CONNECT

MAGAZINE OF THE CHINESE UNIVERSITY OF HONG KONG BUSINESS SCHOOL • JUNE 2018

HOW EARLY CONTRIBUTIONS Affect the Success of CROWDFUNDING PROJECTS

Local Knowledge Pays Off for Analysts in China

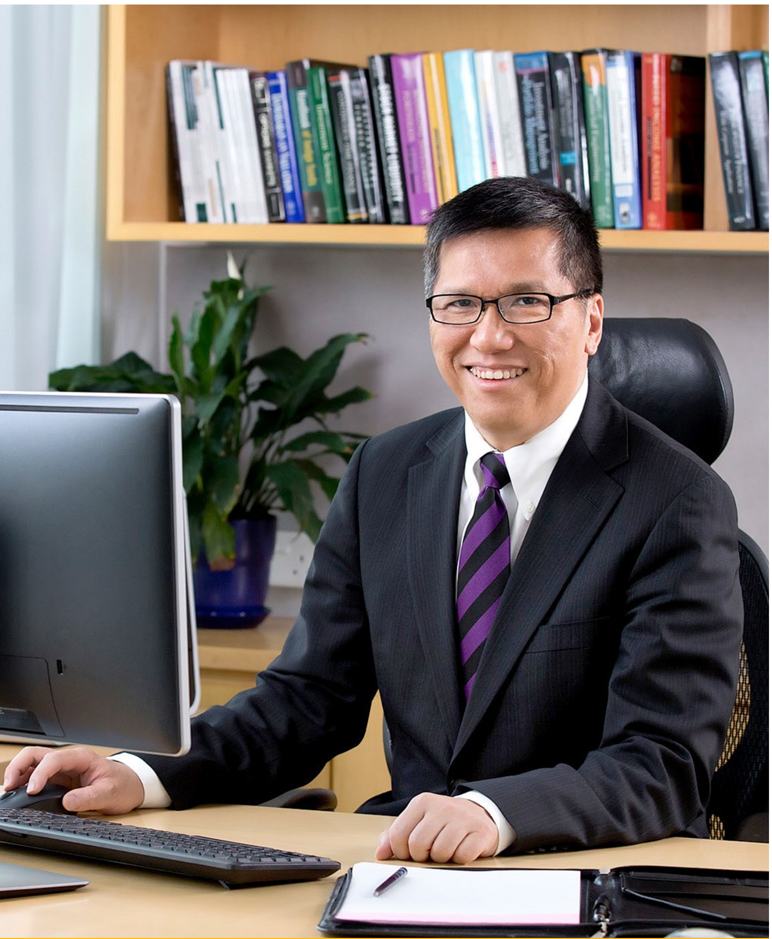
How Smart Beta Shakes Up the Investing World

Didi's Strategic Move Towards Globalization

Journey from Hotel to School

CUHK BUSINESS SCHOOL

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 bring to you three pieces of important research. Firstly, we study crowdfunding projects and how early contributions by family members and friends can affect their chances of success. Secondly, we look at the powerful and intricate political networks in China and how political knowledge gives local analysts an edge over their foreign counterparts. Thirdly, we show how smart beta ETFs have a significant impact on the investing world.

Our professor also comments on the strategic move of China's largest car-hailing app. And our new Director of School of Hotel and Tourism Management shares with us his experience in the hotel industry and his vision for the future.

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 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 and President is Professor Rocky S. Tuan.
- CUHK has eight faculties (Arts, Business Administration, Education, Engineering, Law, Medicine, Science, Social Science) and 62 academic departments.
- CUHK is ranked 46th in the QS World University Rankings 2018 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; 4,000 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 – Decision Sciences & Managerial Economics, Finance, 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 BBA, MBA and Executive MBA programs.
- The MBA program was ranked 43rd in the world in 2018, and the EMBA program was ranked 32nd in the world in 2017 by *Financial Times*.
- The School runs dual MBA degree programs with HEC Paris in France; Rotterdam School of Management, Erasmus University Rotterdam in the Netherlands; and McCombs School of Business, The University of Texas at Austin in the United States. It also offers joint postgraduate teaching programs with Tsinghua University and Shanghai National Accounting Institute in China.

Editorial Team

Marketing and Communications Office
mco@baf.cuhk.edu.hk
Phebe Loo, Administrative Director
Mabel Sieh, Managing Editor, China Business Knowledge @ CUHK
Edmond Siu, Senior Public Relations and Communications Manager
Summie Wan, Marketing and Communications Executive

Subscribe to the monthly digest of research articles by China Business Knowledge @ CUHK via cbk.bschool.cuhk.edu.hk.

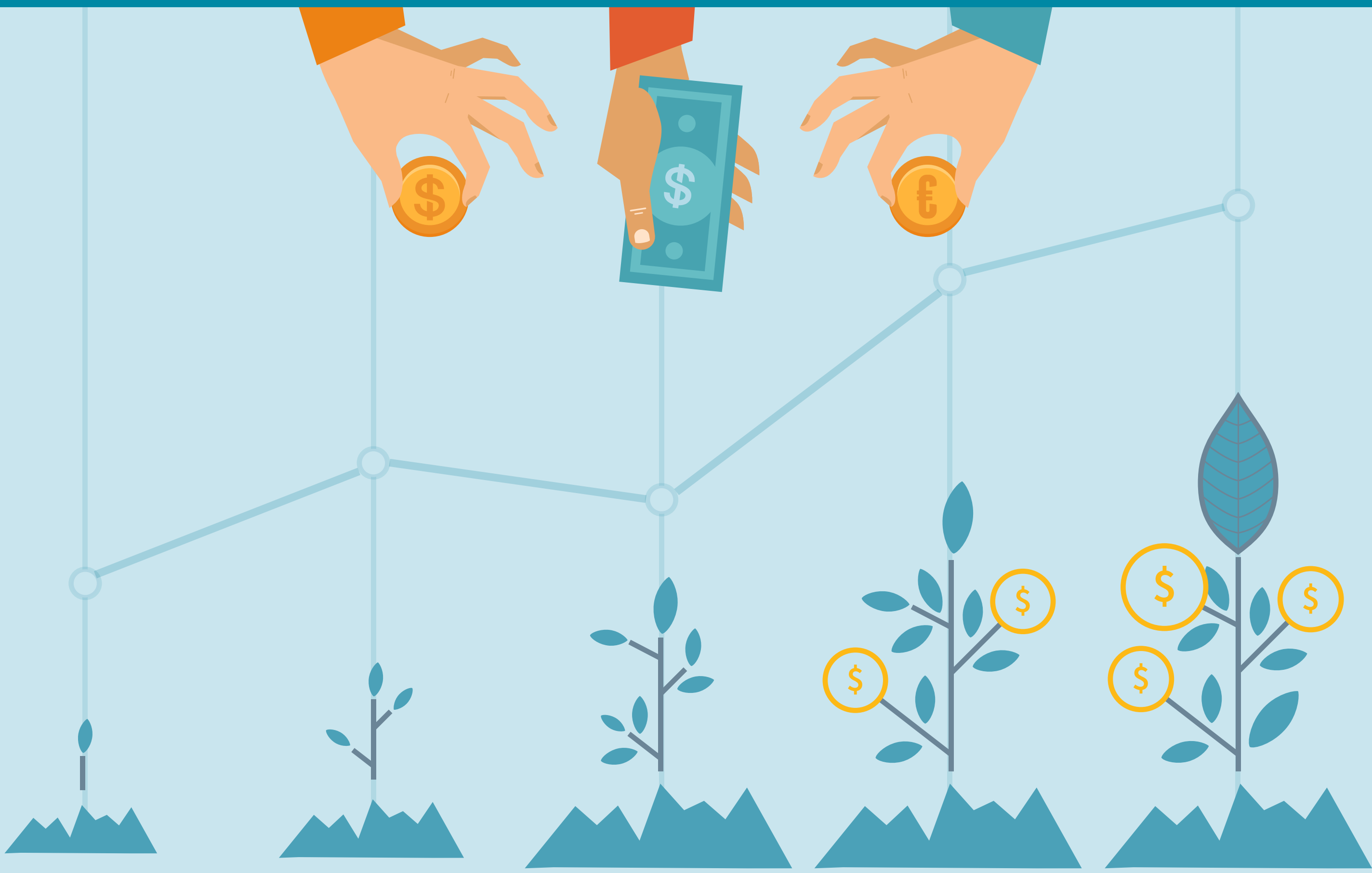
The Chinese University of Hong Kong (CUHK) Business School

Cheng Yu Tung Building, 12 Chak Cheung Street,
Shatin, N.T., Hong Kong
Tel: +852 3943 7785
Website: www.bschool.cuhk.edu.hk
Facebook: www.facebook.com/cuhkbschool
LinkedIn: http://linkd.in/1Oyg6fW

HOW EARLY CONTRIBUTIONS Affect the Success of CROWDFUNDING PROJECTS

Fan Tingting, Assistant Professor
Department of Marketing

Gao Leilei, Associate Professor
Department of Marketing



Raising money from family and friends is a common and effective way for start-ups. However, will it affect the success of crowdfunding initiatives?

Entrepreneurs are increasingly relying on internet crowdfunding – the use of online platforms to raise money from multiple contributors. It has been reported that active global crowdfunding platforms generated more than US$34.4 billion in 2015. The World Bank estimates the crowdfunding industry will reach US$90 billion by 2020. In terms of scale, crowdfunding has become a viable alternative to venture capital and angel investment.

For most entrepreneurs, seeking funding from family and friends is a popular and effective way to round up their initial capital for business. The reason is simple: These are the people who are more likely than anyone else to believe in your ability and fund your dream.

However, is there any downside of this source of funding? Will early contributions from family and friends be a good signal for other potential funders?

A study conducted by Assistant Professor Fan Tingting and Associate Professor Gao Leilei from the Department of Marketing at The Chinese University of Hong Kong (CUHK) Business School, and their collaborator Yael Steinhart, Associate Professor of Marketing at the Tel Aviv University in Israel, looks into the effect of early contributions from family and friends on subsequent contributions to a crowdfunding project.

Success Factors for Crowdfunding

When it comes to what contributes to the success of crowdfunding projects, a lot of literature in marketing and management focuses on characteristics of the project (e.g. description of the project, information disclosure and fundraising goal), the entrepreneur (e.g. previous successful initiatives, education, geographic locations, social connections), and of the backers and their affiliations. However, there isn't enough research looking into other factors such as how funders perceive the contributions from friends and family, according to Prof. Fan.

"Existing research tells us that early contributions from friends and family – what we call the 'seeding investment', establish a positive signal regarding the trustworthiness of a project. For example, a past study revealed that the more Facebook friends you have, the higher success rate is your crowdfunding project," says Prof. Fan. "Yet, few studies adopted the perspective of potential funders."

"Little is known regarding whether consumers are aware of the fact that entrepreneurs raise seed money from their friends and family, and how they might react upon such seed financing," she adds.

The Study

The study aims to explore the role of friends and family contribution by considering consumers' reactions to potential seeding behavior at the early stage of a crowdfunding campaign launch.

The researchers conducted five studies, including a field study, which collected real-world crowdfunding data from over 900 projects comprising 116,153 contributions from 68,036 funders. The data was utilized from DemoHour between July 31, 2011 and August 30, 2014.

One of the largest reward-based crowdfunding platforms in China, DemoHour enables an entrepreneur to create a webpage to introduce his or her project, set its funding goal within a certain period (usually 30 to 40 days). A potential funder can visit any projects with profiles on DemoHour and observe individual funders' contributions before deciding which project and how much to contribute.

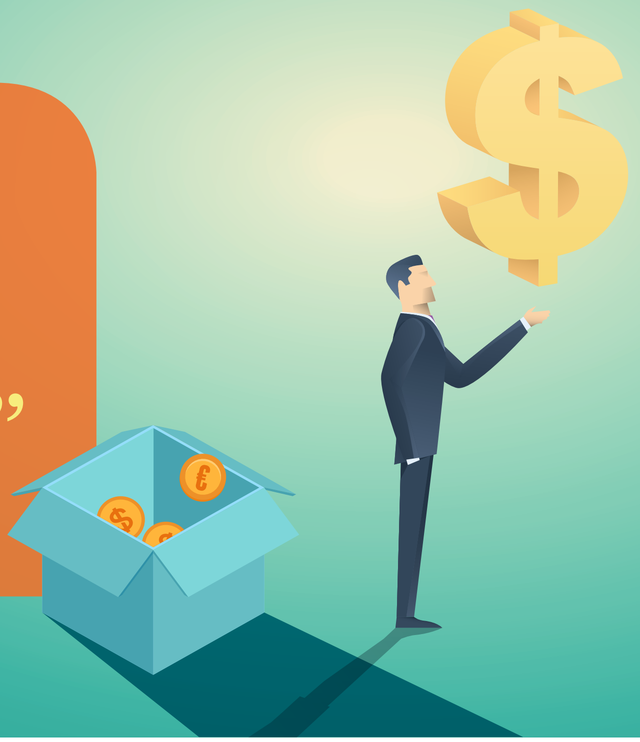
The data shows the average funding goal per project was US$3,089 while the average funding period was 43 days. Moreover, 56 percent of the projects succeeded in attaining their fundraising objects. Each project had 115 funders, with each of the funders contributing US$32 on average.

Then the researchers looked at how small contributions differed between successful and unsuccessful projects on the first launching day of these projects.

Consequently, they revealed several important findings: Firstly, friends and family of entrepreneurs contributed more money in the early stage of a crowdfunding campaign as compared to strangers; secondly, a potential funder is more likely to contribute to a newly-launched crowdfunding campaign when the majority of the existing contributions are relatively small amounts; thirdly, this positive effect of small prior contributions on prospective funders' likelihood to contribute to a crowdfunding campaign will be weakened at the later stage of the campaign.

To understand these findings, Prof. Fan explains, we will have to understand the 'friendship-giving lay belief'.

> “When the majority of early funders contribute large amounts, potential funders are more likely to infer that they are the friends and family of the entrepreneur, and thus be less willing to contribute to the crowdfunding project.”
>
> ***Prof. Fan Tingting***
> ***Department of Marketing***



Friendship-Giving Lay Belief

It is common sense that we are more likely to feel indebted to our friends than to complete strangers, and that we’d feel obligated to helping them. Such ‘friendship-giving lay belief’ manifests itself in crowdfunding in a way that people would generally believe friends and family of entrepreneurs are more likely to contribute to their projects large rather than small amounts of money than strangers.

“In the early stage in crowdfunding, potential funders will only see limited information of a project, such as the funding goal and contributions. Based on the ‘friendship-giving lay belief’, they will tend to infer that large contributions would probably come from friends and family of the entrepreneur, and small contributions would be from strangers. Such inference will influence their funding behavior,” says Prof. Fan. “They will be more willing to fund a project with small contributions in the early stage,” she continues.

Why is that the case? Psychologists have long believed that people are more likely to adopt the opinions and behaviors of their peers rather than of people they don’t affiliate with.

“In the case of a potential funder who doesn’t know the entrepreneur, he or she will consider the other funders (who also don’t know the entrepreneur) his or her peers, thus following their behavior to contribute to the project,” she says.

Implications

The study carries important implications for entrepreneurs, particularly those who would like to make use of crowdfunding to launch their projects.

“We demonstrated that consumers may rely on the amount given by early funders as a signal of their relationships with the entrepreneur and such inference has significant influence to their funding behavior,” she says.

“When the majority of early funders contribute large amounts, potential funders are more likely to infer that they are the friends and family of the entrepreneur, and thus be less willing to contribute to the crowdfunding project,” she says.

“Hence, from a practical perspective, entrepreneurs may want to devise effective strategies to leverage the help of their friends and families when promoting a crowdfunding campaign. For example, it may be better to gather small rather than large contributions to improve the likelihood of achieving the fundraising goal,” says Prof. Fan.

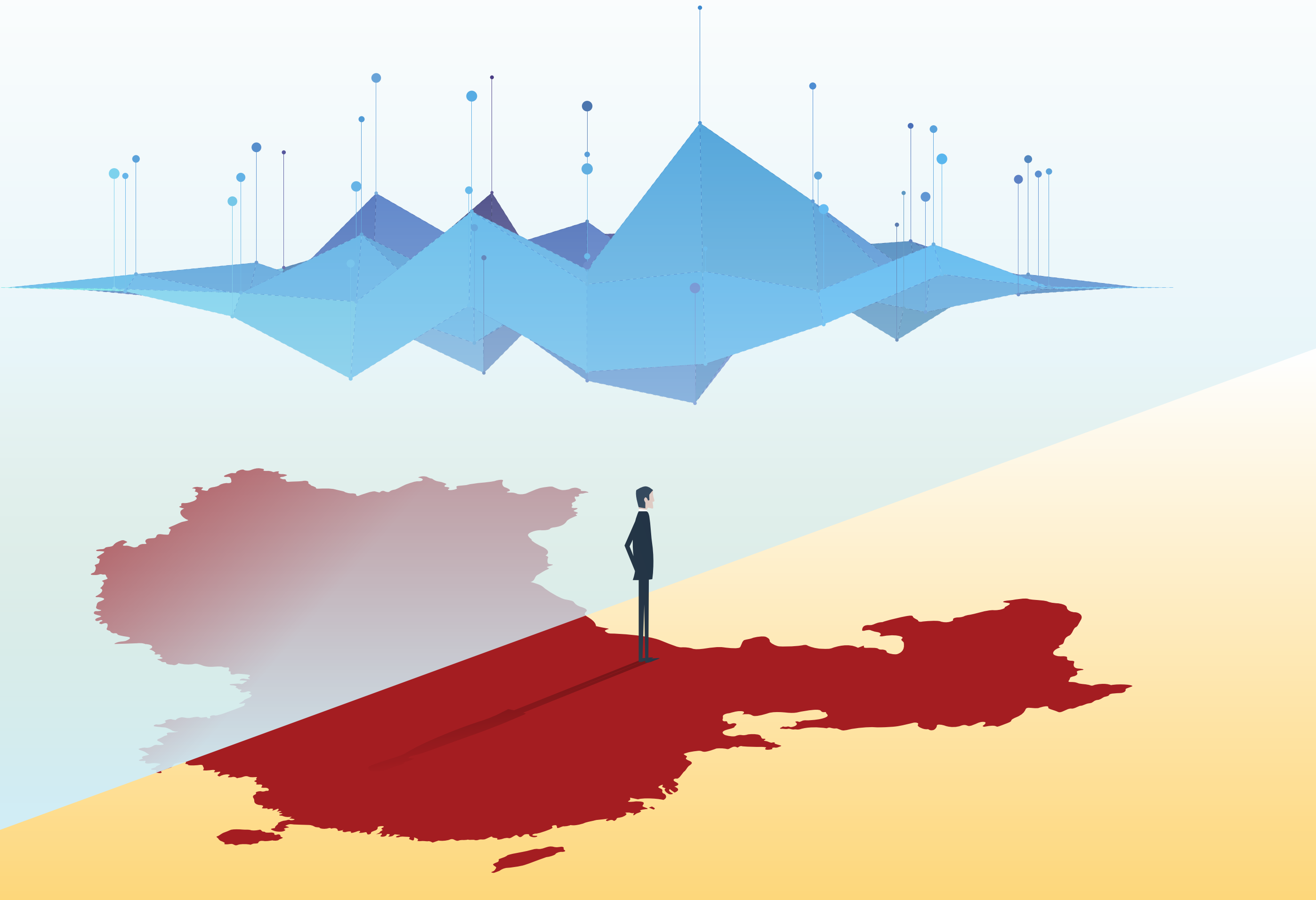
By Fang Ying. This story was first published in China Business Knowledge @ CUHK, the knowledge platform of CUHK Business School.

Reference:
Fan, Tingting, Gao, Leilei and Steinhart, Yael, “When Small Predicts Large: The Effect of Early Contribution Amount on Subsequent Contributions to a Crowdfunding Project.” Under review of *Journal of Consumer Research*.

LOCAL KNOWLEDGE Pays Off for Analysts in China

Zhang Tianyu, Professor, School of Accountancy
Director, Center for Institutions and Governance

Research study on work of local and foreign brokerage analysts in China finds political knowledge creates information wedge between market participants



Institutional factors, such as politics and the relationships between politicians and companies, can shape the way businesses report financial information in many emerging economies.

There is often huge foreign interest in such economies – particularly the Asian powerhouse, China – but it can be a major challenge for some market participants to obtain such information.

Prof. Zhang Tianyu of The Chinese University of Hong Kong (CUHK) Business School with his collaborators Forester Wong and T.J. Wong, both of University of Southern California, examined the role political knowledge plays in China in creating an information imbalance between different market participants, offering valuable insights into the workings of China's emerging markets.

"We used financial analysts as our market participants because forecast accuracy offers a good benchmark for measuring the information they possess," says Prof. Zhang Tianyu of School of Accountancy and Director of Center for Institutions and Governance, CUHK Business School.

"Another reason is that the different acquisition costs of political knowledge between local analysts (those working for domestic brokerages), and foreign analysts (those working for local offices of foreign brokerages) is likely to drive an information wedge between them," he adds.

China: An Ideal Context for Information Asymmetry Study

According to Prof. Zhang, China offers an excellent context in which to study the effect of political institutions on information asymmetry between market participants.

"Many of China's markets, including the equity market, are still heavily regulated by the government, and the state continues to hold the majority share ownership of the large listed firms," he says.

Since the opening of the domestic A-share market, to foreign institutional investors in 2006, there has been a surge in foreign ownership of the shares and a rise in foreign analysts following Chinese domestically listed firms. Subsequently, a number of international banks have set up local offices of their brokerage houses in mainland China and Hong Kong.

> *"Local analysts have an advantage in acquiring political knowledge as they have specific knowledge of political institutions, while foreign analysts are likely to have more knowledge from the expertise in standardized earnings forecast and valuation approaches developed in offices in their home countries."*
>
> ***Prof. Zhang Tianyu***
> ***School of Accountancy***

However, Prof. Zhang believes local analysts with knowledge of China's political institutions are likely to have an advantage over foreign analysts when preparing forecasts.

Senior executives of local brokerages are often embedded in China's local political networks, and expect their analysts to develop human capital – a measure of the economic value of an employee's skill set – in these networks for financial analyses.

In contrast, foreign brokerages and, in particular their senior executives, are unlikely to possess such deep institutional knowledge or political networks in China.

All 10 foreign brokerages in his study were either headed by non-mainland-Chinese or managed by a mostly non-mainland-Chinese team.

High Cost of Human Capital Investment

A brokerage firm's decision to adopt local practices, rather than a global approach is likely to be dependent on its human resources practices and the political knowledge, private networks and past experience of its senior analysts and executives.

For global brokerage firms, it is costly for senior management that serve multiple markets to make such firm- or location-specific investment in human capital.

For the study, the researchers used a total of 196,245 analyst reports written in Chinese including about 2,703 domestically listed Chinese firms from 2010 to 2015, compiled by a Chinese company, Today's Investment.

To test the forecast accuracy of local and foreign analysts, they limited their study to firms that were followed by at least one local and one foreign analyst over the sample period.

As a result, they focused on 39,381 reports of about 403 different mainland-listed companies written by 5,192 analysts at 104 brokerages, of which 37,843 reports were by 5,000 analysts at 94 local brokerages, and the remaining 1,538 reports by 192 analysts at 10 local branches of foreign brokerages in major cities such as Beijing, Shanghai and Hong Kong.

The researchers filtered out all the Chinese words that appeared in more than 95 percent of the reports, or in fewer than three articles, and were left with 218,335 words that appeared most frequently.

Researchers Identify Analysts' Knowledge Advantage

Using a topic modeling technique, Latent Dirichlet Allocation (LDA), they processed the data and highlighted topics, or groups of similar words.

Statistical algorithms, based on the number of instances of certain words, can reveal instructive structures in data and work out, not only what the topics might be, but also how much focus is paid to different topics in each document.

"One important innovation of this paper is that the textual analysis of the analyst report contents allows us to improve our identification of the knowledge that is being used to assist analysts in making earnings forecast," he says.

The LDA classified the words into 1,000 topics, which were manually grouped into three categories: 'political', 'financial' and 'others'.

The researchers were left with 237 political topics – covering government regulations, initiatives, policies, and contracts, which featured words such as 'department', 'food safety', 'national defence', 'military' and 'judicial'.

The 11 financial topics involve the analysis of the firms' financial and profitability ratios, which included words such as 'taxes', 'profitability' and 'stock price' – and 752 other topics.

"We identified these two main topics because political topics reflect the institutional knowledge and the information that goes into forecasts about Chinese firms, while financial topics represent the standardized knowledge used in forecast earnings," he explains.

"By examining the textual outputs that explain and justify the analysts' earnings forecasts, we hoped to get closer to identifying the analysts' knowledge advantage."

Political Knowledge Proves Forecast Advantage

"From our study, we found that local analysts have an advantage in acquiring political knowledge as they have specific knowledge of political institutions, while foreign analysts are likely to have more knowledge from the expertise in standardized earnings forecast and valuation approaches developed in offices in their home countries," he says.

"We identified that, for Chinese-listed firms, institutional knowledge in politics can create an information wedge between local and foreign analysts."

He adds: "Analysts from local brokerages have more institutional knowledge in politics than those at foreign brokerages because it is much more expensive for foreign brokerages to acquire it."

Because of the cost, analysts of foreign brokerages tend to adopt a more global approach – established by head office – of focusing on publicly available financial information and standardized valuation approaches when making forecasts.

In contrast, analysts at local brokerages tend to write forecasts based more on their knowledge of politics to evaluate a company's prospects.

"The source of local analysts' information advantage or superior forecast accuracy compared with foreign analysts is at least partially a result of the local analysts' political knowledge," he says.

This can explain the information advantages, in terms of forecast accuracy, that local analysts working for domestic brokerages have over foreign analysts in China.

"More importantly, we found that local analysts' superior forecast accuracy is significantly greater when their analyst reports contain more political topics.

"To corroborate our evidence that political knowledge can explain local analysts' information advantage, we found stronger results among state-owned firms and firms with government subsidies," he adds. "This suggests that the political knowledge gives local analysts more information advantage when analyzing firms that are more political."

"However, when the firms' overseas sales were ranked in the top 5 percent of sample, the foreign analysts were more accurate than those of local analysts.

"The foreign analysts' superior accuracy grew greater as their reports contained more topics relating to the financial and profitability ratios of the firms."

Future Research

Prof. Zhang says useful research in future could focus on how local analysts in China obtain such institutional knowledge.

Another related topic could be identifying more local institutional knowledge in other emerging economies using topical analysis.

"Institutional knowledge in politics is imperative for China but there could be other types of institutional knowledge that are equally, or more important in other countries," he concludes.

By Guy Haydon. This story was first published in China Business Knowledge @ CUHK, the knowledge platform of CUHK Business School.

Reference:
Wong, Forester, Wong, T.J. and Zhang, Tianyu (2017), "Does Institutional Knowledge Drive the Information wedge in Emerging Markets? Evidence from Analysts of Local and Foreign Brokerage Firms in China." USC and CUHK, Working Paper.

HOW SMART BETA Shakes Up the INVESTING WORLD

Cao Jie, Associate Professor
Department of Finance

A pioneer study in CUHK Business School shows the impact of smart beta ETFs on investors' evaluation on mutual fund performance

It is no secret that exchange-traded funds (ETFs) have been attracting huge cash inflows from investors worldwide in recent years. With ETFs getting 'smarter', they are bound to shake up the world of investing.

Smart beta adopts an approach by tracking indices that weigh securities by factors other than traditional market capitalization. Smart beta ETFs take the advantages of both passive and active investing methods by constructing a portfolio that follows alternative index.

One of the most important considerations for investors is how to implement smart beta. A pioneer study published by The Chinese University of Hong Kong (CUHK) Business School may have the answer.

The study, led by Associate Professor Cao Jie in the Department of Finance at CUHK Business School, Jason C. Hsu, founder and CEO of Rayliant Global Advisors, Xiao Zhanbing, PhD student at the University of British Columbia and Zhan Xintong, Assistant Professor at Erasmus University Rotterdam, looks at how smart beta ETFs affect the asset management industry, in particular, the impact on how investors evaluate mutual fund performance.

The study is the first of its kind to investigate how smart beta ETFs affected active mutual funds with both US and cross-country evidence. Since April 2017, it has been presented at Cheung Kong Graduate School of Business, Peking University, Nanyang Technical University, and Singapore Management University.

Globally, the study has drawn great attention from asset management industry. It has won the 2018 ETF Research Academy Award by the Paris-Dauphine University House of Finance and Lyxor Asset Management (Paris), the 2017 CQA Academic Competition Award (Chicago), and the 2016 CQAsia Academic Competition Award (Hong Kong). It has been presented at the second Asian ETF Summit at Hong Kong with leading industry professionals. It has also drawn the attention of policy makers and been presented at China Institute of Finance and Capital Markets, the research center of China Securities Regulatory Commission.

The team tested the debate about whether smart beta ETFs could change fund flow sensitivity to alphas from different risk-factor models by analyzing nearly 4,000 unique US domestic equity mutual funds from 2000 to 2015. The researchers classified 747 ETFs into different categories based on two methods, and successfully identified 227 market-tracking ETFs and 520 non-market-tracking (smart beta) ETFs.

"We show that ETFs are more than simple indexing and tracking tools and can also provide exposure to multiple non-market risks," says Prof. Cao, adding that significant increases of flow sensitivity to the Fama-French three-factor model, Carhart four-factor alpha, and seven-factor alpha were observed during a high non-market-tracking ETF trading period.

Theoretically, the performances of mutual fund managers are evaluated by their abilities of generating alphas. The study highlights that investors also reward fund managers for their exposure to non-market risk factors such as small minus big (SMB), high minus low (HML), and up minus down (UMD). However, what if smart beta ETFs can achieve the same risk-adjusted performance as actively managed funds but at a much lower cost?

According to the study, investment in smart beta ETFs have increased significantly from US$160 billion to US$429 billion from 2008 to 2016. BlackRock, the world's largest ETF provider, predicts that smart beta ETF assets will reach US$1 trillion globally by 2020.

Prof. Cao argues that investors reward mutual fund managers for non-market risk factors because they do not have sufficient investment tools to generate return associated with those risk factors by themselves. However, the emergence of smart beta ETFs has enabled investors to easily gain the exposure to various non-market risks and thus would prompt changes in investment behavior.

"With more investment vehicles available, investors can simply trade non-market-tracking (smart beta) ETFs to acquire returns related to SMB and HML, and therefore no longer reward the mutual fund managers for bearing such risk exposures," says Prof. Cao. "In other words, the risk exposure of the mutual fund manager's skills is easily replaceable."

Investors are more cautious and skeptical in terms of evaluating portfolio manager performance. With more investment tools emerging, fund managers need to justify their premium fees by demonstrating their abilities of generating alphas that cannot be explained by easily measurable market factors such as size, value or momentum.

"Our study suggests that the popularity of smart beta ETFs has elevated the bar with which investors evaluate the performance of active managers. With intensified competition from such ETFs, mutual fund managers must provide superior performance after adjusting the influence of easily replicable risk factors," says Prof. Cao.

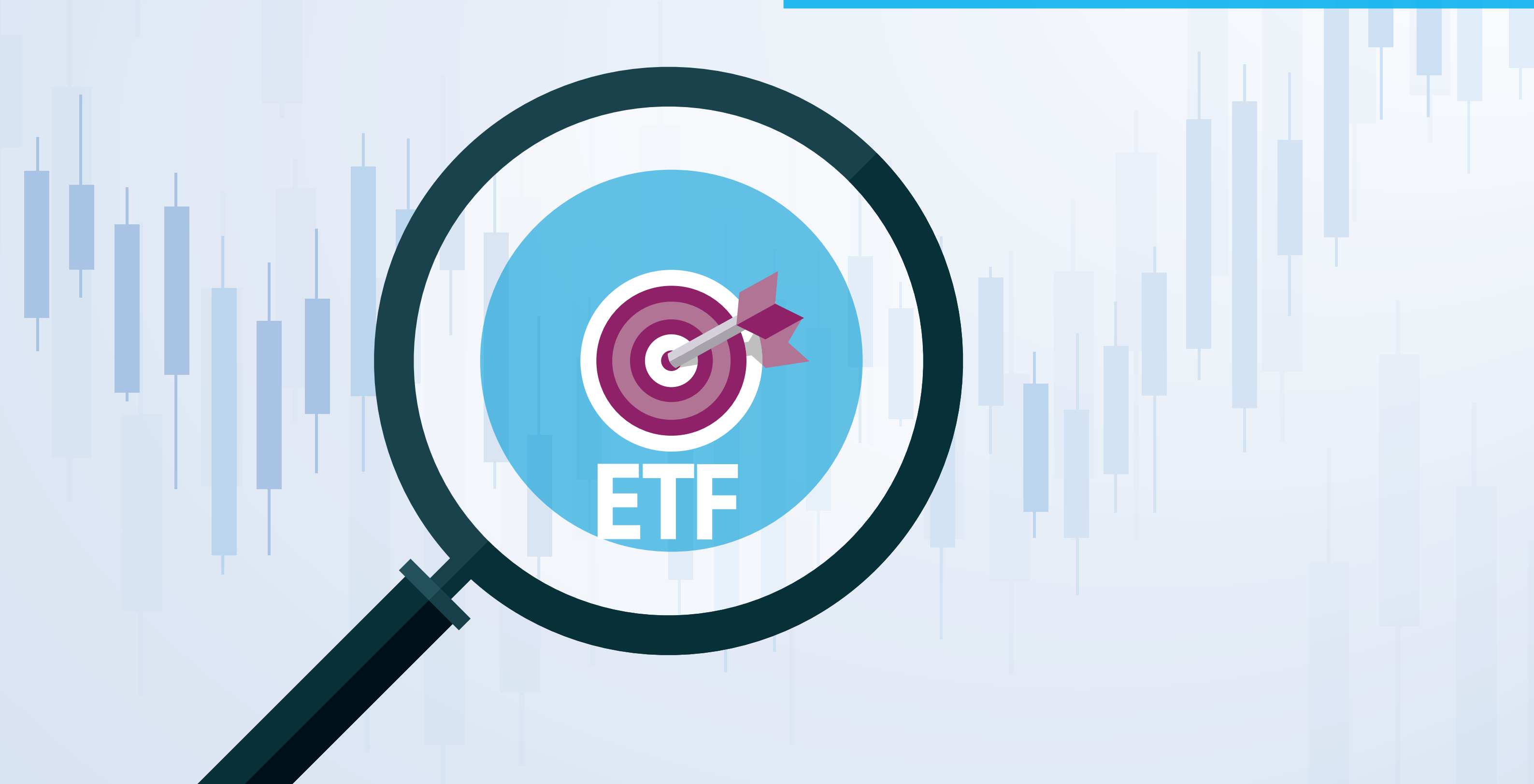
Indeed, if fund managers fail to generate pure alphas, why not cut out the middleman? Yet, with so many low-cost, transparent ETFs flooding the market nowadays, it is getting increasingly difficult for fund managers to prove their skills.

"Active fund managers with the capability to provide pure alphas will receive more flow and continue to charge higher fees. Other fund managers may switch to managing smart beta products and charge lower fees," says Prof. Cao.

Prof. Cao further warns that the hedge fund industry will face similar challenges in the future as the rapid development of new ETFs may replace those hedge funds that rely on the exposure to exotic risk factors.

By Jaymee Ng. This story was first published in China Business Knowledge @ CUHK, the knowledge platform of CUHK Business School.

> *"We show that ETFs are more than simple indexing and tracking tools and can also provide exposure to multiple non-market risks."*
>
> ***Prof. Cao Jie***
> ***Department of Finance***



DIDI'S Strategic Move Towards GLOBALIZATION

Ma Xufei, Associate Professor, Department of Management
Director, Center for Entrepreneurship

This January, Didi Chuxing, China's largest car-hailing app, announced that it has acquired the remaining shares of Brazil's 99 car share service, Uber's main rival in Latin America. The news came days after Uber raising from Softbank a new round of capital with the valuation at US$48 billion.

On December 22, 2017, Didi raised US$4 billion in new capital with a valuation at US$56 billion, and Softbank was amongst the investors. A week later on December 29, 2017, Uber also raised a new round of investment from Softbank with a valuation at US$48 billion, a reported 30 percent discount from its previous valuation. After that, Didi acquired 99 on January 5, 2018.

Didi and Uber are currently the top two players in the market. Any movements of these two companies in the industry would attract much media attention. Some believe that the acquisition of 99 by Didi would create a formidable rival to Uber in Latin America.

In fact, given the opportunities offered by its home and global markets and the pressures exerted by its competitors, I believe it is the right time for Didi to enter into Brazil market.

In China, Didi offers a full range of mobile tech-based mobility options, such as taxi hailing and private car hailing, to close to 300 million users over 400 Chinese cities. It has already achieved a dominant position since it successfully acquired Uber China in August 2016. Hence, its strategic focus has been shifted from competition against the rivals in China to compliance with the regulations in China. To that end, Didi has to accelerate its global position to go beyond the China's market. As CEO Cheng Wei said in a statement while announcing the company's acquisition of 99 in January, "Globalization is a top strategic priority for Didi."

On the other hand, Uber has now become a regional rather than global player with a focus on the North America market, which offers Didi the opportunity to enter into the Latin America market, where Didi hasn't conquered yet. As the largest economy in Latin America, the Brazil market obviously is a good option for Didi to expand globally in the region.

It has been exactly one year since Didi invested in 99 as a minority shareholder in January 2017. The full control of 99 by Didi this time might be regarded as a plan well designed by Didi. Following international business practices, using one year to closely observe and collaborate with a potential target is a fairly sensible due diligence approach.

What Didi wants to achieve through the 99 investment may include the following objectives: first, to satisfy the investors' expectation by telling a growth story; second, to justify the updated valuation by moving beyond the home market; and third, to compete against Uber by entering its back yard – the Latin America market.

However, given its partnership with Uber in China and some other countries, how will Didi handle its competing relationship with Uber in Latin America?

In fact, Didi is not the only company that maintains such a relationship with its rival. Another example is the deal between Cathay Pacific and Air China to acquire Dragon Air together in 2006. Hence, we can explain the current relationship between Didi and Uber in two buzzwords: coopetitor (being both a cooperator and a competitor), and frenemy (being both a friend and an enemy).

Perhaps these concepts could be difficult to understand in Western culture, which emphasizes a clear boundary between "A" and "not A". However, in Chinese culture with a tradition of paradoxical thinking, it will be easier to recognize the coexistence of "A" and "not A".

No one can deny that to some extent, it is the triumph of Didi to have established partnership with Uber in China – since after the deal, Uber has almost physically exited from the China's market.

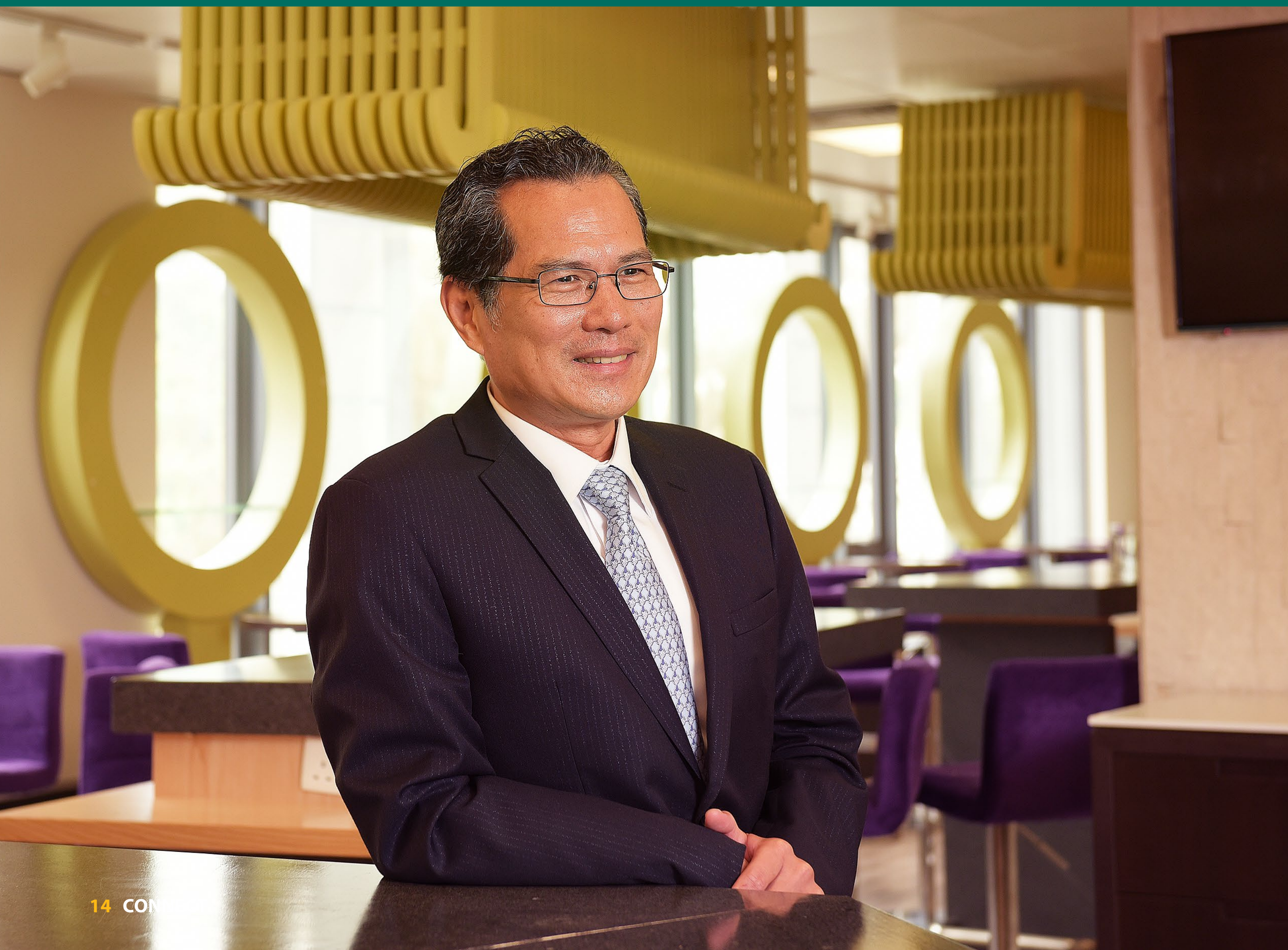
The strategy of Didi seems to be straightforward – if the company can cooperate with Uber in a specific market, it will seek cooperation. However, if for whatever reason no cooperation is available, it will compete head-to-head with Uber.

So what Didi should do now is to take a global view and review its strategies in all its target foreign markets. After all, being a truly global player in the market has been Didi's dream and a must-do now.

By Prof. Ma Xufei. This story was first published in China Business Knowledge @CUHK, the knowledge platform of CUHK Business School.

JOURNEY
FROM HOTEL TO SCHOOL

With over 30 years' experience in the hotel industry, Prof. David Chan is well versed in all aspects of hotel management and with profound knowledge of latest industry trends. He joined CUHK Business School as a Professor and the Director of School of Hotel and Tourism Management in 2018.



Why did you join the University after working in the hotel sector for more than 30 years?

Prof. Chan I've worked for world-leading hotel groups like the Peninsula, Regent, Marriott and Hyatt in the US, Australia, Mainland China and Hong Kong, as general manager for more than 20 years and district vice-president for five years, and dealt with different landlords and guests. Hotel is both a service industry and a complex business which requires administrators of high caliber. Over the years, I have come across numerous cases, both successful and extremely challenging ones. It will be meaningful if I could share my experience with the staff and students of the School and provide professional training for the young generation.

How does your School set out to train its students?

Prof. Chan Service is the crux of the hospitality industry. But as a business, it cannot be sustained if it's not making profits. The objective of our BBA in Hospitality and Real Estate Program is clear: we go beyond management to cover the entire business operation with a focus on the relationship between hospitality and real estate. In the long run, we aim at nurturing our students to be leaders in various professions, with substantial knowledge in resource deployment for projects on different scales. Our program includes 900 hours of practicum to equip the students with enough frontline experience before graduation, which will be vital for facing future challenges in the hospitality and real estate fields, and for developing their entrepreneurial potentials.

What does the future hold for the hotel and tourism industry?

Prof. Chan The opening of the Hong Kong-Zhuhai-Macao Bridge will accelerate the movements of people and goods. Plus the Belt and Road Initiative, the demand for hotel accommodation can only increase. Putting Hong Kong within the wider context of the Greater Bay Area, and considering its accompanying infrastructural developments and policies, I must say that the future looks really rosy. Hong Kong's excellent management quality makes the city in hot demand from the Belt and Road countries. In the next three years, China, Hong Kong and Macao will see the establishment of over 1,000 hotels of different niches. The Greater China region has a high demand for talent in the industry, and our graduates will therefore enjoy ample opportunities for career development.

What is the impact of the Internet on the hotel and tourism industry?

Prof. Chan The changes are revolutionary. In the past, we had to go through six or seven steps from reservation to checking-in. Today, it's just one click on the Internet. The rise of Airbnb has made our competitors even more numerous, and room rental websites are now all the rage. Hoteliers are thinking hard about the reason why most customers prefer not to book with the hotels directly. In addition to the differences in choice, price, and terms, the unfashionable and unfriendly designs of many hotel websites also make booking cumbersome. In this e-commerce era, young people no longer pay with cash or credit card.

All challenges come in two faces – crises and opportunities. The Internet collects loads of data about the backgrounds and preferences of customers, making customized services possible. Luxury hotels with a small market niche are especially reliant on such client-tailored services. A room booked by a female customer must be fitted with facilities suitable for women; elderly customers should be assigned rooms closer to the elevator and never a table tucked away in a corner of the restaurant. Give your customer an occasional surprise. But never celebrate ahead the birthday of a German customer, because Germans consider that bad luck.

Are there any cultural differences within the hotel industry?

Prof. Chan My PhD thesis was on the localization of senior management in international luxury hotels. I have witnessed how some international hotels, by adhering to the western model of management, overlooked the oriental way of handling things and doing business, as well as the culinary habits of local customers. Handling cultural differences is like holding an egg: if you hold it too tightly, the egg will crack; but if you don't hold it tightly enough, it will fall. There should be a balance between occidental discipline and oriental ease. Generally speaking, I think the East is better than the West when it comes to the provision of sophisticated services.

How are your professional knowledge and exposure influencing your travel experience?

Prof. Chan I must admit that I have been spoiled by my experience working in five-star hotels, which makes me very particular with what a hotel offers in terms of ambience, cleanliness, logistics and efficiency. I am old-school, and won't take risk in staying in a budget hotel because I know I won't be greeted by smiling faces upon arrival, and that the services will fall short of my expectations. I am obsessed with details. Things like a carpet stain or the smell of cigarette on the wallpaper can never escape my attention and will all make me feel uneasy. Having worked so hard for decades, I think I deserve some pampering. I'd rather spend 30 to 50 percent more in exchange for what I consider real service. So if you ask whether I've ever tried Airbnb, the answer is no.

This article was first published in No. 517, CUHK Newsletter.

The Chinese University of Hong Kong (CUHK) Business School

Address	15/F, Cheng Yu Tung Building, 12 Chak Cheung Street, Shatin, Hong Kong
Telephone	+852 3943 7785
Email	bafac@cuhk.edu.hk
Website	www.bschool.cuhk.edu.hk
Facebook	facebook.com/cuhkbschool
Linkedin	linkd.in/1Oyg6fW

香港中文大學
The Chinese University of Hong Kong

AACSB ACCREDITED

ASSOCIATION OF MBAS ACCREDITED