

CONNECT

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Unleashing
QIANHAI'S
Full Potentials



Hong Kong's
Logistics Industry

Do Asian Family Businesses
Destroy Themselves?

Innovation
in Turbulent Times



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 cover the exciting new developments in Qianhai, take a look at the future of Hong Kong's logistics industry, analyze family business succession in Asia, report on the Global Business Forum, and feature interviews with alumni and former deputy publisher of *Hong Kong Economic Journal* Mr. KC Chan and Associate Dean of Undergraduate Studies Prof. Dennis Fan.

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 46th in the QS World University Rankings 2014/15 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 30th in the world in 2015, and the EMBA program was ranked 24th in the world in 2014 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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Unleashing Qianhai's Full Potentials

The Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone has been developing very rapidly in recent months. What are the unique business opportunities there for Hong Kong and international companies? What are the advantages of getting one's foot in at the early stage?

Qianhai is a hot potato right now. New companies and facilities are opening and new policies are drafted every few months. The queue of the companies applying to set up shop in the zone is so long that the Qianhai Authority office in Hong Kong has a huge backlog. There is a palpable sense of excitement in the air. Many businesses—whether they are large multinationals or small enterprises in Hong Kong—are eager to find out how they can benefit from the new policies tailor-made for the zone and the new potentials that the vast mainland consumer market is about to unleash.

To shed light on the scale of opportunities and the latest developments at the Qianhai Cooperation Zone, and to explore the future potentials it offers, a joint panel discussion was organized by China Business Knowledge@CUHK and the American Chamber of Commerce in Hong Kong on April 30. Titled "How Can the Potentials of Qianhai Be Fully Unleashed?", the event was a full-house affair, attracting more than 60 enthusiastic attendees. Two CUHK Business School professors and an official from the Qianhai Authority were invited as panelists, answering questions from the audience after their presentations.

The Allure

When Qianhai became part of the "Twelfth Five-Year Plan" four years ago, it had two strategic goals: to develop the cooperation between Shenzhen and Hong Kong in all areas of modern services;

and to be a testing ground for opening China's financial system. Are things moving in the direction toward these goals?

The first panelist, Dr. Witman Hung, Principal Liaison Officer for Hong Kong of Qianhai Authority, kicked off the discussion by showing the latest developments at the zone since three months earlier. For example, the Qianhai Court has been established. An incubation center, E-Hub, measuring 200,000 square meters in usable area, has recently opened its doors to entrepreneurs, offering coworking space, incubation partners, exhibition halls and training facilities. Banks such as Citibank and Bank of East Asia have set up branches there. Important Chinese e-commerce players such as TMall and JD Worldwide, have also set up their operations in the zone. In addition, a building with e-services counters putting all relevant government departments, such as immigration, tax and company registrar, under the same roof, is ready to serve all incoming companies.

So far, a total of 25,673 companies have registered their business in the zone, roughly 1,400-1,500 of which are Hong Kong-based companies. In terms of the industries represented, the majority, or 57 percent, consists of financial services companies; 14 percent are modern logistics companies; 12 percent are information services companies; and 17 percent are technology and other services.

The unique advantages that companies can enjoy at Qianhai, according to Dr. Hung, are tax incentives, capital support program, development opportunities, an incubator for entrepreneurs, as well as efficient and simple government services—which, as he pointed out, are not easy to find outside of the zone.

The tax incentives for registered companies in the zone take the form of a 15 percent corporate tax subject to certain requirements.



While the finance industry does not enjoy any tax incentives, it has a lower entry barrier in conducting business there.

“There are a lot of things that are much easier to do in Qianhai than somewhere else in China, such as cross-border RMB loans, QFLP, QDLP, QDIE and more,” said Dr. Hung. He explained that the Qianhai Authority enjoys a “rolling policy innovation”: “Every couple of months, we actually go to the Central Government and ask for more. We have to write our own rules and submit for approval. One thing that we still have not achieved is for insurance companies that meet certain criteria to have a lower entry barrier. We are trying to push for that.”

Another incentive is capital support in the form of rental or building grants, which amount to a certain percentage of a company’s registered capital. The finance industry enjoys a higher percentage but companies are required to stay in Qianhai for at least seven years. Alternately, some companies would enjoy interest subsidy by the government after taking out a loan. Besides these incentives, the main allures for Hong Kong businesses to set up shop in Qianhai are, according to Dr. Hung, the capacity for expansion (much more land space and easy access to a big pool of talents from the mainland); geographic proximity to Hong Kong; and policies that allow certain things to be done much more easily than anywhere else in mainland China.

Cross-border E-Commerce

The second panelist, Prof. Xufei Ma, an associate professor at the Department of Management and Associate Director of the Center for Entrepreneurship (CfE), CUHK Business School, serves as the project director in charge of CfE’s collaboration with Qianhai’s E-Hub. In his presentation, Prof. Ma explained Qianhai’s strategic role in promoting cross-border e-commerce in China. Currently, there are six pilot cities in China designated under the national strategy to develop inward cross-border e-commerce, among which Qianhai is the newest kid on the block, joining the scheme as recently as July 2014.

According to Prof. Ma, cross-border e-commerce is a business model that allows end consumers in China to buy directly from overseas manufacturers through electronic platforms. It essentially transforms the B2B model to a B2C one, streamlining many of the regulatory procedures such as commodity inspections and quarantines. At the same time, the delivery of goods is speeded up. What attracts consumers most is that the transaction costs are significantly

reduced, both in terms of the retail prices and levied taxes.

Why is cross-border e-commerce increasingly prevalent in mainland China, and why is Qianhai the ideal place to develop this business model?

The prevalence is due to the significant price difference between certain products, such as foreign infant formulas, sold domestically and overseas. As the demand for a higher quality of life by mainland consumers increases, the demand for those products that are perceived to contribute to a higher quality of life also increases. Prof. Ma showed that in 2013, online shopping for overseas goods via Alipay increased by 117 percent, compared with the 65-percent increase in domestic online shopping. The Top 5 product categories are: cosmetics and skin care; mom and baby; clothing; health care and electronics. Together, these constitute a huge market potential with strong growth.

Prof. Ma gave a few examples to show how such businesses work in the zone. One of them is BDF Mall, a startup business founded by graduates of the CUHK Business School. It provides a one-stop e-commerce solution for overseas brands aiming to enter China. This electronic platform provides an online shop while using the Qianhai Bay Bonded Port Area to store the goods imported from overseas, manage the inventory, process customs clearance and fulfill customer orders. Another example is Tempus Exhibition Shop, co-founded by EMBA students of CUHK Business School. This exhibition shop makes use of the bonded area to provide the physical space for consumers to see, touch and experience the physical goods; and if the consumers like the goods, they can make their online purchases immediately using their mobile phones and will receive the goods roughly one week later (online-to-offline model).

“The limit for each purchase is RMB500. With this kind of policy, consumers in the mainland don’t need to go to Hong Kong to buy their daily goods,” said Prof. Ma. “This is the result, not the purpose.”

The third example is a business set up by CUHK EMBA students in Qianhai. It has a strategic partnership with Tong Ren Tang, the No. 1 brand in Chinese medicine. Only recently registered, this company aims to be the world’s No.1 cross-border e-commerce platform in health products and services.

Why is Qianhai such an attractive gateway for Hong Kong companies eyeing to enter the China market? Prof. Ma boils down the reasons into 1, 2, 3, 4. First, when counted as one location, Shenzhen and Hong Kong’s combined capacity in cargo, passengers and port throughput is No.1 in the whole of China. Second, each of the two cities provides great



advantages for doing business: Shenzhen is China's Silicon Valley and innovation center, with the most favorable policies and complete industrial chain for startups, while the international departments of Internet giants (Alibaba, Baidu and Tencent) will all be located there. Hong Kong is the world's financial center, ranks No. 1 in economic freedom in the world and has many multinational Asian headquarters established. Third, the most favorable trade policies in China can be found in Qianhai, which houses the following three "zones"—Qianhai Shekou Free Trade Area, Qianhai Shenzhen-Hong Kong Modern Services Cooperation Zone and Qianhai Bay Bonded Port Area. Fourth, Qianhai aims to be the best in four modern services in China—financial services, information services, logistics services and professional services.

Why should businesses in Hong Kong pay attention to cross-border e-commerce in Qianhai? "This can be the most cost-saving way to reach China's consumers, especially if you are a small and medium-sized enterprise," said Prof. Ma. "If you want to penetrate deeper into the huge China market, this might be the right time, the right place and the right business model. Most importantly, you'll become the early bird when free trade between China and the United States becomes a reality."

Financial Shopping Paradise

Besides those consumer goods mentioned above, Chinese consumers are also keen on buying insurance and other financial services in Hong Kong. In light of this trend, the third panelist, Prof. Yinggang Zhou, an assistant professor at the School of Hotel and Tourism Management and Director of the Center for Hospitality and Real Estate Research, CUHK Business School, presented his idea of upgrading Hong Kong to be a financial shopping paradise and leveraging Qianhai's unique positioning as a "shop front" for selling Hong Kong's financial products. The great wave of China's capital outflow in the next few decades could propel Hong Kong into a new role as the gateway for Chinese overseas investment, in contrast to its roles as the gateway to attract foreign capital into China since 1978. This will also provide Hong Kong with a new model for tourism while allowing the city's financial industry to take advantage of the tremendous demand for quality financial products from mainland consumers.

Prof. Zhou explained that as tensions over "parallel trading" in Hong Kong continue, traditional businesses in the city's tourism industry are losing out. On the other hand, mainland tourists are increasingly interested in purchasing insurance products in Hong Kong because of the larger number of choices and higher quality

of the insurance products not available at home. "Financial products and services can be a unique competitive niche to upgrade Hong Kong's tourism industry," suggested Prof. Zhou.

In fact, new insurance policies sold to mainland tourists have seen a significant increase over the past few years, growing by 63.7 percent from 2013 to 2014. Premiums sold to mainland tourists made up more than one-fifth all insurance premiums sold during the same period. Prof. Zhou's proposal is to leverage Qianhai—being a pilot zone for China's financial reform, to give it the role of a "shop front" for selling to mainland residents insurance and other financial services available in Hong Kong, while the latter is the "back office" providing the research and design of financial products.

According to the Ministry of Commerce in China, as much as 57 percent of China's outward direct investment was directed to or channeled through Hong Kong by the end of 2013. Prof. Zhou estimated that outward investment by individual investors in mainland China would rise to US\$5 trillion by 2020. If half of that would go to Hong Kong, then the total investment by mainland individual investors in Hong Kong would amount to US\$2.5 trillion—a substantial sum. Thus the potential for Hong Kong to benefit from Qianhai as a front desk facing domestic investors is huge.

While it is currently illegal for mainland customers to buy Hong Kong insurance products and sign contracts in the mainland, Prof. Zhou proposed setting up O2O platforms for customers and financial services companies to find matches online through social media channels and using big data. Once they find a match, they can then sign contracts offline, for example, in an office in Qianhai. O2O can go the other way too. They can find matches offline and manage their business and relationships on the platform.

With the Shanghai-Hong Kong Stock Connect in operation and the Shenzhen-Hong Kong Stock Connect slated to be rolled out later this year, Prof. Zhou regards these as a part of the Hong Kong financial shopping paradise. He foresees an even greater cross-border demand for other financial products and services, such as private banking and wealth management services, tax and legal advisory services, due diligence, risk assessment and valuation services. Qianhai, with its strategic positions as a modern service industry cooperation zone and a pilot zone for financial reform and opening in China, would be a perfect place for expanding the financial shopping field.

By Louisa Wah Hansen

Hong Kong's Logistics Industry: Toward a Sustainable Future

Prof. Waiman Cheung, Chairman of Department of Decision Sciences & Managerial Economics and Director of the Asian Institute of Supply Chains and Logistics and the Center of Cyber Logistics at CUHK

FACED with intense competitions from across the border and around the region, Hong Kong's logistics industry is in acute need for an overhaul. With limited land and labor, where should the city be headed to find a sustainable direction for this sector? Prof. Waiman Cheung offers some constructive solutions.



Despite its advantages in geographic location and its free port status, Hong Kong is facing serious bottlenecks and inflexibility in its logistics sector, as well as intensifying competitions from around the region. These issues threaten not only the sustainability of the industry itself but also the expansion of trade in the long run.

In light of this pressing situation, Prof. Waiman Cheung, Chairman of the Department of Decision Sciences and Managerial Economics at CUHK Business School; and Director of the Asian Institute of Supply Chains and Logistics and the Center of Cyber Logistics at CUHK, has conducted a comprehensive study that analyzed the challenges, competitive advantages and growth opportunities in Hong Kong's logistics industry. The study, conducted in collaboration with Hong Kong think tank SD Advocates and consultancy BMT Asia Pacific over a period of seven months, resulted in a report titled "Sustainable Development Study for the Hong Kong Logistics Industry." It aims to raise awareness of the challenges faced by the industry and contains several key suggestions for the Hong Kong SAR Government to consider.

The Challenges Ahead

Logistics and trade is one of the four pillars of Hong Kong's economy, the others being tourism, financial services and professional services. In terms of GDP, logistics and trade combined to contribute 23.9 percent in 2013. On its own, the logistics cluster contributed 5.3 percent of the city's GDP in 2012.

The logistics sector has always and continues to support trading activities. In fact, says Prof. Cheung, trade and commerce is increasingly dependent on a well-oiled and sophisticated logistics sector due to the expansion of e-commerce activities. "E-commerce already accounts for 20 percent of the U.S. economy. It will account for over 20 percent of the Chinese economy soon, and we are seeing similar growth in Hong Kong," he says. "In fact, as long as there is trade, there will be a need for logistics, and globalization means there will be even more trade and logistics. It is therefore imminent that the logistics sector be given the kind of attention it is due, so that it can continue to play its crucial role in supporting the business activities of Hong Kong."

There are a number of critical areas that are in urgent need of improvements, namely, capacity bottlenecks in terms of land space, facilities and labor; low public awareness and image of the logistics sector; bureaucratic inefficiency and insufficient policy support; and increasing competition from Shenzhen, Shanghai, Singapore, Taiwan and Seoul.

Land Shortage

First, in terms of land for logistics use, such as warehousing, Prof. Cheung points out that there is currently a severe shortage. It is concentrated

in the hands of a few property developers, who only lease space in short-term contracts—similar to the rental agreements for regular commercial and residential properties. This creates a big barrier for small and medium-sized enterprises (SMEs), he says, as they face the risk of substantial rent increases every time they renew their leases. Warehousing facilities involve high initial investments, so if a company is forced to move every one or two years due to rental hikes, it would be impossible to recover the costs. Therefore, the land policy in Hong Kong, which prioritizes commercial and residential properties, is not conducive in attracting SMEs to invest in the logistics business.

"Existing facilities are not well built and equipped to begin with," says Prof. Cheung. "On top of that, investors aren't inclined to invest [due to the above reasons]. That's why we need dedicated land for logistics purposes. It can't be just a property developer leasing land with some carved out for logistics use. There should instead be dedicated land with standard facilities for SMEs through long-term rental agreements with a duration of 5-10 years. That would make the industry a lot more sustainable."

Based on feedback from industry stakeholders, six potential sites have been proposed in Prof. Cheung's study for logistics use, including Siu Ho Wan on Lantau Island, Hung Shui Kiu, just across from Shenzhen, Lung Kwun Tan in Tuen Mun West and more. These sites have considerable size, low land premium, close proximity to sea ports and the airport, easy access to major truck routes and highways, away from city centers and easy access from residential districts for attracting medium- to low-skill labors.

Labor Shortage

The study found a shortage in warehouse workers and high labor costs in the Hong Kong logistics industry. Prof. Cheung says that jobs requiring a low level of skills simply cannot attract enough young people. "The government should think about importing more labor to relieve the shortage."

For jobs of a professional nature, such as those involving IT skills, there has not been enough training and education and the general public image of the industry is quite poor, according to Prof. Cheung. "The parents of the young people who want to join the industry may think that it's not a good job. The image is not 'cool.' Worse, the press has been projecting the image that logistics is a 'sunset industry.'" Prof. Cheung emphasizes that it is time to change that image and raise the awareness among the general public. In fact, the logistics industry has moved along with the expansion of e-commerce and now includes a lot of high-tech and value-added components, such as computerized warehousing systems, RFID track-and-trace technology and more.

“E-commerce already accounts for 20 percent of the U.S. economy. It will account for over 20 percent of the Chinese economy soon, and we are seeing similar growth in Hong Kong.”

— Prof. Waiman Cheung

“Goods used to be shipped in bulk in containers, but nowadays, people purchase goods by individual pieces. How to manage the delivery of individual items on time and at a reasonable cost will be the biggest challenge going forward. It’ll call for technology to track and trace and inspect goods for security and authenticity purposes, which is a lot harder to do than before,” he says. That is why it is necessary to train people for the necessary IT skills and develop technological innovations for the industry.

Calling for Bureaucratic Changes

One of the keys to solving the bottlenecks and lack of coordination in the development of the logistics industry is to reshuffle the way the Hong Kong government manages the different components of the sector. In Hong Kong, the logistics industry is placed under the Transport and Housing Bureau. “The Secretary doesn’t have time to pay attention to this area as his plate is full!” laments Prof. Cheung.

“By contrast, the Singapore government has set up a single window for the logistics industry. If you are from the logistics industry and need some help, you have a single point of contact, who will arrange different departments to deal with you,” he says. “Invest Hong Kong does promote the city overseas, but once a foreign logistics company has entered Hong Kong, it has to sort things out by itself.”

As a result, the Singapore government has been a lot more progressive in attracting logistics companies from around the world to set up businesses there, he adds.

Prof. Cheung suggests the government to establish a separate bureau so all things related to the logistics cluster can be managed more efficiently. If this is not possible, an alternative is to place logistics under the Commerce and Economic Development Bureau rather than the Transport and Housing Bureau.

Intensifying Competitions

Increasingly, logistics hubs in Asia are posing a potential threat to Hong Kong. Direct competition comes from Shenzhen, which shares the same cargo catchment area in the Pearl River Delta (PRD) region; and Singapore, which shares the same positioning as the regional hub for intra-Asia trade and as a transshipment center.

Prof. Cheung says Hong Kong is competing with Singapore in terms of the level of service quality and reliability. However, the issue of land shortage is less severe in Singapore, and the government there gives much more support to the industry.

As for Shenzhen, there is a lot more land, the operating costs are much cheaper, and the warehousing facilities are better as they are purpose-built for logistics, unlike the warehouses in Hong Kong, many of which have been converted from old industrial buildings.

Despite Shenzhen’s advantages, says Prof. Cheung, Hong Kong should not look upon the city as a pure competition. “Hong Kong is small,” he says. “We’re not necessarily competing with Shenzhen head to head. The logistics industry should look at the bigger picture. We should combine our resources in the PRD and streamline our connectivity with Shenzhen.”

He gives an example of a cross-border collaboration: Cargo can be stored in Shenzhen first to make use of the lower storage and labor costs. It can be moved to Hong Kong when there is a need to ship it in a hurry. In that case, Hong Kong can make use of the privilege it enjoys as a free port, such as the possibility of shipping goods before paperwork is processed. This allows for flexibility in the movement of goods in case of emergency situations.

Of course, collaborations such as this require inter-governmental facilitation, so that Hong Kong can play a niche role in the logistics industry of the PRD region.

A New Business Model

Earlier this year, at a symposium on “Sustainable Development for the Hong Kong Logistics Industry,” jointly organized by the think tank SD Advocates and *Hong Kong Economic Journal*, Prof. Cheung received requests from about 20 industry stakeholders to form a concern group to lobby the government on the above-mentioned issues.

At the end of the day, developing a sustainable logistics industry in Hong Kong is not just about granting a piece of land or building standard facilities for logistics players. It is about managing the whole sector in a self-sufficient manner. To this end, Prof. Cheung proposes the establishment of a semi-statutory body to oversee the development, much in the same vein as how the Hong Kong Science Park is being run. The management board of this body can include a few government officials, industry players and professional managers. “It is not a charity, so the operation should be self-sustaining. But let’s not forget that it has a clear public mission, which is to ensure the competitiveness of the whole industry and to create jobs, so it shouldn’t be completely private either.”

By Louisa Wah Hansen

Do Asian Family Businesses Destroy Themselves?

*Joseph Fan, Professor, School of Accountancy and Department of Finance;
Deputy Director of Center for Institutions and Governance;
Co-Director of Center for Economics and Finance*

FAMILY businesses the world
over face the same issue
in succession—how to transfer the company
from one generation to the next. But in Asia,
the transfer could easily ruin a family, according
to research by Prof. Joseph Fan.



One generation creates wealth, the next maintains it and the third wastes it, conventional wisdom holds. But the problem is even more severe in Asia. In fact, Asian family firms lose almost 60 percent of their value in the first transfer of power when the founder steps down, according to research by Prof. Joseph Fan, Co-Director of the Center for Economics and Finance, Deputy Director of Center for Institutions and Governance and Professor of the School of Accountancy and Department of Finance at CUHK Business School.

"I have never seen any corporate event that is more serious," Prof. Fan says of his 20 years in studying Asian companies. "This event is comparable to corporate bankruptcy."

Prof. Fan's findings, which have led to a new book he co-authored with Morten Bennesen of INSEAD—*The Family Business Map: Assets and Roadblocks in Long Term Planning*, came from sampling 217 Chinese-run publicly listed companies across Hong Kong, Singapore and Taiwan. He examined the share price of a family company from five years before the year that the founder steps down to three years after a successor takes over. Leading up to the handover, 56 percent of the company's value was lost, with another 2.9 percent lost after the transfer of power.

Taiwanese businesses showed the highest propensity for a family transition, with 74 percent of companies handed down to heirs or close family members. Hong Kong was similar at a rate of 69 percent, with only 36 percent of companies in Singapore passed down to the next generation.

The dissipation of wealth was the lowest with Singaporean companies, although they still lost 22 percent of their value. Taiwanese companies saw almost one-third (31 percent) of their value destroyed. Hong Kong companies are the most affected—they lost 126 percent of their value, meaning not only would "buy and hold" investors have lost all the money they invested in the company, but they would have contributed added funds during the nine-year transfer period and lost those as well.

The Enigma of the Decline

The reasons for the decline in the company's value are still something of a puzzle, and something Prof. Fan continues to analyze, even after five years of work on the topic. But he has ruled out that the decline is caused by the incompetence of the successor since the decaying of the company in fact slowed down dramatically after the transfer of power.

"The value destruction started well before the successor took over," Prof. Fan notes. "It can't be that it's solely the cause of the successor."

“ *The value destruction started well before the successor took over. It can't be that it's solely the cause of the successor.* **”**

— Prof. Joseph Fan

His best theory is that much of the value in an Asian family business is intangible—investors look at who is running a company and what the owner's values are, when determining whether or not to invest. That's far more important than the fundamental analysis of revenues and earnings that would drive the investment decision in the West.

Asian families are much more hands-on with their businesses than their counterparts in the West, where the descendants of a founder typically eventually withdraw from working at the company. So it is the values of the founder and his family that explain the company's success, according to Prof. Fan. The value also comes from their connections and reputation in society, including with the government and the financial sector.

Most prominent companies across Southeast Asia were started by ethnic Chinese businessmen, who often bring Confucian cultural beliefs such as hard work and respect of elders as well as traditional Chinese beliefs, such as ancestor worship, to their companies.

"They are usually well-connected and respected in their local communities," Prof. Fan says. "They can often leverage up this sense of identity so that they work hard to sustain themselves and their family."

"Chinese business families should begin to plan their family and business future 20 years before the old generation retires," Prof. Fan says, because it takes that long to transfer the intangibles. "You have to start when the child is born. Otherwise the dissipation is inevitable."

That's because it takes two decades or more to cultivate intangible assets such as values and relationships and convey them to the younger generation. In the West, century-old business families such as Wendel and Mulliez in France have succeeded at that thanks to robust family governance, often with roots in a particular religious background.

There had been scant research on Asian family businesses when Prof. Fan began to study them 20 years ago. He specialized in corporate governance, leading to his interest in family businesses, which face issues over how to structure their boards fairly.

By Alex Frew McMillan



Innovation in Turbulent Times

CUHK Business School's Global Business Forum 2015

Hosted by The Chinese University of Hong Kong (CUHK) Business School, the Global Business Forum 2015 was held on March 1 to mark the 10th anniversary of Global Business Studies (GBS/GLOBE) and the 5th anniversary of the International Business and Chinese Enterprise (IBCE) undergraduate programs this year.

With the theme of "Innovation in Turbulent Times," the Forum was attended by over 130 guests, including keynote speaker John C Tsang, GBM, JP, Financial Secretary of the Government of the Hong Kong SAR; Prof. Joseph J.Y. Sung, Vice-Chancellor and President, The Chinese University of Hong Kong; Prof. Kalok Chan, Dean of CUHK Business School, as well as prominent industry leaders, current GLOBE and IBCE students, alumni, faculty members and prospective students.



Mr. Tsang advised CUHK students in his keynote speech to be prepared for whatever life offers: "You must all be thinking at this stage of life about your future careers and the dreams that you will follow. No matter what you intend to do, be well prepared. Be prepared to commit your whole self. Be prepared for the unexpected. And most of all, be prepared for failure."

Commenting on the event's theme, Dr. John Lai, Director of Global Business Programs at CUHK Business School, said: "The global marketplace is getting more competitive where innovation has become a buzzword and is reshaping the world of work. Innovation has been recognized as a way to perpetuate organizational profitability and growth in a complex and unpredictable environment. In preparing our students as global employees, it is imperative to equip them to be champions of innovation through acquiring the ability to solve problems and deal with a wide spectrum of unstructured issues that require complex or novel solutions."

Other distinguished speakers included Dr. Richard Vuylsteke, President of The American Chamber of Commerce in Hong Kong, who talked about "Under-rated Creativity"; Mrs. Christine Ip, Managing Director and CEO Hong Kong of United Overseas Bank Limited, on "Innovation—what has it got to do with your career?"; Mr. David Lee, Partner and Managing Director of The Boston Consulting Group, on "Be innovative—you need that in this fast changing world"; Mr. George Hongchoy, Executive Director and CEO of The Link Management Limited, on "The Link REIT's Innovation in Turbulent Times"; Mr. Harry O'Neill, Managing Partner, Head of Financial Services Practice, APAC

& Middle East, and Head of CEO & Board Practice, Hong Kong of Heidrick & Struggles, on "How Financial Services Companies Stay Competitive amid Turbulence". With such a wide array of speakers offering many different perspectives on what innovation actually is, attendees were inspired on how it can be used to excel personally and professionally.

There were also music, drama and dance performances given by local Year 1 GBS and IBCE students, as well as exchange students from Copenhagen Business School, The University of North Carolina at Chapel Hill and University of South Carolina. Not only do GBS students work hard, but they play hard too. Exhibiting the energy and enthusiasm that defines them, everyone was having great fun and the spirit was high.

About Global Business Studies and International Business and Chinese Enterprise Programs

GBS (also known as the GLOBE) has been a pioneer in business education at the undergraduate level in Hong Kong and also in the international education arena. Every year, 54 students from CUHK Business School, Copenhagen Business School and the Kenan-Flagler Business School in The University of North Carolina in Chapel Hill study together as one cohort in three locations across the world. Students are exposed to different settings across three continents for developing their global mindset through a comprehensive and internationally oriented curriculum and other experiential learning.

IBCE is the first and only undergraduate program in Hong Kong with an emphasis on international business activities between the United States and China. It aims at equipping students with comprehensive knowledge about the business environment in China and US. The program is partnered with Darla Moore School of Business, University of South Carolina, an internationally recognized leader in international business research and education.

By Edmond Siu and Rivor Lau



Alumni Spotlight

KC Chan: Voice of a Veteran Business Journalist

KC Chan is the former deputy publisher and executive director of *Hong Kong Economic Journal*, as well as the ex-president of EJ Digital. He graduated from The Chinese University of Hong Kong in 1983 with a bachelor of arts degree in Chinese. Ten years later, he graduated with a master's degree in communication and in 2001, obtained his MBA degree from CUHK Business School. CONNECT recently sat down with KC to reminisce about his days at CUHK and take a look at the future of the Hong Kong society, journalism and business education.

You got three academic degrees at CUHK. What kept you coming back?

CHAN I think it is a kind of special emotional attachment that I have developed for CUHK that kept bringing me back. At the same time, CUHK came as a natural choice to me as it excels in all the subjects that I chose to study—Chinese, journalism and MBA.

You have worked in the media your entire career and are well known by Hong Kongers for being the one who wrote the daily editorial column of the prestigious *Hong Kong Economic Journal* (HKEJ). Can you tell us how your CUHK education has shaped your career path over the years?

CHAN I joined HKEJ as a journalist right after graduation and learned my trade on the job. However, I realized that I needed to have more systematic knowledge in journalism so that I could do my job better. In fact, the master's program in communication allowed me to develop a more disciplined way of thinking based on theories and rigorous research methodology. Working in the newsroom, I didn't have much time to reflect on the big picture and deeper aspects of things. But the program gave me a chance to step back, process and consolidate all the information and knowledge that I had taken in, and then approach journalism from a more systematic way.

From journalism to MBA—how did that switch happen?

CHAN In 1999, 13 years after I entered the journalism field, I came back to CUHK for an MBA. It was a part-time program for executives and I remember going to class in Eastern Tsimshatsui, where the Town Centre was located then. At that time, I was mature enough to know what I wanted—to gain more in-depth knowledge in finance, economics and how businesses operate. What I gained was not only a new set of knowledge but also a wonderful network of fellow students who came from diverse fields of business. Since most of my classmates were experienced businesspeople, they always brought sharp questions to our class discussions. Their high quality stimulated my thinking and the sharing of knowledge was an invaluable experience.

Did taking the MBA course change your career path?

CHAN The change was not drastic as I continued to work as a journalist. However, the course did make me curious and more observant about the business side of a newspaper's operation, such as marketing, strategic positioning and ways to increase profits. In 2010, I became an executive director of HKEJ. It was then that the knowledge I gained from the course was put into good use, as I had to discuss with other board members issues that were directly related to the newspaper's business operations and strategies. How true it is that we may not necessarily be able to apply what we have learned in school right away, but when the time is ripe, the knowledge would come in handy.

You have always played an active role in civic society. While at CUHK, you were the president of the Student Union. After graduation, you have been in the media for over two decades and have developed a very deep understanding of the Hong Kong society. How would you summarize the changes you have observed in our society over the years? How do you feel about our city today?

CHAN I would use the phrase “Support Hong Kong” to summarize how I feel about our city. Since 1997, Hong Kong has continued to be a city with a unique set of advantages that can’t be replaced by any mainland cities any time soon. Hong Kongers should appreciate and uphold what makes our city unique. We are a mature civic society, with the rule of law deeply ingrained in our culture. This has taken a long time to establish. Many people fear that Hong Kong would fall from the face of the earth as mainland China rises to become a major economic power. I think this is an illusion. Just look at the value of Hong Kong as a major capital market from which China benefits. Just look at how mainland tourists enjoy a breath of fresh air (freedom of expression) during their stay in Hong Kong. We should be confident of our position in the world and be proud of it.

The government should stand up for its citizens’ rights. Educational institutes should uphold the truth-seeking spirit. The journalism community should uphold the freedom of speech. Each sector has its own set of values that should be guarded and maintained. As long as we continue to put our voices out, Hong Kong will have endless potential and could even contribute significantly to the development of China going forward.

Today, the younger generation is split into two camps—one feels totally hopeless about Hong Kong and the other is fighting to break away from the mainland. I think it is impractical to talk about breaking away from our motherland, a large marketplace and platform, which will provide a lot of opportunities for our city. The key is to make sure we uphold the “One Country, Two Systems” framework that has been promised to us. We really don’t need to go to the extreme of calling for independence. I think most people don’t think it will work, so we don’t need to waste time on this idea. Instead, we should stand up and support Hong Kong. You can call it a campaign!

You left HKEJ last year after working there for over two decades. What has made you step down from frontline media work?

CHAN The editorial direction and stance of the organization has changed, so much so that it does not align with my personal belief anymore. But I’m not putting any blame on it. It has to do with the greater climate. Most media organizations give in to political pressure and practice self-censorship. But freedom of speech represents Hong Kong’s core value and is supposed to be protected by the Basic Law. In Hong Kong, we should be able to voice our opinions freely. I would venture to say that even mainland Chinese would like to see this happen there. It is a pity that I had to leave the traditional media, but it is a fact that the space for freedom is narrowing quickly. As I felt that I could no longer use the media to its greatest potential to uphold the freedom of expression, I chose to quit.

You have taught journalism at CUHK as an adjunct professor for 11 years. Given the current climate in society, are today’s journalism students worried about their future?

CHAN Yes, they are generally quite worried. They are worried about getting a good job in this shrinking market, as there are fewer good news organizations today. They are also worried about the freedom of expression. While I taught them how a good news article should be written, they questioned whether one needed to compromise on the journalistic principles when dealing with sensitive subjects.

How did you answer them?

CHAN What you learn at university is a yardstick for professionalism, for what is right and wrong. It can be a tall order to measure up to that standard. Once you leave the university, you will have to make a decision on how far you want to compromise in reality. At least what you have learned will guide you on your journey. Even if you are pressured to practice self-censorship, there is a limit of how far you want to be pushed. When you are pushed against your baseline, it’s up to you whether you choose to quit or not.

Similarly, in the Business School, students are taught the highest principles of business ethics. But once you leave the school, you’ll see unethical behavior everywhere. Does it mean we’re going to teach the young people how to be a gangster? Idealism may not find a ready channel in the workplace but things that the Business School teaches, such as corporate social responsibility, social enterprises, environmental friendly practices and other humane management principles, will eventually become a trend in society and the older generation of managers will eventually realize it’s time to respond to the needs of the younger generation in the work force.

What have you taken with you from your days at CUHK? What is it about the university that you are proudest of?

CHAN The university has a unique set of principles—to uphold the Chinese culture, four-year university system, liberal education and bilingual instruction. Because of the emphasis of liberal education, for example, subjects that weren’t considered “professional” in the old days, such as journalism, business administration and social science, were offered at CUHK but not at Hong Kong University. After all these years, graduates from these faculties have become leaders in their own fields and are making a big impact in society now.

Actually, all of the four elements I mentioned used to be the laughing stocks of other universities, but finally, they have been adopted as a model for other universities and accepted as the “norm.” This shows how far-sighted CUHK was already since the day it was established. I hope it will continue to insist on its principles and ideals. These are what makes us alumni feel honored to be associated with CUHK.

By Louisa Wah Hansen



Faculty Highlight

Prof. Dennis Fan

Associate Dean (Undergraduate Studies), CUHK Business School

Lives in Hong Kong | Born on Jan 2 | Serving CUHK since 1991

About yourself

What are your hobbies?

PROF. FAN Too many: music, sports, traveling, meditation, debating, reading books on history, philosophy, sciences, biographies. . .

Could you name one of your most sentimental moments?

PROF. FAN We often listen to music at home while having dinner together. One evening 12 years ago, we were listening to Chopin's Impromptus Fantasia. I said to my son Eric, who was 9, "I have a dream that one day my son can play this piece." A week later, when I returned home from work, Eric said to me, "Dad, sit down and listen." He then played the whole piece by memory. It was really touching.

How and when did you meet your wife?

PROF. FAN We were high school classmates, but did not have the opportunity to know each other well until after graduation, when we both joined a social service group as volunteers.

Is there a book, song or movie you would like to recommend to our students?

PROF. FAN A book: 《古詩十九首》, it is just beautiful. A movie: Any of Steven Spielberg's movies. Spielberg is by far the greatest movie director, in my opinion. (By the way, he chose to drop out of university.)

About your profession

How did you become a professor?

PROF. FAN I started my dream career as a politician in early 1980. When I subsequently found out that it was a no-go for me, I went to the U.S. on a full scholarship to study economics and finance. Then I became a professor. It was kind of accidental.

Is this the profession you were always dreaming of?

PROF. FAN It was not. I aspired to be an influential politician. I admired Margaret Thatcher and Bill Clinton, and I still do.

What is the topic of your most recent research project?

PROF. FAN I have been working on a book titled: *A History of the Future: An Institutional Change Approach to Understanding the Evolution of Civilizations*. So far, I have written about a third of it.

Do you have any advice for students who wish to major in business?

PROF. FAN 1. Do not be too focused on a specialized area to start with; 2. explore as many disciplines as possible; 3. an understanding of a wide spectrum of non-business subjects will benefit your career development in ways you would never imagine.

What drives you to write the weekly message to all undergraduate business students? What do you want to convey?

PROF. FAN I love talking with young people and I have much to share with them on values, the meaning of life, etc. If we can affirm our purposes of life, we can live a purpose-driven life. There may not be a uniform life purpose for every person though.

About CUHK

In your opinion, what has changed the most at CUHK or with CUHK students since you joined the University?

PROF. FAN The degree of internationalization, yet we still have much to accomplish in this regard.

What is your favorite corner at CUHK?

PROF. FAN The Institute of Chinese Studies Building and the University Museum adjacent to it. When I had classes at the mid level, I often left my office 10 minutes earlier just for the purpose of visiting the museum before class.



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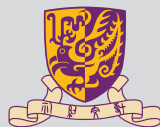
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