economic belt across Central Asia, West Asia, the Middle East and Europe with high-speed railway works; the latter aims to link Southeast Asia, the Indian Ocean and Africa by various port works. Both infrastructure projects will enhance trade, cultural exchanges and economic development for countries along the belt and the 'sea road'.

According to China Daily, since the launch of the initiatives, over US\$250 billion worth of projects, ranging railways to power plants have already been contracted.

Bridging the Funding Gap

One of the panelists at the forum was Chow Chung-kong, Chairman of Hong Kong Exchanges and Clearing Ltd. An alumnus of CUHK Business School, Chow completed his MBA Program in 1981. He offered his insights on the 'One Belt One Road' initiative from the financial perspective.

Concurring with Leung's view, Mr. Chow said that Hong Kong, as one of the most important financial services centers in the region, was in an excellent position to meet funding requirements related to the 'One Belt One Road' initiative.

"Many projects involved in the 'One Belt One Road' initiative would need renminbi funding. We have the biggest offshore renminbi liquidity pool in the world," said Chow. "Hong Kong is well situated to play a role in fundraising - from bank loans or syndicate loans to issuance of bonds, to equity raising. For many years, Hong Kong has been one of the largest capital formation centers in the world," he said.

Currently, there are many financial institutions set up for the 'One Belt One Road' initiative, such as the Asian Infrastructure Investment Bank, the Silk Road Fund and the New Development Bank. So how can Hong Kong compete among these competitors?

Chow said that although various financial institutions have been set up for the initiative, these organizations alone are not adequate to satisfy the funding needs of 'One Belt One Road'.

"To make the 'One Belt One Road' initiative reach its full potential, the commercial sector must get involved. Unless the smart money is invested in sensible and profitable projects, the initiative will not achieve its full potential. I think that's where Hong Kong can play an important role," he said.

Leung expressed the same view in a commentary for China Daily last October. In the article, he said that "Hong Kong is a premier fund-raising hub and can offer multiple channels of financing, bank loans and venture capital, etc. for companies and businesses. As the world's largest offshore renminbi center, and the first place outside the mainland to develop a renminbi bond market, Hong Kong is also the place to find liquidity in renminbi."

As China's economy becomes increasingly integrated with the rest of the world, renminbi has become more widely used in trade and investment activities. Foreign direct investment into mainland China, and outward direct investment from Mainland China to the rest of the world, can also be carried out in renminbi. According to a report¹ by the Hong Kong Monetary Authority in 2015, Hong Kong was the first offshore market to launch the renminbi business back in 2004 and now it has become the largest renminbi liquidity pool outside China. At the end of 2014, the renminbi customer deposits and certificates of deposit issued by banks in Hong Kong together amounted to over 1.1 trillion yuan and the pool is steadily growing.

In addition, Chow pointed out that being a convenient and trusted location by all concerned parties in the region, Hong Kong has its special advantage to play a role in international financial transactions related to the 'One Belt One Road' initiative. "Mainland enterprises trust us since we are part of China, and international enterprises trust us because of our rule of law tradition and transparent world-class regulatory practices," he said.

However, while opportunities are abundant, Chow emphasized that they are not going to serve Hong Kong on a silver plate. "We have to work hard for the opportunities; otherwise, we cannot fully explore them," he said.

"I agree with Mr. Leung that our biggest advantage is the fact that we are part of China, under the 'One Country, Two Systems' structure, and that is where we will stand to compete and win."

"The 'One Belt One Road' initiative is a real driver of economic growth. More than just the redistribution of wealth, it's the engine to create new economic dynamics. Hong Kong can facilitate such economic activities and benefit from them," Chow said.

*By Ann Fang, Assistant Editor,
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HISTORY OF MBA PROGRAMS

50 Years of Brilliance

1966



The Lingnan Institute of Business Administration was established

The Chinese University of Hong Kong (CUHK) was granted funds by the Trustees of the Lingnan University (currently Lingnan Foundation) in New York to establish "The Lingnan Institute of Business Administration" and launched the first two-year MBA program in Hong Kong, with an initial class of six students.

1970

Prof. John Espy, a doctorate graduate from Harvard Business School, joined the Lingnan Institute as Deputy Director and under the leadership of Prof. H. Sutu, the then MBA Director, successfully introduced a part-time three-year MBA program in 1977, which immediately became highly popular. Prof. Espy pioneered the use of case studies in MBA courses in Hong Kong and contributed to the continuous improvement of the CUHK MBA program until 1988.

1977

Generous donations from renowned entrepreneurs and tycoons, including Mr. Fung King-hey and Dr. Cheng Yu-tung, enabled CUHK to launch the first three-year part-time MBA program in Hong Kong.



(From left) Mr. Fung King-hey, Dr. Cheng Yu-tung and Prof. Li Choh-ming

1981-82

The Division of Business Administration was established in the Graduate School. In April 1982, it was merged into the Faculty of Business Administration under the name "MBA Division, Faculty of Business Administration."

1983

The MBA Town Center was set up in Tsim Sha Tsui East, with an extension completed in 1996. In 2002, it was relocated to the Bank of America Tower in Admiralty.



Town Center for the three-year MBA program opened in 1983

1997

The CUMBA Alumni Association Limited was incorporated.

2000

The MBA Program in Finance with Tsinghua University in Beijing was launched. A Shenzhen class was launched in 2004.



CS I INTERNS FULFILLING OVERSEA EXCHANGE INTERNATIONAL MOBILITY CREDIBILITY

DRIVING TOP PERFORMANCE EMPLOYABILITY CREDIBILITY DIVERSITY CHALLENGING

A NETWORK FOR SUCCESS GLOBAL EXPERIENCES

MENTORING YOUNG TALENTS

WORLD'S LEADING RESEARCH

PLACEMENT INSPIRATIONAL ENRICHING STUDENT LIFE

RDING BUSINESS TICUM BUSINESS MINDSET

2002

The Chinese University of Hong Kong was ranked No. 1 in the Asia Pacific by business magazine Asia Inc. in its latest ranking of MBA schools.

The ranking results were released in the August 1st issue of Asia Inc. A total of 62 business schools in the Asia Pacific region took part in the 2002 survey. Assessments were based on three criteria: faculty resources, student quality and academic reputation.

The magazine noted that "The Chinese University of Hong Kong was renowned for the depth of its faculty resources" and stated that "its commitment to innovation was the key to its No. 1 place".



Over a hundred distinguished guests, alumni, staff and students attended a celebration at the University's new MBA Town Centre in Central on August 1, 2002.

Guests included New World Chairman Dr. Cheng Yu-tung, also Chairman of the MBA Advisory Board; the new Secretary for Education and Manpower and past Vice-Chancellor Professor Arthur K C Li; University Grants Committee Chairman Dr. Alice Lam; as well as Li & Fung Group Managing Director Dr. William Fung.

2005

- The Dual MBA Degree with the HEC Paris was introduced.
- The revamped CUHK MBA curriculum was the first in the region to offer concentration options in Marketing, Finance and China Business.

2006

The Dual MBA Degree with the University of Texas at Austin and a Joint MBA/ JD with the School of Law were launched.

2007

- CUHK MBA students hosted the first student-led Corporate Social Responsibility Conference in the region.
- The first Joint MBA/ MSc in Finance was launched.

2008

- CUHK MBA introduced the region's first Entrepreneurship concentration.
- CUHK MBA was recognized as a global top 30 MBA Program by the *Financial Times*.

2010

First student admitted to the MIT MSMS Program under the cooperation arrangement with MIT.

2011

A Dual MBA program with RSM Erasmus was launched.

2016

The MBA programs were ranked top 26 by the *Financial Times* in 2016.



A PIONEER OF CUHK MBA

Prof. Lee Kam-hon

Emeritus Professor of Marketing

It is a rare privilege to be able to accompany the growth and development of a nascent university first as a student and later as a productive member of the faculty, shaping the future of the institution and contributing to its success for 50 years.



Emeritus Professor Lee Kam-hon had such a rare involvement with The Chinese University of Hong Kong (CUHK) and its Business School's MBA Program. He has been with the university since its establishment; first as an undergraduate student, then in the

second batch of MBA students from 1967 to 1969 and rose from assistant lecturer to the director of the MBA Program, Dean of the Business School (Faculty of Business Administration) and director of the School of Hotel and Tourism Management (SHTM), strengthening or building from scratch the programs under his care. His extensive contributions were recognized at his retirement with an Honorary Fellowship of CUHK.

This distinguished career, which benefited CUHK and Hong Kong so widely, was actually his second choice, due to a simple request by his grandmother, who asked him to give up his dream of studying mathematics and physics in Taiwan, because the island was too far, needing a trip of several days on a ship.

Young people often feel miserable if they have to follow such a family request, but not Lee. He spoke to family members who told him about various problems businesses were facing, and Lee often found these problems easy to solve. He decided, in Hong Kong it would make more sense to study business and he felt confident he could make a difference.

"My ambition was to become a successful entrepreneur and at the same time contribute to business theories and literature," Lee says.

The CUHK MBA Program was launched just one year before Lee graduated with a BBA, and he was very excited about joining the program because it was the university founding vice-chancellor Dr CM Li, who launched it with three of his colleagues. They were all professors at UC Berkeley, which was at that time the world's top-most business school in terms of research.

Thus Lee declined a job offer from IBM and joined the MBA Program. Upon graduation in 1969, he again declined a job offer by a textile tycoon in order to become an assistant lecturer at CUHK.

"Academia is my ultimate passion, so I chose that, but kept close contact with business executives and did consulting, which allowed me to check the validity of business theories," he says.

Dr CM Li set the direction for the whole university, which Lee readily embraced and carried out in his different positions. The university's mission is to combine tradition with modernity and bring together China and the West. It also implies the importance of students' character building in the education.

"We should put emphasis on both knowledge and personal development, and have the best research in the world in the Chinese context," he says.

This tradition, which reaches back to the founding fathers' aspirations is what makes the CUHK MBA the ultimate bridge between China and the West.

"It has an impact on our students and alumni, they know how to handle China business," Lee says.

He is proud to have established an international network of MBA exchange programs in the late 1980s as the director of the MBA Program, through agreements with all leading business schools in all major business cities important to Hong Kong. Again, it was Lee who launched the first EMBA program in Hong Kong and Asia in 1993. Stepping down as Dean of the CUHK Business School in 1999 to complete a teaching hotel project on campus and establish the Centre for Hospitality and Real Estate Research as director of the School of Hospitality and Tourism Management and finally retire as Emeritus Professor of Marketing with his own office at the university, he still has firm ideas about what mission and values the MBA Program should embrace.

He wants the program to put emphasis on practice; be theory driven where business practices can demonstrate the validity of theory; treasure China business and continue to excel in this area; and pay attention to students' character building and personal development. He also praises the MBA Program's focus on corporate social responsibility (CSR) and the CSR conference students organize annually.

This article was first published in MBA 50th anniversary website.

Taking CUHK MBA to New Heights Prof. Michael Ferguson

Former Associate Dean of Graduate Studies and Director of MBA Programs

WHEN Prof. Michael Ferguson joined CUHK in 1997, he had no idea he would still be here nearly 20 years later. During his tenure – first at CUHK’s School of Accountancy and later as Associate Dean of Graduate Studies and MBA Director – he has seen the program climb from the mid 60’s into the top 30 worldwide in the global rankings and currently ranked 26th in the Financial Times Global Full Time MBA rankings.



Prof. Ferguson spearheaded this remarkable achievement through a mix of innovation, capitalising on a powerful and supportive alumni network, strong contacts with industry, an amazing MBA team, and strong support from the University’s top managers.

Initially hired to teach undergraduate and graduate students in accounting, Prof. Ferguson went on to lead the School’s Master in Accounting, while also teaching on the Executive MBA program. When the School was searching for someone to lead the MBA program, Prof. Ferguson was invited to step into the role as MBA Director in 2005.

With stiff competition from Hong Kong universities, Prof. Ferguson set about revamping the curriculum. “We engaged alumni in giving us advice on what the course should contain,” says Prof. Ferguson. Their feedback led to introduction of a range of electives and concentrations, drawing on CUHK’s existing portfolio of top-rated

Masters’ programs and world-class teaching and research faculty. He also drew extensively on expertise from outside the university in program development, administration, and teaching. This type of collaboration with business was then relatively new in the region, but was strongly supported by Prof. Lawrence Lau (Vice-Chancellor in 2004-2010) and Pro-Vice-Chancellors Professors Kenneth Young and Liu Pak-wai.

“Prof. Lau and his senior team gave me a lot of freedom and support. They knew teaching and a strong administration team would be critical to take the program to the next level.” With Prof. Lau’s guidance and support, the business school created new posts for ‘Professors of Practice’: individuals who had achieved outstanding success in their professional careers and who were also willing to commit at least 50 per cent of their time to teaching, new course development, coaching MBA students and helping them connect to industry. This, in turn, allowed the MBA to integrate cutting-edge research and theory with outstanding industry application.

At the same time, University senior management supported MBA in bringing in seasoned HR and marketing professionals, Ms Marjorie Chang and Mr Lawrence Chan, to not only bring in the best MBA candidates but to also provide them outstanding preparation for their future career development. Working closely with HR executives at alumni at leading companies, the program has been careful to identify and help students develop their expertise to successfully exploit gaps in the market. The program also put heavy emphasis on candidates with front office and project management experience rather than those with solely technical skills. “Interpersonal skills in business are still an essential key to success,” he says.

Moreover, as close to half of all students choosing an MBA do so because they seek a career change, selection and development of these students is critical to any program’s career placement success. Therefore, in addition to an extremely effective career development program, the MBA team is also keen to introduce a level of realism to candidates from day one. “There are three dimensions that you can change in a career: function, industry, and location. Each of these dimensions carries risk for potential employers and someone who wants to change all three faces a daunting challenge in developing a credible value proposition. For those willing to work hard it’s not impossible, but requires a career development program that facilitates recognition of the challenges you face, honest self-

evaluation, and the determination to change.” As CUHK MBA alumni Sir CK Chow explained to our incoming class several years ago, “it is good to have dreams, but you need to wake up to realize them.”

As the pioneer in MBA in the region, CUHK also had many high-placed alumni to draw on. “I often tell candidates that CUHK has alumni in the C-suite of virtually every listed company in Hong Kong. I also tell them that the CUMBA Alumni Association itself developed one of our most unique offerings, namely the Elite Mentorship Program for full-time MBA students.” The Elite Mentorship Program sees outstanding senior MBA alumni offer one to one guidance to students, creating a key value proposition for the program. “To this day I haven’t seen any other university alumni association willing to provide such remarkable and generous support to the next generation.”

While the performance of the business school has improved enormously on his watch, Prof. Ferguson has never been too proud to learn from others. “I learned much about leadership from working with Prof. Lawrence Lau and his senior team: create a

shared vision rather than hand one down, support rather than criticise, and empower rather than micro-manage.” With regard to teaching, he remembers watching former Dean Prof. T.J. Wong interact with a room of more than 150 executives. “When someone asked a question, T.J. made eye contact, paused for a minute of thought, and then physically moved towards the person as he responded effectively turning a huge room into a one-on-one interaction with the participants. I have used this many times since then. You are never too old to steal from the best.”

Far from retiring, Prof. Ferguson is heading to CUHK’s Shenzhen campus where he will take up the role of Executive Associate Dean for the recently established School of Management and Economics. “I don’t want to just do more of the same, and I am quite excited by the opportunity to take up a more entrepreneurial role.”

Prof. Ferguson continues his journey in Asia to transform and bring organizations to new heights.

By Helena Pozniak

Nora Lau

Supervisory Executive Officer of the MBA Programs, 1966 to 2006



I joined the Chinese University of Hong Kong in 1966. At that time, the MBA Program was just established and it was the very first one in Hong Kong, with a founding class of only six students. As the only staff member of the program, I was responsible for helping the Director in every aspect of the operation—from recruitment of students, assignment of courses, setting of timetables, liaison with other units of CUHK and administrative duties.

During my time at CUHK, I witnessed the establishment of other business postgraduate programs in the faculty, as well as growing competition from other tertiary education institutions in Hong Kong. These were the greatest changes that I saw.

On a personal level, I was very satisfied with the rapport I built with the students. Each MBA student had to submit either a thesis or business research report and to make appointments with the Director through me. In the process I got to know them very well. They used to meet deadlines without me reminding them.

At the 45th anniversary gala dinner of the MBA program, I was asked to say a few words on stage. I was happy to have this opportunity to thank the directors, both past and present, and my colleagues, for their dedication and strong team spirit, without which I would not have been able to work so happily for so long in one organization.

I still keep in close contact with some of the MBA alumni. We have lunch or dinner gatherings once a while especially when some overseas alumni are coming back to Hong Kong. I miss very much the past Directors, Professor Y. T. Chung and Professor John L. Espy who passed away after my retirement.

My last day was very memorable. All my colleagues took a group photo with me and threw me a wonderful farewell party in the office. Besides a big cake, they also presented me a framed photo with many photographs taken during my years of service, together with these precious words:

“Dear Nora, Congratulations on your retirement! You have made a wonderful contribution to CUMBA for 39 years! We’ll always miss you!”

Up Close with Stephanie Villemagne

Associate Dean of Graduate Programs and Director of MBA Programs

FROM INSEAD to CUHK, Stephanie Villemagne has developed a wealth of knowledge in leading MBA programs. Here, she shares with China Business Knowledge about herself, her earlier experiences and visions as the new MBA Director at CUHK Business School.



I would describe myself as a French woman with a global mindset. As a teenager I went to the United States as an exchange student. This experience shaped up who I am today: My world seemed small and predictable back in Europe and suddenly I was in this big country where everything is “possible”. It opened a lot of doors including the international one. From that moment on I decided the world was my oyster and life was too short not to take it on and try to understand as many cultures as possible.

I have lived in six countries across three continents and travelled to 50 more countries. And I am still hoping to grow that number even though now I have a husband and two young kids – Louise who is six years old and Charlie who is just 20 months old, to drag along with me!

At INSEAD, more than half of my team was based in Europe. In the past, I have run diverse teams with some locally based and some virtual, all sharing the same enthusiasm at working in a multicultural environment.

The challenge of working with students from 80 nationalities is to mirror the processes across time zones and countries. If you give a different answer to a student depending on his or her location, it creates precedents that you don't want to face when running a global program. That means you have to make sure your processes are aligned while keeping local contexts in mind. It is not an easy task at all but one that only diverse teams are well equipped to deal with.

Nowadays, I don't think there is a choice in being international or not, this is the world we live in. Everything is global, from the clothes we wear, our friends, the impact of one thriving or declining economy over others, to the financial markets and economy.

Being international is more a question of human adaptation to the smaller world around them. It's scary for some, exciting for others; however, it is surely a reality already. We have to know that no matter what happens, we are not going to go back to our own small familiar “villages.” We have to understand that all interactions are now global and the only way to adapt is to understand that difference is not always negative - most of the time it actually is very positive.

Education institutions have a large role to play in educating the new generation about our differences to make sure that we learn to live peacefully with others from different nationalities and cultures. This also means learning how to do things differently - including how to do business.

A successful MBA program to me means attracting topnotch individuals and transforming them into a strong alumni community throughout a solid academic process. It's a virtuous circle – when you build a strong and relevant academic program, it will attract good faculty to teach and research, which in turn attracts good students. You can add the recruiters to the mix and there you have your golden formula.

I found a very strong program to run here at CUHK Business School. The breadth and strength of the alumni community are superb and that is a real added bonus for a new comer like me!

I am extremely happy to see that our Business School is one of the most gender diverse schools in the region and I hope to be able to bring other types of diversity, such as nationalities, backgrounds, etc. to the MBA and Graduate programs in general.

I do think we have been a tad too discreet about how good we really are and I am hoping I can help change that.

Our challenges in the society today are a lack of innovations, business skills and tools to solve humanity's problems. We are faced with many urgent and looming crises: lack of education, hunger, depletion of natural resources, lack of drinkable water, pollution, etc. And we need creativity and business skills to help alleviate these problems. I believe we can be making money and at the same time having a positive contribution to society - social entrepreneurship is a great example.

*By Mabel Sieh, Managing Editor,
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Living the Spirit of Competitive Sports: Yeung Tak-keung

FOR Yeung Tak-keung (MBA 1993), sport is an inseparable part of his life. During his school days, he was a devoted sportsman and an organiser of sports activities. After graduation, he joined the civil service and worked for the Home Affairs Department to help promote community sport. During the 2008 Beijing Olympic Games, he was appointed Equestrian Events Coordinator by the Home Affairs Bureau. Earlier this year, he was appointed by the HKSAR government as the first Commissioner for Sports in Hong Kong. Yeung compares life to being an athlete — “You need to take on the challenges with a competitive spirit!”



Leaving the Comfort Zone

Prior to joining the government's administrative officers' grade, Yeung served in the Hong Kong Police Force for ten years, eight of which were spent in the Criminal Investigation Department where he rose from inspector to chief inspector. While most people would yearn for advancement, having a promotion was his incentive to change jobs.

"I prefer action to desk work. I joined the police force because I loved the front-line action and fighting crime. However, the higher rank I took, the further away I was drifted from the front line. Since I had spent more time on desk work, I thought I might as well transfer and work as an Administrative Officer to do policy research to broaden my horizons."

Over the years, he had taken on positions in various government departments, and his favorite was Home Affairs. He spent his earlier years in the Home Affairs Department in North District and Yuen Long, then in the organisation of the Equestrian Events in the 2008 Olympics and Paralympics and his current appointment as Commissioner for Sports, which has become his fourth posting in Home Affairs.

A Visionary First Commissioner of Sports

As the first commissioner for Sports in the city, Yeung's biggest wish is to enhance the local sporting culture and atmosphere and make Hong Kong a healthy and energetic city. Through sporting activities, he wishes to strengthen the unity of the community. To achieve this, he listens to people from different sectors, hoping to gather their thoughts in steering the city's sporting activities towards reaching three major goals: to support elite athletes, host more major sporting events and promote sport within the community. "In the short term, we will render full support to the members of the Hong Kong Team in the Olympic Games and Paralympic Games to be held in Rio de Janeiro in August and September respectively, to let them really shine. In the long term, we hope to increase the number of full-time elite athletes and assist retired athletes in transition," he says.

"As for major sporting events, we have recently attracted two significant sporting events to Hong Kong: the UCI Track Cycling World Championship and the Volvo Ocean Race. These activities will help build Hong Kong's status as the centre for international sporting events."

"Last but not least, we are working hard to promote sport in the community by providing more venues for sports activities to meet the increasing demand. This includes a plan to build a football training centre in the former landfill in Tseung Kwan O which will

provide six football fields for training purposes. Meanwhile, the pre-construction work and consultancy studies for Kai Tak Sports Park are also well under way."

Learning Through MBA

Yeung has never thought of joining the business sector but the desire to learn more about the community has motivated him to pursue an MBA degree. "Since business has always played an important role in Hong Kong and I've heard positive comments about the CUHK MBA program from my friends, I decided to do it," he says.

He would joke about how he already forgot most of what he had learned during the three-year program. However, he remembers the people whom he met and still keeps in touch with them.

"I feel very fortunate to have made the acquaintance of alumni involved in all trades and professions, and I had gained a lot from my classmates," he says.

Always Looking for Breakthroughs

Yeung's entire life is no doubt connected with sport. "Many years ago, I led my fellow schoolmates to compete in inter-varsity games overseas. Now, I have the opportunity to be with the Hong Kong Team to compete in the Olympic Games. Many years ago, I provided advice about the construction of my university's sports ground. Now, I am responsible for the planning of sports facilities in Hong Kong."

Even his hobbies are all related to sport, including squash which he developed a passion in his 30s. He is still an active member of the squash league and competes in many squash tournaments. When he reached 40, he started to play golf and became fascinated by the seemingly easy but challenging techniques. At 50, he gave marathon a try when somebody told him it was difficult. It is no surprise that he completed two full marathons.

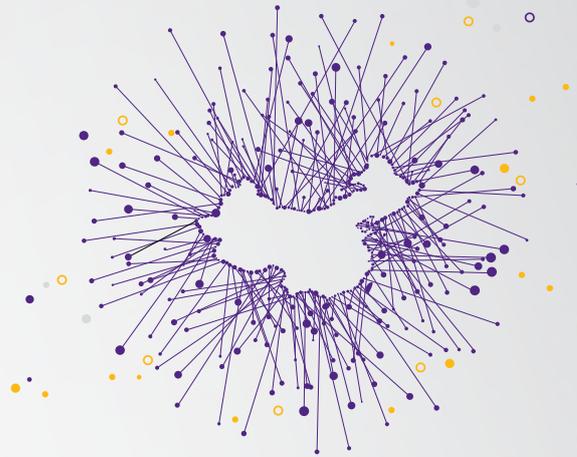
Yeung is someone who never seems to fear a challenge. "Difficult? I've got to try it! It's my mantra and that of all sportsmen who are all highly competitive and positive thinkers," he says.

*By Mabel Sieh, Managing Editor,
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Abridged by Mabel Sieh based on the original story published by the Alumni and Corporate Affairs Office at CUHK Business School.



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