CONNECT

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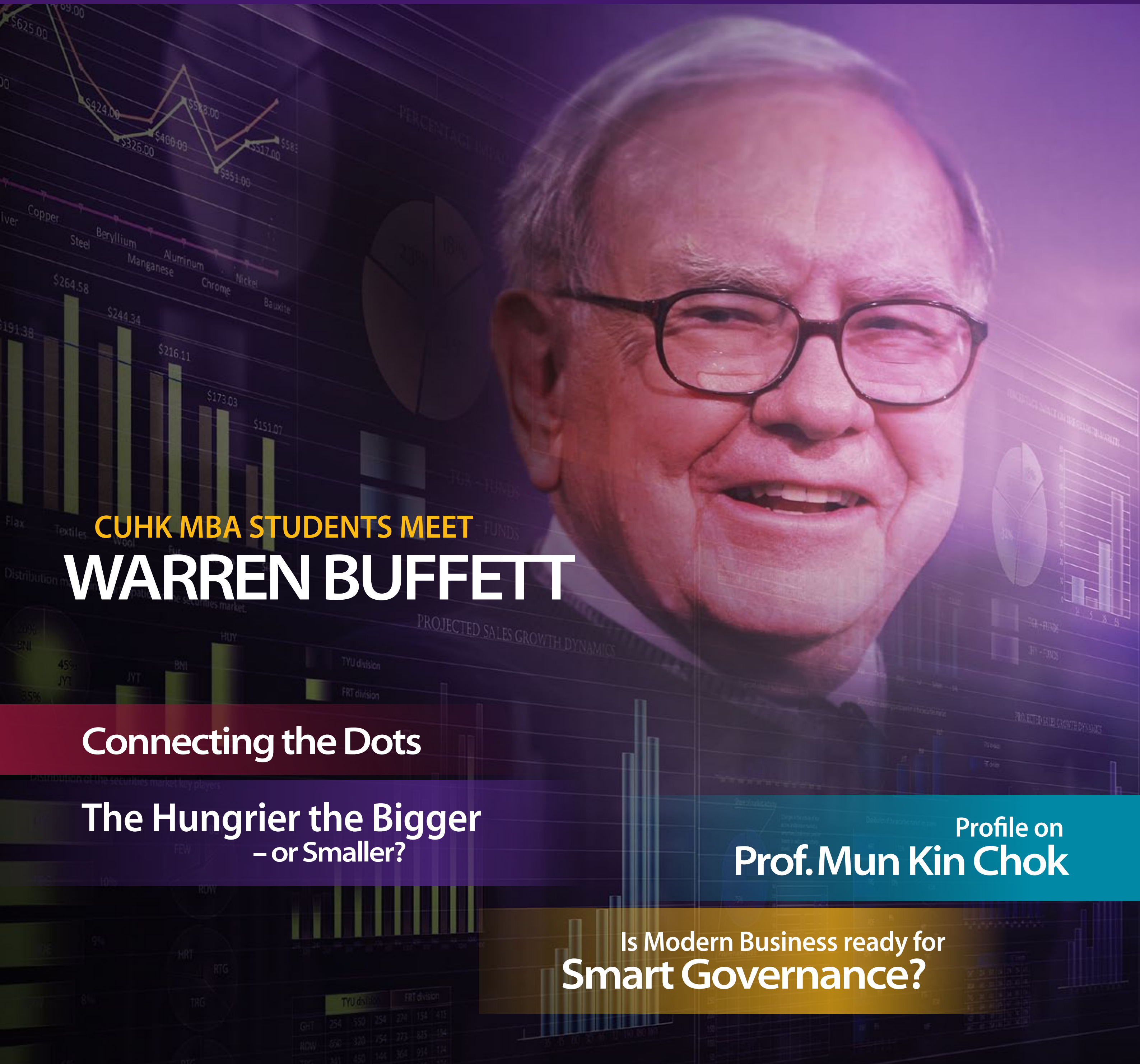

CUHK MBA STUDENTS MEET WARREN BUFFETT

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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. Situated at the world's doorway to China, with a well-developed foundation in business education and research, CUHK Business School at The Chinese University of Hong Kong has a unique role in nurturing business leaders of tomorrow. CONNECT magazine provides a platform to inform readers of selected business topics through articles written by staff and guest writers. 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 4,000 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.

A Pilgrimage to Warren Buffett

Seventeen MBA students from the Class of 2015/16 saw their dreams come true when they were chosen to represent CUHK Business School in a trip to meet investment guru, Warren Buffett, in his hometown last November. They were joined by about 160 students from seven other business schools in the United States, and felt honored to be the only ones from an Asian university. In fact, 2014 marked the first year an Asian institution was represented in the audience of Buffett's face-to-face meeting with MBA students.

Led by Adjunct Finance Professor Thomas R. M. Bain, the group of CUHK students had the rare opportunity to spend three days in Omaha, meeting and interviewing Buffett, having lunch and a photo session with him, as well as visiting three companies in the Berkshire Hathaway portfolio: the Nebraska Furniture Mart, Borsheims and Oriental Trading Company.

After traveling for almost a full day from Hong Kong and feeling a bit jetlagged, the students quickly freshened up and got ready for the two-hour meeting with their investment hero.

When Buffett quietly entered the packed auditorium from the back of the room, he was met with great enthusiasm and a thunderous round of applause by the students, who were taken by surprise at the simple manner the richest man in the world exhibited. In fact, CUHK's students share a unanimous impression of the wily 84-year-old man as being extremely humble, easily approachable, down to earth and has a good sense of humor.

Burning Questions

The highlight of the meeting was the much anticipated question-and-answer session, during which students from each of the participating business schools were allowed to pose two questions to Buffett. Due to the limited time allotted, the choice had to be made carefully and well in advance. The CUHK group decided to ask Buffett what he thought of the Alibaba Group and tech-oriented companies as a whole, and what he learned from the worst business decision he has ever made.

To the first question, Buffett's reply indicated the little interest he has in the e-commerce giant—in line with his stance toward social media giants and the difficulty he sees in estimating their future value.

SHARAD GOLCHHA, a current full-time MBA student at CUHK Business School and a former financial professional, recalls: "He demonstrated very clearly that he doesn't want to invest in technology stock."

But Buffett did add that he would be spending a year studying Alibaba in detail and would be happy to answer the same question again 12 months later.

Sharad Golchha

Marie Li

Yi-ting Wang

Gaurav Bhatnagar

To the second question, Buffett named a company in which he invested US$2,000 in 1958. At the time, the investment made up about 20 percent of his net worth, but it went bust. In today's prices, the stock would be worth US$3-4 billion. In addition, he also mentioned two other bad deals he made while at Berkshire. One was not buying Microsoft early on. The other was when he bought a company called Dexter Shoe Inc. for US$433 million in the mid-1990s using Berkshire stocks rather than cash.

Despite these mistakes, Buffett was quick to point out the futility of reflecting on "what might have been." "For the mistakes I have made in past I don't spend any time looking back. It is part of the game," he told the students.

In fact, the greatest lesson the students learned from Buffett is never cry over spilled milk, as beating oneself up after making a mistake amounts to making a mistake twice. Rather, as Golchha recalls, Buffett advised the students "to learn from the mistake and move on."

Investment and Leadership Tips

As expected, Buffett shared his investment philosophy with the students. His advice: Treat investment as a long-term objective. **MARIE LI**, a full-time MBA student and a former investment analyst at a leading private equity firm in Mainland China, recalls from his speech: "From Mr. Buffett's perspective, investment and learning are long-term objectives. He focuses on the future earning power of portfolios and never changes his opinion about a stock because of the economic environment. This inspires me to think about the principal of investment, which never changes under an effective market. Even though speculations could bring profits, I will try to pay more attention to the fundamental analyses and core profits."

As a successful business leader, Buffett also shared many useful tips with the future business leaders in the audience. Some of the take-home advice includes: Be confident, love what you do and do what you love, work hard on communication skills, trust people, be gracious, and give credits where credits are due.

YI-TING WANG a full-time MBA student and a former bank product manager, remembers his quote at the beginning of his speech: "'Never underestimate those who overestimate themselves.' This was interesting and triggered thoughts among us. Then he mentioned in order to become a good leader, we have to be confident in ourselves and the abilities we have, and have a passion for business. Warren Buffet does what he does because he loves what he does, so he gets to run his business the way he wants, gets applause and appreciation for what he does, and receives respect from others."

"This meeting inspires me a lot on my thinking and my attitude toward success. It is a really valuable experience," says Wang.

Buffett's suggestion on working hard to improve one's communication skills was perhaps something unexpected, coming from someone who excels in making investment decisions rather than marketing or communications. But Buffett's message was loud and clear: Without the ability to clearly communicate your thoughts and ideas, one cannot convert skills and ability into success.

GAURAV BHATNAGAR a full-time MBA student and a former business system analyst, remembers how Buffett's advice on communication came in the form of an interesting anecdote: "While discussing the importance of good communication skills, he said, 'I went through a terrible period myself. I was totally unable to speak when I was in public. When I was in high school I would do whatever to avoid reading. I went down one evening to enroll in Dale Carnegie's course. I gave them a check. I came back, totally lost my nerves and cancelled the check. When I came back to Omaha I was 20 years old. Somewhere I knew I have to go in front of people and talk. I went again to enroll in the course, handed $100 in cash to them this time and took the course. It changed my life in a very big way.... One week during that course I proposed to a woman who would become my wife. She accepted. In my office it is the only diploma hanging on the wall.'"

Wendy Wu

Desmond Tse

Claire Wang

Through story-telling, Buffett was able to impart his personal experience, draw lessons from them and share them with the audience. This was something that made the students feel a strong emotional presence from him.

Sharing Life's Experience

What surprised the students the most was that Buffett had a great deal to share when it comes to personal life. For example, he told the students that there are two mistakes one should avoid—choosing the wrong spouse and mistreating one's children.

WENDY WU a part-time MBA student and financial head for the China market of a U.S.-listed company, recalls: "He considers picking the right spouse and raising children to be investments that we should attach great importance to. These two are what we cannot afford to lose, when compared with wrong decisions that led to investment losses for your company."

Golchha appreciates Buffett's tips on self-improvement the most: "The idea of identifying the traits of the person you hate most and then getting rid of those traits within yourself is a good tool for self-improvement. Likewise, he suggests adopting the traits of the person you admire most."

DESMOND TSE a part-time JD/MBA student and an officer at the Correctional Services for the HKSAR government, savors Buffett's view on the topic of time: "He believes time is our friend rather than enemy. Perhaps many people expect him to teach us how to draw a perfectly planned schedule and strictly stick to the planned timeline for a successful business. However, his own experience is the opposite. He enjoys a free style in his daily life, reading, thinking, drinking at any time he likes. He proposed to us: 'Students, remember to do what you exactly like!'"

Lasting Impressions of the Guru

After spending three days with Buffett, the students have formed a highly positive impression of someone who had until then been only a role model on paper. During this trip, they saw how he related to people, and were touched and humbled by their experience.

"There were no indications that the person we were going to meet is one of the richest in the world," says Bhatnagar.

He shares his impression of the man as someone who is "simple, white-haired, loves his football and chicken parmesan with Coca-Cola ice cream float. He has lived in the same house since 1958. I got a chance to travel with him in his car, a Cadillac. He doesn't have a driver, or security guards following him. He drives his own car. Isn't it cool?"

CLAIRE WANG expresses how much she was inspired by the meeting: "Mr. Buffett is a successful investor with great achievements, but he's very low key, down to earth and very easy to get along with. He answered every question with a sense of humor. Everything he told us is worth learning. For instance, he wants us to have passion for what we do just like he does—he does what he does because he loves what he does."

Yi-ting Wang is particularly impressed by how easily Buffett trusts others. "We noticed that several of Mr. Buffett's investment deals were made by handshake deals. For a millionaire like Warren Buffet, it is really surprising that he trusts people that easily."
Tse recalls the fun time the group had with Buffett: "We had lunch with him in his favorite restaurant, where he treated each of us a glass of ice-cream sarsaparilla soda, which he loves to drink. In fact, his gesture showed that he was very sincere in sharing himself with all his student guests, both verbally and through actions."

Filled with intellectual stimulations from and warm memories of the world's most-known investor, the MBA students came home not only having their common dream fulfilled, but also feeling the fire to fuel their personal dreams kindled.

By Louisa Wah Hansen

Connecting the Dots

Prof. Kalok Chan, Dean of CUHK Business School;
Mr. Simon Lee, Co-Director of Integrated BBA Program

WITH the launch of the Shanghai-Hong Kong Stock Connect last November, investors both inside and outside of Mainland China are anxious to know what the future holds for the financial markets in Hong Kong and China. CUHK Business School professors share their views.

Amid much anticipation and a short period of anxiety, the Shanghai-Hong Kong Stock Connect was launched on November 17, 2014 to formally link the two cities' financial markets through an unprecedented exchange mechanism. The link aims to lift the previous barrier in capital flow so that more investors can participate in stock market activities on both sides of the border. It is also hoped that in the long run, capital resources can be allocated more efficiently through a new price discovery process, and that both Mainland China and Hong Kong will benefit from an expanded financial market.

A Watershed

Prof. Kalok Chan, Dean of CUHK Business School and Wei Lun Professor of Finance, says the Connect is definitely an improvement over the old system, as it is now easier for retail investors in Hong Kong to participate in the China "A" share market. Institutional investors used to dominate the trade before the new mechanism was put into place. At the same time, he says, the Connect allows capital from Mainland China—including that from retail investors—to come out of the domestic market much more easily. "Despite the fact that there is still capital control imposed by the Mainland authority, this is a big step in liberalizing the capital restrictions. So I think it has a significant implication going forward," he comments.

According to Simon Lee, Senior Lecturer of the School of Accountancy and Co-Director of the Integrated BBA Program at CUHK Business School, the Connect marks the beginning of a significant transition in the nature of RMB usage in Hong Kong. "Prior to the establishment of the Connect, the role of RMB in Hong Kong was mainly that of savings and loans. But now, it allows Hong Kong investors to trade stocks on the Shanghai board using offshore RMB in Hong Kong," he says.

From a broader perspective, the Connect plays a much larger role in China's quest to bring its currency to the world stage. Lee describes the creation of the Connect as the second phase in RMB internationalization, the first phase being the use of RMB in cross-border trade. In the second phase, RMB is widely used in foreign direct investments. In the third phase, RMB will play the important role as the country's reserve currency. Lee cautions though that without sufficient number of bonds carrying different years of maturity, it would be a long way before RMB reaches this phase.

Initial Hiccups

While a freer flow of capital in and out of both markets is one of the biggest attractions of the new mechanism, the Connect is not without its share of issues, especially in the early days of trading. Prof. Chan points out that the Shanghai and Hong Kong exchanges are not completely synchronized in terms of trading hours, settlement methods and treatment of taxation. "Some discrepancies between the two markets may make it inconvenient for investors, so that the Connect may not realize its full potential as yet," he says, citing the examples of different public holidays and company disclosure policies.

"The standard and degree of transparency is different," he continues. "Hong Kong is a more international market and Shanghai is still developing, so for investors in either place to trade in the other market, it requires a certain degree of adjustment. They need to realize that this is not the same game as what they had been playing."

According to Lee, corporate governance issues of the listed companies in Shanghai can be a deterring factor in attracting investors from Hong Kong. Lee suggests these investors to spend more time and effort in performing due diligence when investing in the Shanghai market than they would when investing in the Hong Kong market. "They may find that some crucial investor information is not readily available and therefore need to spend more time digging it out."

It is a tricky issue when it comes to information transparency. Prof. Chan believes that the more interest there is in the "A" share stocks, the more analysts from international banks and journalists will be covering them, thereby helping investors to make informed decisions.

"This kind of information will help investors detect occasions when companies are engaged in improper behavior," he says. "But of course, it's a chicken-and-egg problem. You've got to have the interest from investors first before more information would be generated. But to get that interest you need to have a certain amount of transparency first."

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>
> *— Prof. Kalok Chan*

Traffic Imbalance

Despite the fundamental obstacles, Hong Kong-based investors had demonstrated huge enthusiasm over "A" shares during the first few weeks of trading, often using up the northbound daily quota for trading volume, capped at RMB13 billion. On the other hand, southbound traffic had been lackluster.

Prof. Chan explains that this is due to the fact that retail investors dominate the mainland stock market whereas the Hong Kong market is dominated by institutional investors. Mainland retail investors generally have a very short-term trading mentality and therefore tend to invest in stocks that are easy and convenient to trade rather than going through the Connect, which presents some obstacles as discussed above. Besides, he adds, there are probably enough stocks on the Shanghai board for them to choose from, so the Hong Kong market would not necessarily be a great attraction. "The exception would be if the same company is listed on both markets, and if the prices are much cheaper in Hong Kong, then mainland investors would be more willing to participate," he says.

The key to a greater southbound traffic is if the number of mainland institutional investors increases significantly. However, this depends on whether regulatory changes will happen. The Chinese Government has prohibited mutual funds, retirement funds, insurance and the like from including equity due to the perceived high level of risk. But Prof. Chan says the Government has yet to realize that a certain proportion of equity in the portfolio is healthy in the long run.

Future Outlook

Would the two exchanges start to move toward each other in their trading characteristics in the future, so that the Shanghai market would become more value-driven and the Hong Kong market would become more volatile?

"Probably not at the current size," contends Prof. Chan. "Further down the road, there may be some cross-exchange influences, but not until the daily quota is relaxed."

How about the valuation of stocks? Would stock prices in the two markets move closer to their counterparts?

Lee observes that before the recent boom of the "A" share market, Hong Kong shares used to be a bargain compared with "A" shares. However, the situation has reversed. "This reflects the fact that it takes time for the shares in both markets to reach their fair values. Currently, they are in the process of doing that. The Shanghai 'A' share market is still not fully open yet, and it'll take some time before the Shanghai-Hong Kong Stock Connect will reach a high utilization rate. When that happens, the stock prices in both markets will reach fair valuation."

Prof. Chan adds: "If the 'A' shares continue to go up and become more and more expensive, maybe mainland investors would want to trade more in Hong Kong for bargain prices. But this is pure speculation."

Another question that investors have in mind is: Besides a linked financial market between Shanghai and Hong Kong, will links between Hong Kong and other mainland cities such as Shenzhen be in the horizon?

It is possible to have such a link between Hong Kong and Shenzhen, says Lee, "but not too soon. We have to wait and see how the Shanghai-Hong Kong Stock Exchange turns out before the concept is extended to other markets. The Shanghai market is by far the biggest one in Mainland China. If the problems associated with the Connect aren't handled smoothly, adding Shenzhen to the mix may not be such an attraction for investors."

By Louisa Wah Hansen

The Hungrier the Bigger – or Smaller?

Prof. Xianchi Dai, Department of Marketing

WHEN you are hungry and see a piece of your favorite type of cake, do you perceive its size to bigger or smaller than in reality? The answer may be different depending on whether this cake belongs to you or not, according to a ground-breaking study by CUHK Business School on consumer psychology. Why would the cake size "change"? The study explains.

> *"Why does this judgment difference occur? Why does ownership matter? It is due to people's different motivations and judgment criteria for objects they own and objects that other people own."*
>
> *— Prof. Xianchi Dai*

A hungry person generally would perceive a piece of cake to be bigger than it actually is. Most people probably would have had first-hand experience of this effect, known as "the-hungrier-the-larger effect." However, a hungry person may also perceive the size of a cake to be smaller than in reality. This effect, which may not be consciously felt by people, has now been observed and documented in a research led by Xianchi Dai, an assistant professor at the Department of Marketing at CUHK Business School, and is known as "the-hungrier-the-smaller effect."

Given the same level of hunger, why would a person experience the former "larger" effect while another experiences the latter "smaller" effect? It turns out that it all depends on whether the person owns the target item or not.This is the finding of the empirical study.

According to Prof. Dai, past consumer psychology research supports the result of the hungrier-the-larger effect—a phenomenon intuitively felt by most people and taken for granted as true. However, his research is the first-ever that shows the opposite effect--the hungrier-the-smaller effect—to be valid as well. It also reveals the significant impact of ownership[1] on a person's perception of external objects.

"Researchers in the field believe that ownership does not systematically impact consumer judgment; however, our research suggests otherwise," Prof. Dai explains. "We found that if the consumer does not own the target item, the hungrier-the-larger effect will prevail; otherwise, the opposite effect will prevail."

Motivational Difference

Through four experiments, Prof. Dai and his colleague, Christopher K. Hsee from the University of Chicago, found that when people do not yet own a product, wishful thinking, i.e., wishing to get the product, dominates perception. Consequently, the person perceives it as bigger as her desire for it is stronger. However, when she already owns the product, wishful thinking disappears and is replaced by worryful thinking, i.e., she may worry that the product is not big enough to satisfy her needs, so she is more likely to estimate the size of the product to be smaller. The bigger her initial desire for the product was, the stronger this perception would be.

In one of the experiments, Dai and Hsee asked a total of 211 participants to estimate the volume of a cup of water[2]. During the main study of the experiment, the participants were split into two groups, A and B. Group A were told that they owned the water and it was theirs to drink. Group B was told they did not own the water and they could not drink the water. To encourage engagement and accuracy, the person who made the most accurate estimate would win a prize.

The result of the experiment showed that in Group B—those who did not own the water, the thirstier the participants were, the larger the volume of water they estimated to be, demonstrating the "hungrier-the-larger effect." By contrast, in Group A—those who already owned the water, the thirstier the participants were, the smaller they estimated the volume of water to be, demonstrating the "hungrier-the-smaller effect."

"Why does this judgment difference occur? Why does ownership matter?" Prof. Dai asks. "It is due to people's different motivations and judgment criteria for objects they own and objects that other people own."

"In most cases, for your own objects, what you care about the most is whether it is large or good enough to satisfy your needs. But if the object is not yours and you really want it, what you care about the most is how to get it. In such a case, due to the different motivations, people may use different judgment criteria to evaluate the target items," says Prof. Dai.

It's All Human Nature

"It is human nature," comments Prof. Dai. "People always feel dissatisfied with what they already own, but think highly of what they don't yet own." He cites two sayings as examples: an English one—the grass is always greener on the other side; and a Chinese one—the flowers in your garden are always less fragrant than the wild ones (家花沒有野花香).

"We can find these similar sayings in either the Western or Eastern culture. It's ubiquitous in daily life," says Prof. Dai. "For an object that you do not yet own, because you really want to get it, the target object is thus becoming an 'ideal' in your mind. So you perceive the object to be better or bigger than it actually is. For an object you already own, you tend to wish that it was better or bigger because you may compare it with another object that you now want to own and feel that the current one is no longer good or big enough."

Manipulating Consumer Desire

As such, the study has its practical implications in business. For those marketers who would like to leverage the hungrier-the-larger effect, Prof. Dai suggests that they need to make their products more desirable through feeding people's imagination of owning it.

He uses the fashion industry as an example. For a customer walking into a fashion store, the store can adopt some kind of technology—a sort of virtual 3D mirror—to show her an image of how she would look wearing the clothes, whetting the consumer's appetite to own it. This visualization exercise could greatly enhance her evaluation of the clothes and increase the chance of her purchasing it.

Prof. Dai concludes that marketers can actually manipulate consumer desire by knowing how they think and feel, and subsequently increase the chances of them purchasing a product.

By Fang Ying

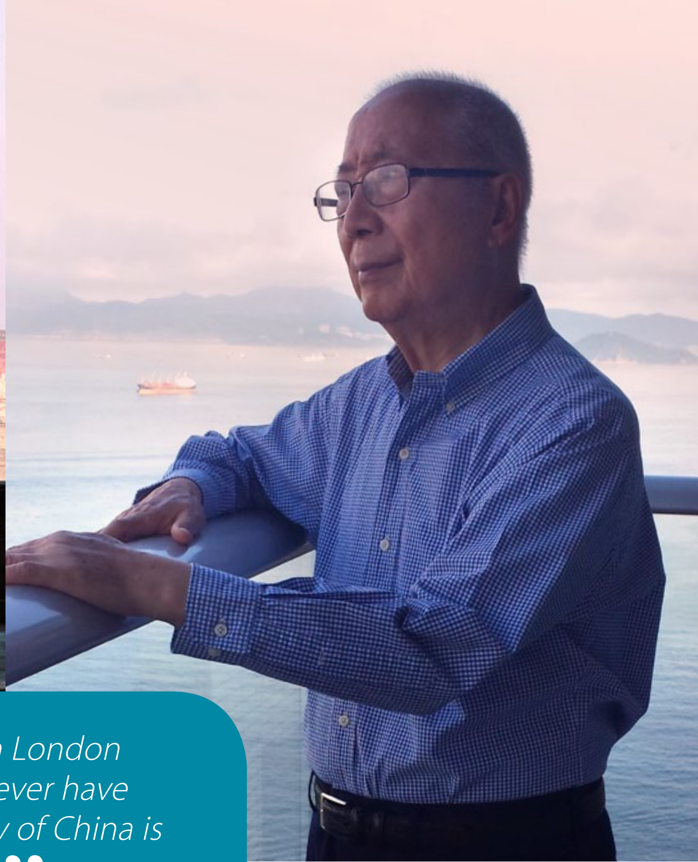
Reference

1. Xianchi Dai and Christopher K. Hsee, "Wish Versus Worry: Ownership Effects on Motivated Judgment," Journal of Marketing Research, 2013.
According to the paper, ownership is defined as the perceiver's accessibility to or right to consume the target item.

2. In the first part of this experiment, the participants were required either to drink water or to eat a pretzel, which induced either low or high levels of thirst. These participants were then placed evenly into Groups A and B. They were then asked to rate their thirst level and proceeded to the main study to estimate the volume of a cup of water.

Profile on Prof. Mun Kin Chok

FOR nearly 40 years, Prof. Mun Kin Chok has been one of the Chinese University of Hong Kong's most enterprising and innovative academics. After teaching at Nanyang University in Singapore, Prof. Mun joined CUHK in 1969. He helped found the university's faculty of business administration—the first ever to appear in Hong Kong, and was dean for three terms—1981-1984, 1987-1990 and 1990-1993.



> *"Nowadays, Chinese tourists travel the world — from London to Paris to New York. Back in the 1980s you would never have dreamed that would be possible. Now, the economy of China is the second largest in the world. It's quite a change."*
>
> *— Prof. Mun Kin Chok*

Spreading the Knowledge Tirelessly

Prof. Mun delivered his first course in China in 1981 and shortly after, a general manager of a sizeable state enterprise requested him to conduct a training course for the company executives on the nuts and bolts of marketing. The demand for marketing knowledge snowballed and Prof. Mun travelled extensively on the mainland during the 1980s. He delivered lectures to universities and companies in Guangzhou, Shanghai, Nanjing, Xi'an, Chongqing and Beijing. Often, he and his colleagues used their own vacation allowance to find the time to deliver courses.

He remembers the "friendship shops" open only to people visiting the mainland. "Local people weren't allowed inside. Nowadays, Chinese tourists travel the world—from London to Paris to New York. Back in the 1980s you would never have dreamed that would be possible. Now, the economy of China is the second largest in the world. It's quite a change."

As word spread about Prof. Mun in China, he also began to provide month-long courses during summer vacations for business executives from the mainland at the CUHK campus in Shatin. To broaden the scope of the course, Prof. Mun and his colleagues from related disciplines, such as marketing, international business and management, contributed to the content. This type of training course for mainland executives continued to run for six years in Shatin.

Trailblazer in Hong Kong

In addition to his pioneer activities in the mainland, Prof. Mun also played the role of a trailblazer on the Hong Kong campus. During his deanship of CUHK's faculty of business administration, he established the first integrated BBA (Bachelor of Business Administration) program and later on EMBA (Executive Master of Business Administration) program for senior executives in 1992—the first of its kind in Hong Kong. He remained the EMBA program director until 2002.

Over his lifetime, Prof. Mun has witnessed Hong Kong's transformation from a British colony to an international business hub. Now, even when southern Chinese cities host a vast choice for consumers, Hong Kong remains lodged in people's minds as the leading shopping and tourist destination.

Business Education and Chinese Philosophy

Throughout his tenure, Prof. Mun urged his students to ponder on the relevance of ancient Chinese wisdom from the book of *I Ching,* or *Yi Jing* (The Book of Change). He has even written six books examining this developed system of thought. *Yi Jing,* he believes, underlines the need to listen and accommodate the views of others, and stresses the importance of achieving harmony through seeking the middle ground between differing standpoints. "It teaches people how to behave, how to be good — that undermines my philosophy," he says. "I consider *Yi Jing* a thinking tool — a way of broadening people's minds, and a tool to encourage more logical thinking."

By Helena Pozniak

Is Modern Business Ready for Smart Governance?

By Prof. Gregg Li, Adjunct Professor of CUHK Business School and Chairman of Invotech, an independent think tank on Innovation and Technology

"SMART GOVERNANCE"

is a new concept in management and governance. It applies equally to governments as to organizations, and is very relevant to the modern graduate students of business.

It matters to the new modern leader because he or she who can recognize the characteristics of Smart Governance and excel in this new form of governing ecosystem will be able to move like a spider in this complex web of modern management.

Smart Governance is less governing, not less governance. Smart Governance is recognizing and accepting that not everything can be controlled and not every decision needs to be made by the core. Contrary to the present day emphasis on compliance, Smart Governance throws compliance back to management.

Less governing doesn't mean less understanding of the need for governance. It means recognizing certain decisions do not need to be made by the Board (or by the Governor of a State). From Management 101, we understand that a one–person company cannot have efficiency of scale because that one person will have to take all sales calls, provide all values to the client, and eventually do all the work. This is the core reason why we have companies, to allow for differentiation and coordinated activities of expertise. Similarly, if every decision needs to be handled by the Board or by its designated leader, the company will simply come to a halt.

To win, companies and governments need to be much smarter.

The Ingredients of Smart Governance

Smart Governance encompasses its own language and to speak it well, the modern leader must learn and gain a new understanding in Complexity, in Big Data, and in Innovation.

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> *— Prof. Gregg Li*

> *Would the new modern leader recognize Smart Governance in its formative stages when he sees it, so that he can be one step ahead of his competition?*
>
> *— Prof. Gregg Li*

Let's begin this alphabet soup base with something called the Science of Complexity. Although two decades in development, complexity as a concept has barely begun to be intertwined in the fabric of modern management. Complexity has its own language and from the combined wisdoms of Nobel Laureates in chemistry, biology, economists, mathematics and physics, we come to understand Emergence, The Butterfly Effect, and Complex Adaptive Systems. From this we understand why chaotic systems like the Occupied Central Movement in Hong Kong have a tendency to be self-organized. This soup base is very important because it brings in the management of complexity and in response, the need for leaders to manage emergent risks — risks that aren't there initially, but when combined with other risks, new ones emerge. Making decision brings consequences and a leader may come to rely on taking a business decision that has the least knock-on effect as his best decision.

Next, we add in selective ingredients called Big Data, which was called by many other names before it became "Big." We instinctively know that with data mining and other forms of new data analyses we are able to glean insights from a pile of seemingly unrelated gibberish. The modern manager now uses data analyses to reinforce business judgment, and so far, we like what we see. Decisions are being made with new metrics and relevant data points made possible with more powerful computers.

Then we add the spice of Innovation. Innovation is probably one of the reasons why the Stanford Design School is even more popular than the Stanford Business School for leadership training, because the new world is not about management alone, but about disrupting the status quo. Take for example the disruptive nature of Uber. In cities all over the world and including Hong Kong, a war is being fought by "traditional" taxi companies against a new form of competition from Uber and other ride-sharing services. New leaders of tomorrow are those who can learn and begin to acquire the weapons of disruption.

These ingredients, spices and the soup base must be introduced in the right sequence and under the right conditions if we are to have a tasty dish. So must those for Smart Governance be done in the same way.

The Roots of Smart Governance

Before we can serve this great dish on the table, we need a modern kitchen with modern equipment that can easily introduce a torch to flambé or a blender to mix the ingredients. And this modern kitchen is the realm of Smart Governance that the modern leaders have provided.

Smart Governance is the result of good governance that has provided the ecosystem for innovation. Good governance is being very sensitive to the dish being cooked.

Although the concept is new, its root is not. Lao Tzu in the *Tao Te Ching* cited that "governing a country is like simmering a small fish," and reminded us to be gentle in our ways of governing.

And as managers and directors we often forget this need to be genteel, to be sensitive of our surroundings, and to act decisively, particularly in a world of complexity and fast emergent risks.

Smart Governance comes from the realm and discussion of Smart City. China has purportedly quickly jumped onto this bandwagon and has declared over 300 cities to be Smart Cities, whereas Hong Kong, which started this conversation nearly a decade ago, is still a story in the making.

In comparison, some of the best Smart Cities in the world would have to include Vienna, where citizens believe that "a developed city is not a place where the poor have cars. It's where the rich use public transport." Forget electrical vehicles. Smart City brings on a new dimension in how we as citizens can improve our quality of life. Smart Governance is about improving the quality of decisions.

Are We Ready for Smart Governance?

Is modern business ready for Smart Governance? Is our government ready for Smart Governance?

For businesses, Smart Governance often means less governance; not always, but up to a point. Board size generally ranges from 9 to 15 persons. A large board of 20-plus directors is the first sign of overdesign, and scores of large boards from the English Schools Foundation in Hong Kong to large hospitals have experienced the side effect of having too much governance. A small board is just the same. Smart Governance is realizing that governance is not totally about control or that everything needs to be controlled at the top. A smart leader knows instinctively that certain things sometimes cannot be controlled. It's best to allow the process to take its natural course, and to even allow for participatory decision-making.

For governments, participatory decision-making only works under limited circumstances where decisions do not need to be quick and consensus and fairness out-weighs the need for clarity of command and accountability. No one has all the right information at the right time to make informed decisions. That's why we rely on, and trust our representative leaders, to make certain decisions.

The next question is: "Would the new modern leader recognize Smart Governance in its formative stages when he sees it, so that he can be one step ahead of his competition?"

CUHK EMBA Alumni Association *Inauguration*

The CUHK EMBA Alumni Association was formally established and inaugurated at the Hong Kong Bankers Club on November 24, 2014. The inauguration ceremony attracted more than 150 people, including EMBA alumni, current students and senior CUHK and Business School staff. Arthur Li, former Vice-Chancellor of CUHK, kicked off the milestone event with an opening remark. This was followed by speeches by Prof. Mun Kin Chok, the EMBA Program's founding director; and Prof. Andrew Chan, the program's current director.

Simon Wong, Chairman of the CUHK EMBA Alumni Association, delivered welcome remarks and introduced the new council members, expressing his gratitude for everyone's support.

The CUHK EMBA Alumni Association currently has over 250 members. It aims to bring the alumni together to create a sustained pool of talents to serve the community and share networking opportunities.

Established in 1993, the EMBA Program offered by the CUHK Business School is the first of its kind in Hong Kong. It ranked top among all independent English-instructed EMBA programs in Greater China again in the Financial Times Global Executive MBA Rankings 2014.

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