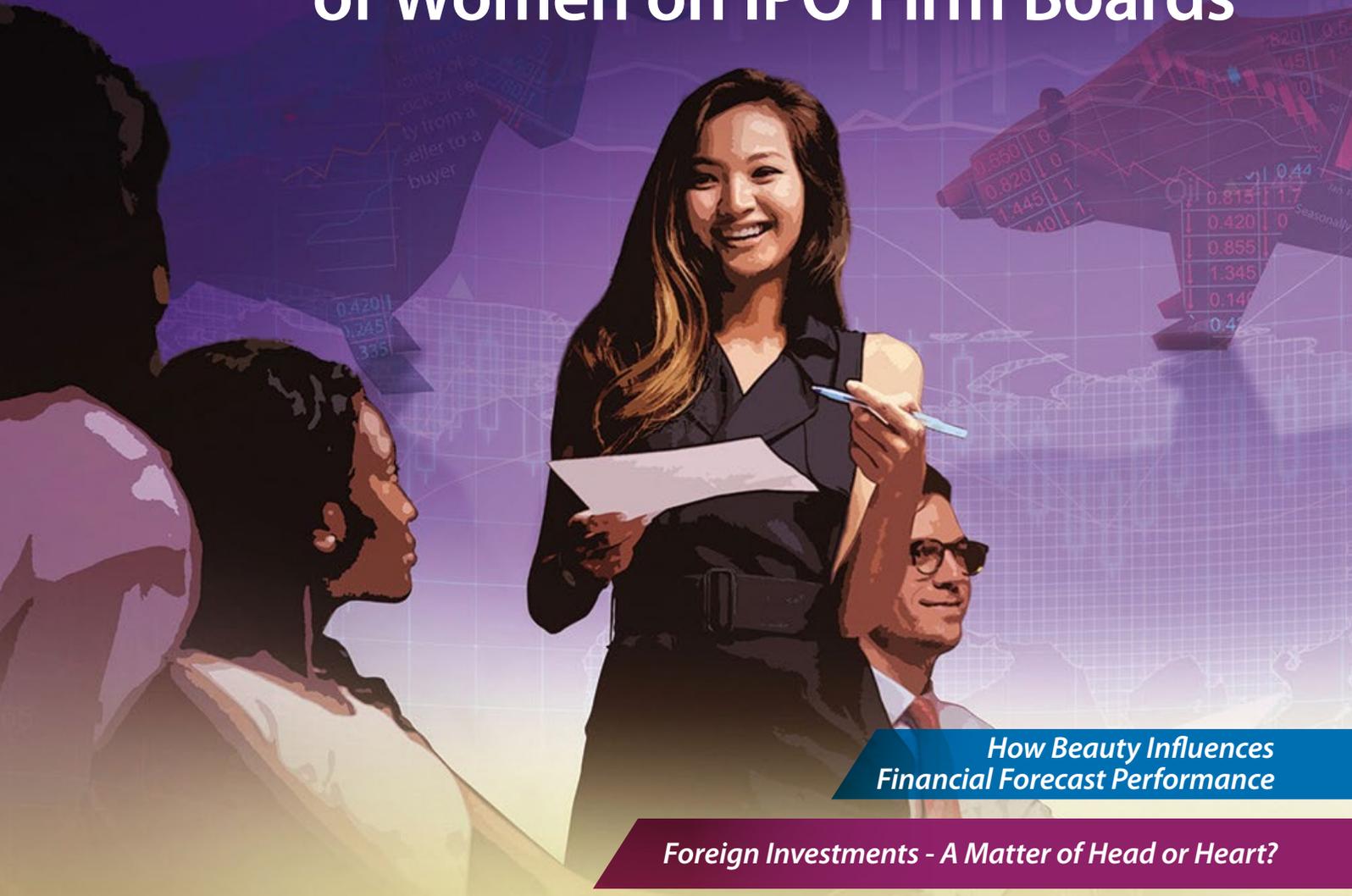


CONNECT

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The Economic Benefits of Women on IPO Firm Boards



*How Beauty Influences
Financial Forecast Performance*

Foreign Investments - A Matter of Head or Heart?

The Power of Social Networks

*Collaboration with China Life
International Financial Academy*



CUHK Business School
The Chinese University of Hong Kong



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 three important research studies by our professors: the long-run performance effects of board members' family connections and gender for IPO firms in Hong Kong; how beauty influences financial forecast performance in China; and how national sentiments play a significant role in foreign investments.

We'd also like to share some insights on the power of social networks, the experiences of one of our MBA alumni, and the School's collaboration with China Life International Financial Academy on executive trainings.

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

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- 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.
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- CUHK is ranked 44th in the QS World University Rankings 2016 and four of its academic staff have been awarded Nobel Laureates.
- CUHK is based on a collegiate system of nine colleges.
- CUHK has 30,000 students; 7,000 of whom are from outside Hong Kong.

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 4,400 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 36th in the world in 2017, and the EMBA program was ranked 37th in the world in 2016 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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The Economic Benefits of Women on IPO Firm Boards

Paul B. McGuinness, Professor, Department of Finance

The long-run performance effects of board members' family connections and gender for initial public offering firms in Hong Kong



The gender composition of corporate boards is currently a hotly-debated topic, with regulators, lobby groups and social commentators all active in the push for greater female board representation. The literature suggests that female empowerment offers potential corporate advantage, due to the enhanced monitoring, mentoring and other synergies wrought by gender-diversity. My recent article in the *Journal of Business Ethics*, entitled "IPO Firm Performance and Its Link with Board Officer Gender, Family-Ties and Other Demographics" ⁽¹⁾, delves into and sheds new light on this central issue. The study considers how female board presence and family linkage shape long-run stock and financial returns in IPO firms listing on Hong Kong Exchanges and Clearing Limited's (HKEX) Main Board. The purpose of the present discussion is threefold. First, to profile my study's principal findings. Second, to extend its ambit by assessing policy implications. Third, to consider recent regulatory developments.

As well as examining the under-researched area of IPOs and board demographics, my study distinguishes between the influence of family and state on the board gender-firm performance relation. Issuers subdivide neatly into three groups: Non-state firms with family-connected directors; non-state issuers devoid of such connection; and state-sponsored entities. I define a family-connected board where family-association links two or more directors. In multivariate terms, my study reveals more resilient performance in firms that invite greater gender-mix *and* exclude family-ties between directors. This uplift in returns (or "gender premium") disappears when family-association links two or more directors. The absence of family-ties between directors *and* the presence of women thus combine as a strong positive in supporting firm performance. The dominance of family firms in Asia and the global pressure for gender-inclusivity give powerful resonance and prescriptive value to this finding.

Measurement of board members' common family-affiliations

Listing provisions on HKEX require that prospectus documents report all material family-ties between directors as well as officers' key demographics. Such disclosure enables deeper scrutiny of family influence, inviting assessment beyond simple ownership characteristics. For example, some closely-held firms may only have one family-based board member, with no family-connection to other directors. Despite strong family ownership, such a firm has a non-family-connected board in terms of my definition. Many other family-owned firms house boards with two or more officials linked by family association. At the margin, there are IPO entities in my study with as many as five or six family-connected directors.

Do family-connections between directors offset or simply re-direct female board influence?

Women likely face constraints where family-connection links two or more board members. Findings also support a selection effect, in which women unsponsored by family-affiliation, ascend to boards on account of their strong bona fides and industry expertise. These findings are instructive given the paucity of information on how family-ties, officer gender and IPO performance interact ^[2]. My study's multivariate analysis also demonstrates that firms containing boards with spousal-connection register relatively weak post-IPO performance. Such an outcome is consistent with a board spousal-tie limiting information channels. Indeed, a spousal-team may act in inhibiting or blocking the synergies and resources on offer from other board officers.

Why do women, especially in boards free of intra-board family-connection, offer value?

The hypotheses section of my paper offers detailed critique of how gender diversity promotes competitive advantage. Team theory, for instance, stresses cognitive benefits in decision-making and strategy areas ^[3]. Other studies show women to be better monitors, mentors and drivers of positive change. While offering consistency with such arguments, my results reveal that the presence, number and type of *intra*-board family-ties matter in mediating a possible "gender premium" effect.

Why focus on IPO firms in addressing the "gender premium" effect?

First, the complete absence of information on pre-IPO equity value means that governance and board demographics potentially take-on even more importance in guiding investment decisions. Second, unlike seasoned firms, IPO entities are likely to be free of

“ *The absence of family-connection between directors and the presence of women combine as a strong positive in supporting firm performance. The dominance of family firms in Asia and the global pressure for gender-inclusivity give powerful resonance and prescriptive value to this important finding.* ”

- Prof. Paul B. McGuinness,
Department of Finance, CUHK Business School

a confounding "Glass Cliff" effect ^[4]. This effect asserts that female leaders receive a higher probability than men of being assigned leadership roles in underperforming entities. Women, if appointed to top-level positions, may thus face more exacting and taxing business conditions than men. As IPO firms typically list on rising earnings, a "Glass Cliff" effect seems less plausible and relevant in the case of newly-listed firms.

Self-selection issues could arise in other ways. My study thus compares financial performance *before* and *after* IPO. For entities with female board presence that exclude board family-ties, average pre-IPO profit growth appears substantially below rates for many other issuers. However, such entities' post-IPO profit growth is stronger than many others. This area reaffirms the "gender premium" effect.

The importance of state support and ownership

My paper also reports that state-controlled H-share and Red-Chip firm boards are largely free of family-connected directors. These state-sponsored entities account for around 20% of the study sample. Political-ties are clearly much more important in such cases. I find more resilient post-IPO returns in many H- and Red-Chip firms. Why does state support help stabilize and support post-listing returns? My study asserts that many, if not most, state-backed entities listing on HKEX are of high strategic-political importance. Such firms often enjoy oligopolistic positions in their respective business markets. Many also benefit from asset enhancement and capital injection in the run-up to offshore listing, not to mention preferential terms and access to bank funding and external capital post-IPO. Performance effects for state-sponsored IPOs on HKEX are thus likely to be quite different to those for mainland A-share IPOs ^[5], where a wider range of state-issuer types is evident. Additionally, the offshore domicile of Red Chip companies means such companies are unable to countenance A-share listing. By way of contrast, a subset of H-issuers also possess a mainland A-share cross-listing.

Family influence and private owners' support of female board presence

In relation to my study, women account for only 5.1% of board members in state-backed HKEX-listed IPO firms. Female representation is much higher in non-state firms, accounting for around 11.2% of all board positions. This palpable difference highlights the private sector's primacy over the state in the promotion of gender-diverse boards in China^[6]. The study also reveals that family-connections between directors matter. For non-state firms with two or more board family-connected officers, women account for 13.4% of all directors. In contrast, non-state firms without *intra*-board family-ties accommodate a smaller proportion of women (8.9% of all board directors on average).

Where do we go from here?

A number of initiatives now figure to encourage female board presence in publicly-listed firms in Hong Kong^[7]. However, very recent accounts^[8], for the broader range of publicly-listed entities (i.e., non-IPO firms), indicate only limited improvement in gender board mix in recent years. Old attitudes and resistance to change act as important roadblocks. At a basic and instructive level, further investor education and guidance in highlighting the benefits of gender mix would help in surmounting some of these obstacles.

Hong Kong lags well behind a number of Scandinavian and Western European countries in regard to female board representation rates^[9]. However, it does considerably better when drawing comparison with other Asian markets^[8]. Nonetheless, around 45% of firms in my Hong Kong IPO study adopt all-male boards. Other jurisdictions, notably India, have tried to remedy such occurrence by demanding all listed companies appoint at least one female board member. Reports suggest that many firms in India have responded by promoting the female relative of an incumbent officer to the board^[10]. As my study suggests, such practice is unlikely to boost performance^[11]. Ideally, women elevated to boards through quota should be unencumbered by any obvious family connection to other directors, especially where such connection limits a new entrant's resources and inputs.

Whether Hong Kong will embrace quota provisions in the coming years remains to be seen, and if pursued would constitute a radically new path for the economy in its pursuit of greater diversity. There is also debate as to whether formal gender quotas improve firm performance. Ahern and Dittmar (2012), for instance, identify weakening Tobin's Q levels for Norwegian firms in the years immediately following the country's imposition of a 40% female gender board quota^[12]. Among other things, they ascribe such a result to the policy's effect in reducing board experience levels.

As an important qualification, the market impact of any quota policy likely reflects its specific remit and design, as well as the institutional, regulatory and social structure of the locale in question. Terjesen, Aguilera and Lorenz (2015: 235) identify ten jurisdictions where gender board quotas apply^[9]. Judgement as to the efficacy of quotas requires further research. Their long-run effects on firm performance may well depend on the extent to which quota arrangements shape overall board expertise levels.

Finally, and to conclude, my study supports a growing view that gender bias imposes sizeable economic cost on society and corporate stakeholders more specifically. My paper quantifies such cost for IPO firms (in relation to long-run multivariate return effects). It also offers prescription for family-owned firms in regard to the composition of executive director teams.

By Paul B. McGuinness, Professor, Department of Finance, CUHK Business School

Notes:

- [1] McGuinness, Paul B. (2016). "IPO Firm Performance and Its Link with Board Officer Gender, Family-Ties and Other Demographics". *Journal of Business Ethics*.
- [2] My paper reports that few studies investigate the interaction between board gender and family influence. However, family influence may boost female board participation, as in Spain [see Campbell and Minguez-Vera (2008: *Journal of Business Ethics*, 3, 435-451) and in Italy [Bianco, Ciavarella & Signoretti (2015: *Corporate Governance: An International Review*, 23/2, 129-144)]. Sarkar and Selarka (2015: SSRN 2730551) report on family and board gender effects in relation to the performance of Indian manufacturing firms.
- [3] See, in particular, Woolley, Chabris, Pentland, Hashmi & Malone (2010: *Science*, 330, 686-688).
- [4] This is a term brought into vogue and investigated in Ryan and Haslam (2005: *British Journal of Management*, 16, 81-90; & 2007: *Academy of Management Review*, 32, 549-572).
- [5] Fan, Wong & Zhang (2007: *Journal of Financial Economics*, 84, 330-357) assess "onshore" Chinese A-share IPO firms. They demonstrate that the "political-connections" of board officers shape performance.
- [6] Lam, McGuinness & Vieito (2013: *Pacific-Basin Finance Journal*, 21, 1136-1159) report on CEO gender effects in mainland Chinese A-listed entities. The paper was featured in *Chinese Business Knowledge@CUHK* earlier.
- [7] HKEX strongly encourages diversity at board-level. A specific directive on this matter came into effect in 2013 (see Update No. 108, "Amendments to Main Board Listing Rules", HKEX, September 2013).
- [8] See Page 8 of "The CS Gender 3000: The Reward for Change", Credit Suisse Research Institute, September 2016.
- [9] See Page 234 of Terjesen, Aguilera & Lorenz (2015: *Journal of Business Ethics*, 128, 233-251) for detailed country comparison.
- [10] See Bhalla, N., "Indian firms mock gender diversity ..." (Reuters, 2 April 2015).
- [11] Sarkar and Selarka (2015: *op. cit.*) reveal that Indian firms' affiliated-directors do not add corporate value.
- [12] See Ahern and Dittmar (2012: *The Quarterly Journal of Economics*, 127, 137-197).

How Beauty Influences Financial Forecast Performance

*George Yang, Associate Professor and Cao Ying, Associate Professor,
School of Accountancy*

In the financial industry, good looks can bring easier access to critical information and more accurate forecast performance, as a study by CUHK Business School reveals



Research in sociology and psychology tells us that beauty can have a significant impact on people's earning, job opportunities and career success and that attractive individuals generally receive better treatments in the workplace and other social settings.

In the working paper "More than Skin-deep? Analysts' Beauty and Their Performance", Prof. George Yang, Associate Professor at the School of Accountancy of CUHK Business School, extends the study to information acquisition and forecast performance in China's capital market. It reveals that the attractiveness of financial analysts is positively associated with their earnings forecast accuracy and stock recommendation informativeness.

"Our study aims to look at whether a predetermined attribute of a financial analyst, namely, their physical attractiveness, affects his or her success in information acquisition and job performance," says Prof. Yang who works on the study in collaboration with Prof. Cao Ying, Associate Professor of the School of Accountancy of CUHK Business School, Prof. Guan Feng of Shanghai Lixin University of Commerce, as well as Prof. Li Zengquan, Dean of the School of Accountancy at Shanghai University of Finance and Economics.

In capital markets, sell-side financial analysts who are generally employed by broker-dealers and investment banks, play an important role in disseminating the information on particular securities or stocks, giving investors the necessary information they need to judge the attractiveness of certain investments.

"In China, the influence of financial analysts on the stock market is even greater because the market is dominated by retail investors who are more likely to be influenced by the so-called expert opinions than institutional investors," says Prof. Yang.

Therefore, the financial analysts would actively seek out information from various sources, and the private communication with firm management is one of the critical sources, being viewed as more useful to their earnings forecasts and stock recommendations than firms' public disclosure and even their own primary research. Prior research already reveals that analysts who cater to the interests of managers enjoy an information advantage and exhibit superior forecast performance, according to researchers.

The Study

In the study, the researchers studied a sample of 89,056 earnings forecasts made by 2,328 analysts from 2005 to 2014. The analysts in their sample come from 102 unique brokerages, which cover all the largest brokerages in China.

“ Attractive analysts are more likely to gain advance access to information about pending significant corporate events, and they are more likely to issue a stock recommendation prior to public announcement. They can produce more informative stock recommendations. ”

- Prof. George Yang,
School of Accountancy, CUHK Business School

At the same time, they downloaded the head-to-shoulder ID photos of all sell-side financial analysts in the sample from the website of the Securities Association of China and asked 63 raters with different education background, occupation, income, and social experience to score them on a five-point scale: 1 for homely or not good looking; 2 for below average; 3 for average; 4 for above average and; 5 for strikingly beautiful or handsome.

The 63 raters were from different settings including a Big Four accounting firm, a brokerage firm, a large private company, as well as university faculty members and students. Of the group, 27 of them are males while the rest are females.

All the raters were reminded to use the common people in the Chinese population, not the sample analysts, as the benchmark for rating and that age should not be considered in rating. Hence, the rating score would be solely based on attractiveness, not depending on how young or old he or she looks.

Lookism Matters

As expected, the study reveals that the beauty ratings of financial analysts are significantly negatively associated with their forecast errors. That is to say, more attractive analysts make more accurate forecasts.

The research team points out that their evidence suggests that more attractive financial analysts possess an advantage in acquiring information from firm management.

"Compared with other analysts, attractive analysts are more likely to gain advance access to information about pending significant corporate events, and they are more likely to issue a stock recommendation in the quarter prior to the public announcement of three types of corporate news, including restructuring, signing of

“ Our results show that firm managers are more likely to disclose information to attractive analysts. ”

- Prof. George Yang,
School of Accountancy, CUHK Business School



important business contracts and earning warning. Accordingly, they can produce more informative stock recommendations,” says Prof. Yang.

When it comes to information access, it is important to go to the right people. Again, attractive analysts have better access to them.

“Attractive analysts are more likely to get more information from corporate site visits when they can directly interact with firm management. Our results show that firm managers are more likely to disclose information to those attractive analysts,” he says.

Taste-Driven Discrimination

However, what’s interesting is that the study also shows that the beauty effect disappears when managers are allowed to trade their shares in the open market or when their firm is under a share pledge agreement.

To explore the reason behind, Prof. Yang went on to find out if the effect was attributed to managers’ taste-based discrimination on the attractiveness of the analysts or on the notion that attractive people possess superior job-related skills and can better serve the interests of the firm.

If managers believe that more attractive analysts are more capable and valuable to firms, the beauty effect would persist when there is a strong incentive for managers to boost the firm performance and increase the stock value. But, the researchers didn’t find such evidence in the study.

“In other words, it suggests that managers’ discrimination among financial analysts is just taste-driven,” Prof. Yang comments.

“When managers need to rely more on analysts to inform and guide the market, they are less likely to allow their taste for beauty to sway the decision about which analysts to rely on for disseminating firm information,” he explains.

Apart from the relation between analysts’ attractiveness level and their forecast performance, the study also demonstrates the impact of analysts’ attractiveness on their career opportunities. Specifically, it finds that a more attractive analyst is more likely to be voted as a star analyst who is more likely to be hired by top-notch brokerage firms even if, for some reason, he or she could only get into a smaller firm initially.

A New Challenge

While social science has documented and extensively studied the beauty effect, this study provides a new perspective into the practice by financial analysts in capital markets.

Unlike in previous research suggesting that analysts who issue favorable opinions would obtain more information from firm management, the current study documents a different incentive – the indulgence of managers’ taste for beauty, which affects the interaction between managers and financial analysts.

“Since this form of discrimination originates from psychological and social bias and is difficult to regulate, it brings new challenges to regulators and practitioners in the industry,” Prof. Yang says.

By Fang Ying, Assistant Editor, China Business Knowledge@CUHK

Foreign Investments - A Matter of Head or Heart?

Shige Makino, Professor and Megan Li, PhD Candidate, Department of Management

When it comes to investments, decisions are not always rational. As a study by CUHK Business School finds, national sentiments play a significant role in foreign investments



Whether it was the negative sentiment of U.S. and Russia toward each other during the cold war era, or the positive sentiment of Vietnam toward France since World War II, or the negative sentiment Chinese people have toward Japan over the Diaoyu Islands conflict, national sentiments are real.

National sentiment refers to the socially constructed patterns of sensations, expressive gestures, and cultural meanings organized around a relationship to a country. It depicts the affect-laden judgements of one country toward another in either positive or negative ways.

While sentiment exists in any relationship between two countries, positive or negative, strong or weak, little has been known about how national sentiment exerts an influence on business, in particular, a country's investments in another country.

Prior studies on the decision of foreign investments tend to emphasize on the role of economic factors such as market potential, production costs, business operation environment, etc.

However, a study conducted by the Chinese University of Hong Kong (CUHK) Business School takes a different perspective and investigates the influence of psychological factors on foreign direct investment (FDI). The working paper entitled "Does national

sentiment matter?" was conducted by Prof. Shige Makino, Director of Center for International Business Studies and a professor in the Department of Management, and his PhD student Megan Li.

The Study

The study looks at an annual survey conducted by the Cabinet Office of Japan. The survey focuses on Japanese people's affinity/non-affinity with other countries, such as China, Korea, Russia, the United States and others. After controlling the conventional factors like geography, economics and institutions, the results show that national sentiment has a significant influence on FDI.

"If we recall the conflicts over the Diaoyu Islands between Japan and China in the past, many Chinese citizens took to the streets and called for the boycott of Japanese goods. This act shows how business is controlled not just by economic factors but also by sentiment," says Prof. Makino.

Variations of Sentiment Influences

According to the study, national sentiment is represented by the degree of people's affinity or non-affinity with a foreign country. The finding shows that Japanese people's positive sentiment toward a certain country facilitates its investment in that country, while their negative sentiment impedes the investment.

As the data analysis shows, 1 percent increase in Japan's affinity toward a particular country will bring about 2 percent increase in Japan's FDI in that country; while 1 percent increase in Japan's non-infinity toward a country will cause a drop in its FDI in the country by about 3 percent. For example, Japan's affinity toward the U.S. is almost three times as much as its affinity towards South Korea; resulting in Japan's FDI in the US at US\$32,000 million versus its FDI in South Korea at US\$4,000 million, as statistics in 2012 reveal.

However, one surprising finding from the study is that Japanese people's negative sentiments toward China did not show significant influence on its investment in China. This can be explained by the high dependence of Japan's economy on China's economy. This high dependence relationship creates inertia in terms of trade partner choice, and hence makes the influence of sentiment less significant in a short period of time. Therefore, there is usually a time lag between conflicts that happened between the two countries and a decrease in the trade volume between them.

"However, if the conflict continues, the hard feeling between the two countries may bring negative influence on Japanese investment in China," says Prof. Makino.

Stronger Negativity, Higher Influence

The paper also shows that negative sentiment has a much higher influence on FDI than positive ones. That means that conflict between two countries may significantly reduce trade, but friendship may not significantly increase. This sheds interesting implications on China's investment in other countries. As suggested by this study, China should put more effort to avoid conflicts with other countries rather than just build friendly relationships.

Just as the relationship between a married couple will consist of bitter quarrels and also sweet moments from time to time, they will be less likely to break up just because of small disagreements, but may do so after a long period of accumulation of negative sentiments. For example, one partner always criticizes the other for being unable to please her/him, or unable to earn enough money to raise a family, etc. As time goes by, these negative sentiments will begin to accumulate and even escalate. If the issue is not resolved, it could lead to a breakup.

Similarly, a temporary conflict between two countries may not reduce the trade between them. It is the fundamental sentiment - the sentiment one country holds toward the other given its interpretation of the other's deeds in the past years - that determines the level of inter-country trade to a large extent. However, this does not mean that transient sentiment cannot exert an influence on FDI, as it takes time for the transient sentiment to change the fundamental sentiment one country holds toward another.

"This is like what we call the store-and-flow effect of a water tank. Although the water flow will not change the water storage to a great extent in just one second, it will do so in a few minutes," explains Prof. Makino.

Implications on China Business Environment

According to the researchers, the finding is intriguing in that it brings the role of emotions into national trade, which is neglected by most of the previous studies. It implies that a rise in a country's "soft power", which is closely linked to other countries' affinity with the focal country, can help to facilitate the trade between two countries. In another word, the friendship between two countries can enhance the economic integration of the two countries.

For example, China's political visits to other countries and its cultural communication with another country can help to build positive sentiments between them, as well as facilitate the inter-country trade.

Another implication from the study is that China may have temporary conflicts with other countries but it should not allow the negative relationship to go on for a long period of time. Otherwise, it will turn into negative fundamental sentiments held by other countries. Once the negative fundamental sentiment is formed, it will take a longer time to change, and eventually may lead to a significant attenuating effect on the FDI of other countries in China.

Conclusion

Economic development is still China's top priority at this moment. The country has been making proactive actions to facilitate the economic exchange across countries such as establishing the Asian Infrastructure Investment Bank (AIIB). As China becomes stronger in terms of economy and military, its relationship with the United States and Japan also becomes more intense. To ensure future growth and success, China should pay close attention to the significant influence of sentiments on the following two issues, in particular, the study suggests.

First, it should take the influence of national sentiment into consideration of foreign firms' investment in China. As the country is still in need of foreign investments in its economic development, China should not take a purely economic perspective. It should not assume that decision makers in economy are rational and that politics and economy work independently. This is simply not true as the study reveals that sentiments clearly can have a significant influence on FDI.

Second, it should take note of the fact the influence caused by negative sentiments is much stronger than that by positive sentiments. Therefore, China should try to avoid conflicts with other countries, especially for a long period of time, as its effect goes beyond politics.

In conclusion, Prof. Makino says: "I really wish that China and Japan could put the past down, and take a more forward-looking perspective into the future development. If they just focus on splitting up a ten-inch cake, the most each of the countries can get is ten inches; however, if they can make a 20-inch cake together, each of them will enjoy a bigger piece of cake and benefit more."

By Megan Li, PhD candidate, Department of Management, CUHK Business School

The Power of Social Networks

Nicholas A. Christakis, the Sol Goldman Family Professor of Social and Nature Science at Yale University

How the large-scale, face-to-face social networks in which we are embedded affect our lives, and how to take advantage of these powerful networks to change our world

“Human beings are embedded in complex webs of social networks. These networks obey particular biological, physiological, sociological and mathematical rules,” said Prof. Nicholas A. Christakis, the Sol Goldman Family Professor of Social and Nature Science at Yale University, during his seminars at the Chinese University of Hong Kong in September 2016. The seminars were organized by the CUHK Business School’s Department of Marketing.

“Understanding those rules gives us new ways to understand human behaviors and new ways to intervene those behaviors to make the world a better place,” he said.

A leading expert on social network science, Prof. Christakis was named to the 2009 TIME 100 and also the 100 Top Global Thinkers by Foreign Policy in both 2009 and 2010. He directs Yale University’s Human Nature Lab, which focused on the relationship between social networks and human well-being.

Using both observational and experimental methods, his research published in top-notch journals including Nature and The Lancet, engages two types of phenomena: the social, mathematical, and biological rules governing how social networks form (“connection”), and the biological and social implications of how they operate to influence people’s thoughts, feelings, and behaviors (“contagion”).

During his lectures at CUHK, Prof. Christakis reviewed his research on social networks over the past 15 years, shedding light on some of the key issues in the field.

How We Form Social Networks

According to Prof. Christakis, our friendship with a person is partially determined by our genes.

“46 percent of the variation in how many friends you have is explained by your genes. And this is not surprising, as we know that some people are born shy and some gregarious. But we also found that 47 percent of the variation in whether our friends know each other is attributable to our genes. The reason is that people show different inclinations to introduce their friends to each other,” he said.

“Some people like to introduce their friends to each other, and others keep them apart and don’t introduce their friends to each other. And so some people knit together the networks around them, creating a kind of dense web of ties in which they’re comfortably embedded,” Prof. Christakis added.



Moreover, his team found that 30 percent of the variation in whether or not people are in the middle or on the edge of the network can also be attributed to their genes.

“In other words, our genes can determine how many friends we have, and how our friends are connected to each other.”

Three Degrees of Influence

When it comes to the influence of social networks, Prof. Christakis’s research has shown that it obeys a rule called “Three Degrees of Influence”, which means that everything we do tends to ripple and flow through our social network, having an impact on our friends (one degree), our friends’ friends (two degrees), and then our friends’ friends’ friends (three degrees).

In other words, behaviors of the friends of your friends’ friends can predict your behavior.

For example, obesity can be contagious, according to his study.

“If your friends are obese, your risk of obesity is 45 percent higher. And if your friend’s friends are obese, your risk of obesity is 25 percent higher. And then if your friend’s friend’s friend, someone you probably don’t even know, is obese, your risk of obesity is still 10 percent higher,” he said.

“It’s only when you get to your friend’s friend’s friend’s friends that there’s no longer a relationship between that person’s body size and your own body size,” he said.

As a matter of fact, the principle of “Three Degrees of Influence” applies broadly in social phenomenon of obesity, smoking, drinking, drug use, happiness, loneliness, depression, altruism, crime, voting, purchasing, and ideas diffusion, the professor pointed out. So what is the mechanism behind it? According to Prof. Christakis, there are at least three reasons for such phenomenon.

“One possibility is a kind of induction or spread from person to person, like my weight gain is causing your weight gain. For example, your friends say to you: “Let’s go have muffins and beer”. You follow along and start gaining weight like them. Another more subtle possibility is that they start gaining weight, and it changes your idea of what an acceptable body size is. What’s spreading from person to person is not a behavior, but rather a norm: An idea is spreading.”

“One of the reasons we human beings make social networks and have done so is precisely to create this kind of social capital. By understanding our social networks and how valuable they are, it’s possible for us to improve the society and human well-being.”

- Prof. Nicholas A. Christakis, Yale University

“Another reason is that the similarity of body size makes people tie together, which is called homophily, or birds of a feather flock together. The third reason is what is known as confounding, because it confounds our ability to figure out what’s going on, or the common exposure we share, like a health club that makes us both lose weight at the same time.”

Implications on Policy Making

Prof. Christakis believes that social network science has the potential to be used for improving the society and human well-being, a belief which he has been obsessed with for over 15 years.

“We have been wondering whether it might be possible to take advantage of the insight we found in our research about social networks, to actually find ways to improve the world, to actually fix things, and not just understand things. One of the first things we thought we would tackle is how to go about predicting epidemics,” said Prof. Christakis.

He and his research team tested the idea with an outbreak of H1N1 flu at Harvard College in the fall and winter of 2009. They took 1,300 randomly selected undergraduates and asked them to nominate their friends. And then they followed both the random students and their friends daily in time to see whether or not they had the flu epidemic by looking at whether or not they had gone to university health services. And also, they asked the students and their friends to email them a couple of times a week. In the end, exactly what they predicted happened. By monitoring the friends group, they could get 16 days advance warning of an impending epidemic in this human population.

“By learning about the structure of various networks, we can identify where the hubs are, those who are likely to spread an idea or behavior quickest, and intervene at those points to stop the spread of an unhealthy behavior, or to promote a positive one, or to facilitate the diffusion of innovation or coordination in groups,” Prof. Christakis said.

According to him, there are two broad ways of intervention to improve the world: changing the structure and changing the flow. Changing the structure is the intervention that rewires the connections between people; changing the flow is the intervention that manipulates social contagion, facilitating the flow of desirable properties within groups.

“Policy makers can intervene a social network by changing its structure”, he said. “They can target influential individuals in a social network rather than random individuals, as an effort to magnify the effects of their interventions,” he further suggested.

As shown in one of his field studies, encouraging six central people in a poor village to adopt clean water has proven to be ten times more effective in influencing the whole village than encouraging six random people.

“Both graphite and diamond are made of carbon atoms. But different structure of the carbon atoms connections causes the different properties of graphite and diamond,” said Prof. Christakis. “Similarly, the structure of connections matters in social networks. Grouping people differently can produce different properties in a social network.”

Social Network As Social Capital

“Capital could refer to any stock resources that can be put to productive use. To create capital you have to invest skill and effort and introduce changes into a substance that make it more productive than it otherwise would have been. In other words, you have to manipulate the world and reshape it in a way that makes it more productive,” says Prof. Christakis.

In the same way we convert lands into farms and trees into lumber or even to a violin with more effort, social capital is a change in the relations among persons, a change that renders the group more productive and capable of doing things it previously was not able to.

“There is value in these connections. One of the reasons we human beings make social networks and have done so is precisely to create this kind of social capital.

“By understanding our social networks and how valuable they are, it’s possible for us to improve the society and human well-being,” Prof. Christakis concluded.

By PhD candidates Tong Dandan and Deng Sijing, CUHK Business School

Taking Advantage of All Opportunities

*Jasvin Bhasin, Class of 2013 MBA Program
Manager, iic group GmbH Germany*

Sometimes people with the best plan find out that there is always an even better plan. This is what happened to Jasvin Bhasin, a CUHK MBA student



Jasvin Bhasin carefully considered her higher education options and future career development opportunities from the point of view of the growing international role and robustness of Asia's economy with China at the forefront of changes. She decided that the best job opportunities were in Asia and studying at CUHK would give her a solid Asia and China experience to reach them.

"Working in Europe was not really one of my objectives, it wasn't even on my agenda," says Jasvin, who now lives in Europe. "I was thinking more on the lines of working in Southeast Asia, Hong Kong or Singapore. Germany wasn't on my radar."

Several events of her life combined to divert her from her original plan. In her year, 10 of her classmates were German students, nine directly from Germany and one from China, and that's how she met her German boyfriend, who now is her fiancée.

Then, at the end of the first semester the alumni presented their experiences at the exchange programs and the students needed to decide where to go.

"I didn't know that there was such an amazing array of exchange programs. I decided to go to St Gallen University," says the Pune University computer engineering graduate, who worked with Hewlett Packard as project lead and internal consultant for close to three years and four months respectively, before starting her MBA.

Studying in Switzerland made her curious about living in Europe and, to make the most of her time, she started learning German. She joined all available career fairs to get a clear idea of the job market and she found that it was predominantly Swiss.

Upon her return, she made sure she offered her best during her studies in Hong Kong. She joined the CUHK MBA Consulting Club, participated in the HULT Global Case Challenge as a regional finalist and was a trained student ambassador. Based on her outstanding results, she was the recipient of two scholarships and the Dean's Honor List Award.

Arriving in Germany after her graduation, she was not surprised to find the job market also quite closed. To work there, she needed to get an EU Blue Card, which offers the right to non-EU individuals to work and stay in the EU. However, to get the card, the applicant had to have a binding job offer with at least 1.5 times the average pay in the EU member states. Job applications and learning German took up most of her time. Although she got many job offers, the salaries were too low. For higher-paying jobs, she went through many painful rejections.

"I had to be very strong," she says, adding: "Learning the language is very important. Not knowing German was an issue for me first."

Finally she achieved her dream and was employed as consultant at the iic Group, a consultancy in the field of automotive sales optimization, offering innovative concepts, implementation and coaching of clients for the successful introduction of the solution. She was promoted twice in three and a half years and is now a manager with iic.

Although, she found the work culture very different from what she was used to in Asia, thanks to the international experience during her MBA and exchange program, she had learned to work with all nationalities.

"Germans are very frank and direct and love to challenge differing points of view to evaluate alternatives without any bias. So when they challenge you, do not take it personally. Learn to separate work and emotions," she advises.

A CUHK MBA ambassador in Germany, she is also an informal mentor for incoming students, answering many questions about which subjects to choose, and what to watch out for. Last year she mentored 10 to 15 students and many of them are still in touch with her.

Students find it unusual and intriguing that she works in consulting in Germany and often ask her if they can also achieve the same if the go on an exchange program in Europe.

She says, "There are exceptions to every rule and you have to believe that you are the exception. Be sure of what you want and keep going for it."

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Collaboration with China Life International Financial Academy



中國人壽國際金融研修院與香港中文大學商學院、德勤企業成長學院

戰略合作協議簽署儀式

Strategic Cooperation Agreement Signing Ceremony between China Life International Financial Academy,



A Memorandum of Understanding (MoU) has been signed between The Chinese University of Hong Kong (CUHK) Business School and China Life International Financial Academy. This will provide a framework between CUHK Business School and China Life Insurance Company to collaborate on executive education programs, joint academic and teaching seminars, business research, recruitment and internship for graduates as well as visits of senior management, faculty and students.

The MoU signing ceremony was held at the China Life Centre in Hung Hom, Hong Kong, China Life Insurance (Overseas) Company Limited's new headquarters on January 18 morning, coinciding the grand opening of the en bloc office tower and the China Life International Financial Academy. Prof. Joseph Cheng, Acting Dean of CUHK Business School and Chairman of Department of Finance; and Ms. Lanqin Cui, Chairman of China Life International Financial Academy signed the MoU on behalf of their respective organizations.

The ceremony was witnessed by guests and senior management/faculty members from both sides, including Mr. Mingsheng Yang, Chairman of China Life Insurance (Group) Company; Mr. Anlin Liu, Deputy Chairman and President of China Life Insurance (Overseas) Company Limited; Ms. Song Yanyan, General Manager of Education and Training of China Life Insurance (Group) Company; Prof. Waiman Cheung, Executive Director of The Asia-Pacific Institute of Business, Professor of Department of Decision Sciences and Managerial

Economics and Director of Asian Institute of Supply Chains and Logistics; Prof. Ming Liu, Director of MBA in Finance Program, Associate Professor of Department of Finance and Director of the Centre for Chinese Financial Development and Reform; Mr. Simon Lee, Assistant Dean (Undergraduate Studies) and Senior Lecturer of School of Accountancy; and Prof. Wai-sum Chan, Professor of Department of Finance at CUHK Business School.

China Life International Financial Academy aims to draw upon CUHK Business School's strengths in providing high quality, modern training and education facilities for senior management, staff members, financial advisors and financial planners of all member companies of China Life.

China Life Insurance Company and its subsidiaries constitute the largest commercial insurance group in Mainland China. It is the only state-owned insurance group with an asset exceeding 1 trillion RMB yuan. It is also one of the largest institutional investors in China's capital market. The company has been listed for nine consecutive years on the Fortune Global 500 list. It is the first insurance company triple-listed in New York, Hong Kong and Shanghai and has become the largest public life insurance company in the world in terms of market capitalization.

By Edmond Siu, Senior Public Relations and Communications Manager, CUHK Business School

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