CONNECT

MAGAZINE OF THE CHINESE UNIVERSITY OF HONG KONG BUSINESS SCHOOL • DECEMBER 2016

China Inc. on the Global Stage

What China Needs to Do Now

What Makes Consumers Use Their Loyalty Points?

MBA Town Center Grand Reopening

CUHK Business School
The Chinese University of Hong Kong

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

CUHK Business School

- The Dean is Professor Kalok Chan.
- The Business School is comprised of two schools – Accountancy, Hotel & Tourism Management; and four departments – Finance, Decision Sciences & Managerial Economics, Management and Marketing.
- It has over 4,400 students (full-time/part-time). Each year, over 500 undergraduate and postgraduate business students enroll in international exchange programs during the regular school term.
- CUHK Business School is the first business school in Hong Kong to offer MBA and Executive MBA programs.
- The MBA program was ranked 26th in the world in 2016, and the EMBA program was ranked 37th in the world in 2016 by the Financial Times.
- The School runs dual MBA degree programs with HEC in France; Rotterdam School of Management in the Netherlands; and the University of Texas at Austin in the United States. It also runs a joint program with Cambridge Judge Business School in the United Kingdom and MIT Sloan School of Management in the United States; as well as masters teaching partnerships with Tsinghua University and Shanghai National Accounting Institute in China.

Dean's Message

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

In this issue, we look at China's business in the global economy by presenting the keynote speech by Prof. Anil K. Gupta at the CUHK Business School Conference and an exclusive interview with him.

We also look at an interesting marketing research by Prof. Jessica Kwong in our Business School about loyalty programs.

Last but not least, we'd like to share with you the inspiring story of Viola Wong from one of our EMBA "Talking to CEOs" series.

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

Prof. Kalok Chan

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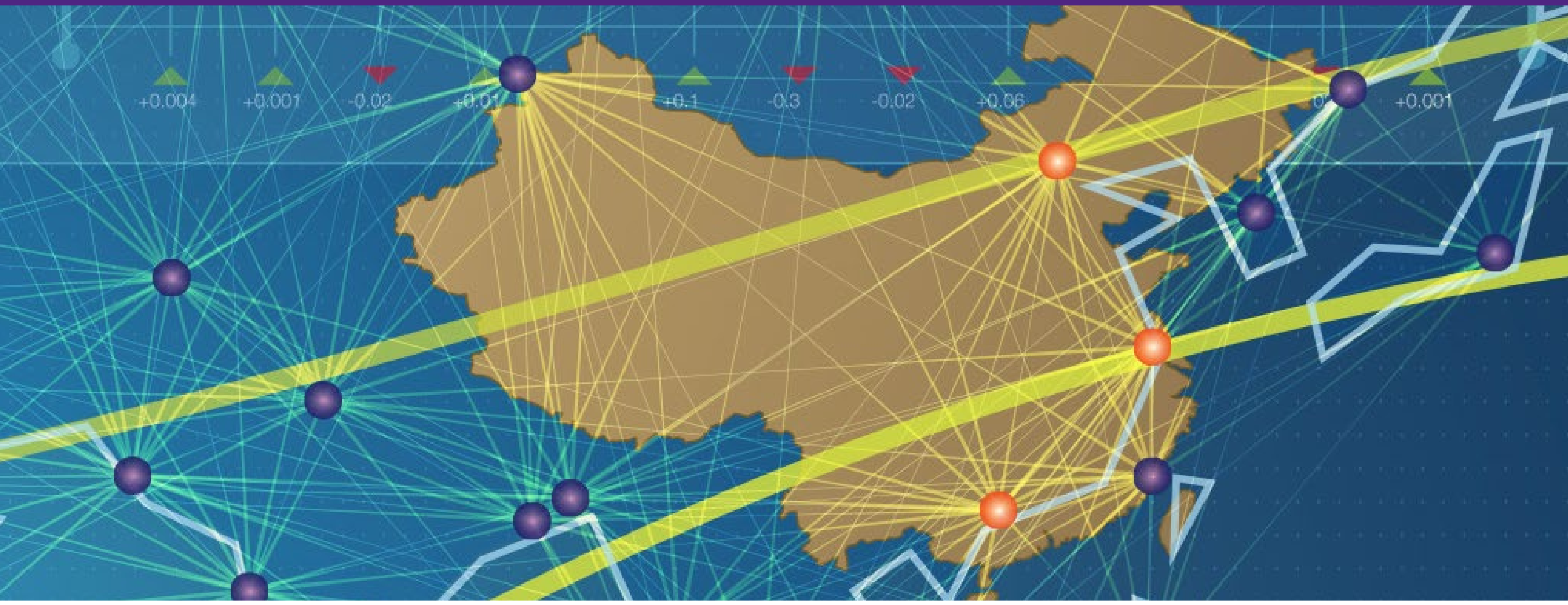
China Inc. on the Global Stage

CUHK Business School Conference

Chinese companies' global expansion is one of the most hot-off-the-press topics of the global economy in recent years. What are the new trends and challenges for these companies' globalization? And how should they manage the challenges to be a world-class company?



These issues were brought to the fore in a keynote speech delivered by Professor Anil K. Gupta, Michael D. Dingman Chair and Professor of Strategy, Globalization and Entrepreneurship, Robert H. Smith School of Business, The University of Maryland.

The keynote speech was part of the signature conference themed "China Business in the Global Economy" held by The Chinese University of Hong Kong Business School, in celebration of its 50th anniversary of MBA programs, on September 9, 2016.

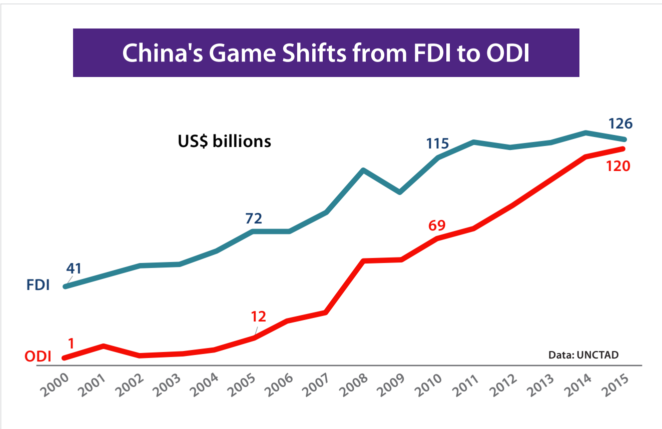
Prof. Gupta is widely regarded as one of the world's leading experts on strategy, globalization and entrepreneurship. Ranked by Thinkers50 as one of the world's "most influential living management thinkers," he is one of only 3 professors in the world, out of over 25,000 worldwide, to have been elected by his peers as a Lifetime Fellow of all three of the most prestigious academic bodies in his field – Academy of Management, Strategic Management Society, and Academy of International Business.

With the topic "China Inc. on the Global Stage", Prof. Gupta's speech shed light on the past and future of Chinese companies' outbound investment, offering his insights to some of the burning issues in the field.

Rapid Growth in China's ODI

According to Prof. Gupta, due to China's recent economic slowdown and the overcapacity existing in some of the industries, such as construction, infrastructure and real estate, the need for the inbound investment in China would not be able to grow at the same pace as in the past. Therefore, it makes good sense for Chinese companies to look for new growth opportunities outside of the country.

Chinese companies' outward direct investment (ODI) activities can be dated back to late 1990s, when the Chinese government started to encourage Chinese firms to expand investment abroad to gain global competitiveness. As a result, China's global outward investment has been on an impressive growth trajectory over the past decade and overseas acquisitions have become an increasingly important means of international expansion by some Chinese corporations.



Source: Prof. Anil K. Gupta, China Inc. on the Global Stage, CUHK Business School Conference, Sept 2016. Used with permission.

United Nations Conference on Trade And Development (UNCTAD) statistics show that China's ODI reached a record high of US$120 billion in 2015, almost the same level as its inbound foreign direct investment (FDI) (i.e., US$126 billion).

Prof. Gupta predicts that the rapid growth of Chinese ODI is likely to continue and may overtake its FDI by the end of this year.

"It would not be surprising to see China's outbound investment numbers exceed the inbound investment numbers in the year 2016," he said.

Is China Buying Up the World?

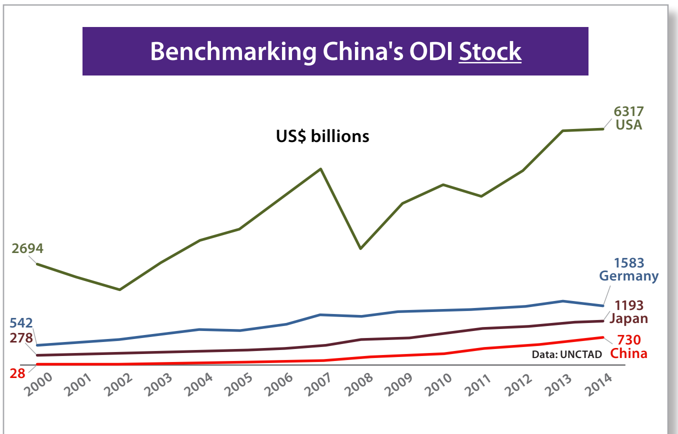
Does this impressive growth in China's ODI mean that "China is buying up the world", as many have commented?

The notion is a misconception and the reality is quite different, said Prof. Gupta.

He pointed out that Chinese ODI is a relatively new phenomenon. In 2015, China's outbound investment was roughly the same, on an annual basis, as the outbound investments of Germany and Japan. However, it is worth noting that the Chinese economy is twice as large as the Japanese economy and about three times as large as the German economy, the professor explained.

"Because China is a relative newcomer on the global stage, when adjusted for GDP, there's a huge gap between Chinese presence on the global stage versus the presence of US, Japan or Germany," said Prof. Gupta.

In addition, compared to other large economies, China's ODI stock, which is an effective indicator of the total level of a country's outbound investment, is relatively small. Building on data from UNCTAD, Professor Gupta noted that China's ODI stock was US$730 billion in 2014, which is smaller than that of Japan (US$1,193 billion), Germany (US$1,583 billion) and USA (US$6,317 billion) in the same year.



Source: Prof. Anil K. Gupta, China Inc. on the Global Stage, CUHK Business School Conference, Sept 2016. Used with permission.

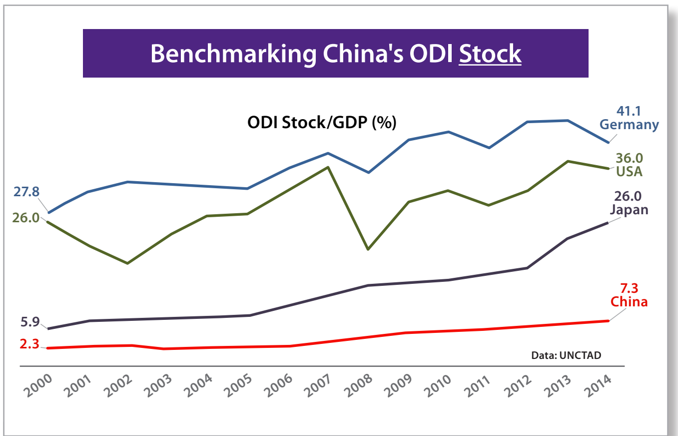
"If you look at the raw numbers, Chinese ODI stock was around US$850 billion by the end of 2015, as compared to that of US which was somewhere near US$7 trillion," said Prof. Gupta.

At the same time, China's ODI stock as a share of GDP remains relatively small at 7.3% in 2014, as compared to Japan (26%), USA (36%) and Germany (41.1%).

"No one says that Japan, Germany or USA is buying the world, but actually their [ODI stock] numbers are significantly higher than that of China," commented Prof. Gupta. "So I would say that the idea that "China is buying up the world" is not supported by the benchmarking data."

However, it would be fair to predict that China's ODI stock gap with these large economies will lessen over the next five years, and that within 10 years' time, China will likely be number two next to US in terms of ODI stock, he said.

"It would take some time for China Inc. to have a big presence on the global economic stage," Prof. Gupta said.



Source: Prof. Anil K. Gupta, China Inc. on the Global Stage, CUHK Business School Conference, Sept 2016. Used with permission.

Future Trends for China's ODI

When it comes to the key motivations driving China's ODI activities, people often say that the need to control natural resources needed by the Chinese economy has been one of the biggest factors. However, Prof. Gupta refuted the notion.

"There is no way China Inc. could acquire all or even a significant share of the natural resources that China as a country needs," he said, noting it can only acquire a fraction of those resources. "It's like acquiring a beach for fear of not being able to swim anywhere in the world. The acquisition of natural resources was driven less by strategic logic than by the fact that state-owned enterprises had a lot of cash and were eager to do something with that money burning a hole in the pocket," Gupta noted.

According to Prof. Gupta, over the last two years, the key drivers behind China's ODI investment have shifted and now include access to markets, technologies and brands, as well as strategies to scale up for global success and national security needs.

Speaking of the trends in China's overseas investment, he said that from 2005 until about 2014, the bulk of Chinese outbound investment went into sectors such as natural resources, real estate, and agriculture.

But the trend has now changed, said Prof. Gupta.

"Over the last two or three years, the game has shifted rapidly towards acquiring technologies, and brands, and so on. These acquisitions require much more complex organizational skills," said Prof. Gupta.

This means bigger organizational challenges for Chinese companies, who are still working to manage them.

In terms of the destinations of China's outbound investment, Prof. Gupta believes that as the target sectors are shifting from natural resources to technologies and others, there is also a significant shift of target regions moving away from developing and emerging economies to the developed economies in US and Europe. For example, according to South China Morning Post, Chinese investment in Europe increased by 44% in 2015 and could jump dramatically this year.

However, Prof. Gupta noted that in some sectors, there are barriers which prevent China accessing the US and Europe markets. He cited technology companies such as Alibaba and Baidu as examples. While dominant in China, these companies are finding it difficult to make their way into established markets outside of the country.

So these corporate giants are planning to expand internationally by acquiring in India, a market often touted by the media to be the next China. In September 2015, Alibaba Group and affiliate Ant Financial invested about US$680 million in Paytm, one of India's largest e-commerce companies, acquiring a stake close to 40%.

Facing a Steep Learning Curve

Nevertheless, global expansion through mergers and acquisitions (M&A) presents a considerable challenge for Chinese companies, whether private or state-owned enterprises (SOEs), according to Prof. Gupta.

"Broadly speaking, across all M&A deals globally, including those by American, European and Japanese companies, what percentage end up being successful? Less than 50%. And, the success rate for cross-border M&As is even less. When you're doing cross-border M&As, you know less about the things you are buying, so the risk of buying a wrong company, buying it at a wrong price, and not being able to integrate and manage it effectively post-merger goes up," said Prof. Gupta. "China is relatively new to cross-border M&As, which raises some serious questions, particularly for SOEs," he said.

"These SOEs have the financial capital, but do they have the organizational capital?" he asked.

Prof. Gupta further highlighted several challenges that Chinese companies would face when going global, such as organizational and culture due diligence, cross-border post-merger integration, managing across diversity and information transparency, and political sensitives in host countries.

> *"No one says that Japan, Germany or USA is buying up the world, but actually their [ODI stock] numbers are significantly higher. So I would say that the idea that China is buying up the world is not supported by the benchmarking data."*
>
> *-- Prof. Anil K. Gupta, University of Maryland*

To that end, Prof. Gupta shared four guidelines for Chinese companies to overcome their lack of experience and improve the low odds of success in cross-border M&As.

Go Slow with Acquisitions in Technology or Brand-Intensive Sectors

Chinese companies should go slow with their acquisitions in technology or brand-intensive sectors, which require highly developed organizational skills at managing a distributed global enterprise.

Learn to Walk before Running

They should build skills at managing a distributed global enterprise before making acquisitions in technology or brand-intensive sectors.

Learn via Partnering and Start with Non-Controlling Minority Stake

Companies should use fine-grained analysis of the value chain to figure out the low risk-high return opportunity; and convert intra-China partnership with foreign MNCs into global partnerships.

Induct Highly Experienced Chinese Returnees into the Leadership Team

Chinese companies should cultivate and leverage senior executives in acquired companies to lead globalization efforts.

Building on these ideas, Prof. Gupta believes that more Chinese companies would eventually grow into world-class companies.

Cited Huawei as a positive example of how a Chinese company built systematic capabilities to compete on the global stage, he said: "Huawei started to go global in late 1990s. They have built pretty strong organizational skills… I would say that 90% of its moves are right moves rather than wrong moves."

"Of course, over the coming decade, I expect that there would be more Chinese companies following Huawei to develop their capabilities and to be important players on the global stage," concluded Prof. Gupta.

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

CUHK Business School Conference Snapshots

In celebration of the MBA Programs' 50th Anniversary, this signature event themed "China Business in the Global Economy" was successfully held at Grand Hyatt Hong Kong on September 9, 2016. It attracted about 500 participants, including academics, industry leaders and business executives.

Prof. Anil K. Gupta

Plenary Panel Discussion – What Makes China Grow in the Future?

The Hon. John C. Tsang

Full house at the Grand Hyatt Hotel

Mr. Vincent Lo

Capacity audience at panel discussion

Panel Discussion – Tech Innovation in China

Sir C.K. Chow

Panel Discussion – New Trends in Financial Services

Prof. Kalok Chan

What China Needs to Do Now

An Exclusive Interview with Prof. Anil K. Gupta, University of Maryland

It is not the slowdown of China but the management of it that matters, according to Professor Anil K. Gupta, the Michael D. Dingman Chair and Professor of Strategy, Globalization and Entrepreneurship at the Robert H. Smith School of Business in the University of Maryland, College Park.

Ranked as one of the world's "most influential management thinkers" by Thinkers50, and "one of the world's most influential professors of entrepreneurship" by HotTopics, as well as a "superstar" for research on emerging economies by The Economist, the global expert in China's economy was in Hong Kong to speak at the CUHK Business School's conference "China's Business in the Global Economy" in September.

"The slowdown in China is a well-known fact and thus not a new story. The single biggest challenge for China now is how to manage its slowdown. This is what we have yet to see," Prof. Gupta told Mabel Sieh, Managing Editor of The University of Hong Kong (CUHK) Business School's knowledge portal, China Business Knowledge (CBK), in an exclusive interview before the conference.

A member of the World Economic Forum's Global Agenda Council on Emerging Multinationals, Prof. Gupta is one of only three professors, among over 25,000 worldwide, to be elected a Lifetime Fellow of the three most prestigious academic bodies in his field - Academy of Management, Strategic Management Society, and Academy of International Business.

Being the author of several best-selling books including The Quest for Global Dominance, Getting China and India Right, and The Silk Road Rediscovered, the professor is a highly reputed scholar who is often asked to comment on all things China and India.

"As a global strategist, I have been studying and analyzing China and its economy for a long time. If you want to understand the global economy, you cannot exclude China - a major player in the world's economy."

Written and published extensively, some of Prof. Gupta's work has been co-authored with his wife Haiyan Wang, managing partner of China India Institute. Wang is originally from Hefei of Anhui province in mainland China.

China Should Manage Its Slowdown with High Speed

"Given the current stage of China's economy, a well-managed shift from investments to consumption would imply a roughly five percent annual growth in GDP as a sustainable rate of growth," said Prof. Gupta.

"According to my analysis, if the Chinese leaders want the economy to grow by more than five percent, say 6.5 percent, the only way to do this is through artificial stimulus, such as boosting investment in fixed assets at a pace more than that is needed in the economy," he added.

To manage its slowdown, according to Prof. Gupta, China should focus on reducing overcapacity by implementing its supply-side reform, as Chinese president Xi Jinping has set out to do.

"Forget about new investments, it is the existing overcapacity which needs to be taken away. It means shutting down the high levels of excess capacity in some big industries including steel, construction and machinery, etc."

"Another urgent step is for China to shift from state-owned enterprises (SOEs) to market-owned private enterprises. The SOEs are not particularly productive or efficient. Overreliance on them leads to the misallocation of capital."

All of these measures have already been stipulated by Chinese president Xi Jinping who elaborated his supply-side structural reform again at the 2015 Central Economic Work Conference, China's highest economic meeting that reviews previous progress and maps out new plans.

But the real question is whether the reform will be taken seriously.

"Will there be more actions on the ground level than just talks at the top level?" Prof. Gupta wondered.

To maintain the growth of China, these changes also need to be implemented at a high speed.

"If these reforms do not get implemented with seriousness now, the economic situation is likely to become more difficult to handle in two to three years from now," he said.

China Should Create a Safe Environment for Innovation

In terms of mega trends, Prof. Gupta observed that three major transformations are already happening in China, that is, "the shift from manufacturing to services, from investment to consumption, and from imitation to innovation."

While he recognized the progress that China has made in its transformation to services and consumption, he is not so sure about the effectiveness of the transformation towards becoming an innovation-driven economy.

"Progress on the input side, such as increase in R&D budgets, has been excellent. But in terms of output measures, China's progress has been far less than stellar. To me, this suggests that the productivity of R&D investments has been rather low," he said.

People often argue that the problem lies in the Chinese reserved culture and its examination-oriented education system, which also relies heavily on memorization. But the professor takes on a different view.

"I've met many Chinese students who came to the US to pursue graduate studies. Within just a few years, they began to exhibit a high degree of creativity. Obviously, it doesn't seem that their education system back home has affected their innate creativity. Thus, in my view, culture isn't the critical factor behind China's slow progress regarding innovation."

So what's hindering China from innovative growth? It is how the R&D funds are allocated, according to Prof. Gupta.

"In the US and Europe, R&D funds are allocated by panels of eminent scientists, not government officials. Eminent scientists would look at how good the proposals are and how competent the scientists are. In China, however, the decision is made by government officials, often based on factors such as connections. They also tend to favour people who've been famous in the past, rather than currently active researchers. This practice has an adverse impact on the country's R&D development," he said.

> *"I think the fastest way for China to become an innovation power is to protect the intellectual property of multinational companies and to do so stringently. If the government doesn't protect intellectual property, companies won't have the confidence to invest in next-generation R&D work in China."*
>
> *-- Prof. Anil K. Gupta, University of Maryland*

The way China handles the technology companies also doesn't encourage innovation, he reckoned.

"In China, the government uses a fairly explicit policy of granting market access in exchange for technology. In other words, if I give you access to my market, you will give me your technology. This concept is fundamentally wrong. It often results in the leading technology companies doing largely product-localization type of R&D instead of next-generation technology development in China. The big technology companies don't want to risk losing their next-generation intellectual property."

He referred to the Silicon Valley phenomenon as an example of how the innovative industry has been able to flourish in the US.

"In the US, you often see innovation ecosystems emerge from the founding of a few technology powerhouses such as Fairchild Semiconductor and Hewlett-Packard. After some time, many of the scientists and engineers left to start their own companies. Some of these companies became big and successful. Then they lost many of their top scientists and engineers. It is this type of "spillover" effect which helps to create an extremely vibrant innovation ecosystem."

"China has massive talents in technology and engineering education. The problem, however, is that, because the world's top technology companies generally keep their next-generation R&D work away from China, the spillover effects tend to be much weaker. There simply isn't that much leading-edge technology work that could spillover."

"I think the fastest way for China to become an innovation power is to protect the intellectual property of multinational companies and to do so stringently. If the government doesn't protect intellectual property, companies won't have the confidence to invest in next-generation R&D work in China," he said.

The Long Road to "One Belt One Road"

Apart from the challenge to manage its slowdown, Prof. Gupta also commented on the difficulty facing China's biggest economic plan covering about 65 percent of the world's population, about one-third of the world's GDP, and about a quarter of all the goods and services in the world - "One Belt One Road", an initiative raised by Chinese President Xi Jinping while visiting Central Asia and Southeast Asia in 2013.

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

According to China Daily, since the launch of the initiatives, over US$250 billion worth of projects, ranging railways to power plants are under consideration.

Is China's grand vision a great concept too far from reality?

"In principle, I believe that increasing connectivity is always a good thing, so building all the infrastructure from China to Europe and the Maritime Silk Road is a good thing," said Prof. Gupta.

However, the professor also offered a pragmatic view regarding China's ambitious plan.

"Who is going to finance the infrastructure? None of the Central Asian countries along the belt route has the money to finance the build-up. Theoretically, China has the means to finance much of it. But, how will China realize any return on this investment? The payoff from infrastructure investments is rarely direct. Instead, the payoff comes in the form of lower input and logistics costs for other sectors in the economy. Will China be willing to make hundreds of billions of dollars in investments while the returns accrue not to China but to the other countries?"

There is also the question of political uncertainty.

"Is Russia going to be happy for China to build a highway through the Central Asian countries which have historically been its "back yard"? Would Russia like to see them becoming the "back yard" of China?"

"Thus, the challenge of OBOR is not just economical, but also political. There are a lot of uncertainties ahead. That's why I think its impact on China and the other Asian countries will be very slow," he said.

Hong Kong as a Niche Player

Being the gateway to China, many expectations have been raised on the key role of Hong Kong. How does Hong Kong fit it the global picture? Can Hong Kong be a leader?

"Hong Kong has a relatively small economy so it is hard to expect it to be a leader in everything. The key is to find its niche. I think Hong Kong should look at its strengths and determine in which areas it can be a leading player," said Prof. Gupta.

"For example, could Hong Kong be a leading player in Fintech, given its advantageous position as a major financial center in the world?"

Indeed, the government has been promoting Hong Kong as a Fintech hub. This year, Secretary for Financial Services and the Treasury Chan Ka-keung announced that the Securities and Futures Commission and the Office of Commissioner of Insurance have introduced regulatory measures to allow brokers and insurance companies to explore and experiment on new fintech policies.

In November, Hong Kong hosted the very first Fintech Week, inviting start-ups, technology firms, fund managers and venture capital investors from overseas and the mainland to conduct seminars and forums.

"I can see it's possible for Hong Kong to become one of the world's leading Fintech players."

Another crucial success factor is university education, he added.

"To become a leader, you need to start with globally leading edge university education in science and technology. Without education, it's almost impossible," he said. "Fortunately, with institutions such as CUHK, HKUST and others, Hong Kong is well positioned in this regards," said Prof. Gupta.

By Mabel Sieh, Managing Editor, China Business Knowledge@CUHK

What Makes Consumers Use Their Loyalty Points?

Jessica Kwong Yuk-yee, Associate Professor, Department of Marketing

Companies are utilizing loyalty programs more often than ever to retain customers and boost sales. But not all of them are successful. What makes people spend their points and stay loyal to a program?

Consumers are more likely to spend their loyalty program points when they can easily understand the benefits they can get form the points. This is the finding from a research conducted by Jessica Kwong Yuk-yee, Associate Professor from the Marketing Department of CUHK Business School and her collaborators Dilip Soman from the University of Toronto and Candy Ho from the Hong Kong Baptist University.

To Spend or Not To Spend

According to the researchers, loyalty marketing has been around for decades, and many companies have introduced programs that offer loyalty points in an effort to increase customer loyalty. Examples of such points programs include frequent flyer miles, credit card points and store points. A common feature of these loyalty program points is that they are usually accumulated via purchases and can be exchanged either for cash rewards or to purchase products from specific merchants.

Some previous research has investigated the effects of these points on consumer behavior, and examined how the consumer behavior changes as they accumulate points, but no study has yet explicitly identified the conditions under which consumers decide to spend their points rather than to accumulate them for future use. "Why would consumers prefer not to use their points at the first opportunity offered to them, especially if they have no economic incentives to hold on to them?" was the question asked by Prof. Kwong and her collaborators.

"It is likely that consumers would need to use a combination of points and cash to make a purchase. However, consumers may find that spending a combination of currencies is less appealing than spending a single currency. Therefore, we expect that computational ease may have an impact on people's decision to spend or keep the loyalty points," says Prof. Kwong.

In other words, the researchers expect that the likelihood to spend points is high when it is relatively easy to incorporate the point value into the purchase price of the product in terms of percentage savings.

To find out the factors that influence consumers' decisions to keep or spend their accumulated points, the researchers designed four laboratory experiments to test their hypothesis: The likelihood of spending points will increase with an increase in the ease of computing their percentage relationship with the purchase price. All of them confirmed the same result.

Computational Ease Makes A Difference

In one of the experiments, thirty-nine undergraduates were asked to imagine that a fast food restaurant they frequently visited was offering a reward program that they would get $0.1 cash dollar for each dollar they spent at the restaurant, and were told that they had already accumulated $2.4 cash dollars.

Then, half of the participants were randomly assigned to an easy to compute condition and were informed that they had decided to purchase a combo meal costing $3.6. The other half were assigned to a difficult to compute condition in which they had decided to purchase a meal costing $3.5.

It would be easier to compute the percentage savings in the former case (i.e., 2/3 or 66% off) than in the latter case (i.e., 68.5% off) where the two numbers are not multiples of a number and additional computational estimations steps are therefore required. At the end of the experiment, the participants would be asked to rate the likelihood that they would spend the points with a seven-point scale (1=definitely keep the points; 7=definitely spend the points).

In this experiment, the researchers tested their ideas by keeping the cash dollar amounts constant while varying the purchase price. The two purchase prices ($3.5 and $3.6) were selected in such a way that the two discount magnitudes (i.e., 68.5% vs. 66%) were comparable. Thus, the researchers could test the computational effect and its underlying process beyond the influences of the objective savings size.

> *"Consumers' likelihood to spend points is further influenced by their knowledge of percentage savings, which is above and beyond the influence of absolute amount of savings."*
>
> *-- Prof. Jessica Kwong, Department of Marketing, CUHK Business School*

The experiment shows that the participants reported a higher likelihood to spend their cash dollars in the easy to compute condition than in the difficult to compute condition.

"These results are consistent with our argument that the tendency to spend loyalty points is enhanced when it is easy to estimate the percentage savings," Prof. Kwong says.

She adds that going beyond the often touted concern consumers have, that is, the size of savings, this research shows that cognitive ease of incorporating points into the purchase price of the product as a percentage off is yet another important determinant.

"To be more specific, it reveals that when the loyalty program points can be easily incorporated into the purchase price of a product as 'percentage savings', for example, half or one-third off, consumers are more likely to use the points, " she says. "In general consumers are more likely to spend their loyalty points as they accumulate more of them. Yet, our paper showed that their likelihood to spend points is further influenced by their knowledge of percentage savings, which is above and beyond the influence of absolute amount of savings."

Practical Implications

In light of this, Prof. Kwong believes the study offers innovative ways through which consumers could be encouraged to spend their loyalty points.

Some people may believe that the optimal pattern is to have unredeemed points because it represents savings for the marketers. However, the researchers explain that low redemption activity actually is a major concern for many companies. For example, unredeemed points would place a financial burden on companies, as most regimes require that unredeemed points have to be reflected on the books as liabilities for a determined period of time.

What's more, comparing to retaining existing client, the cost of bringing in new consumers is much higher, so increasing your customer retention can significantly boost bottom-line profits. According to an article in Inc., it actually costs a business about 5 to 10 times more to acquire a new customer than it does to sell to an existing one. Not only that, but on average, current customers spend 67% more than new customers, so encouraging and driving redemptions that allows consumers to engage in the loyalty programs is important to a company.

Ultimately, loyalty programs should offer incentives for shoppers to reduce their store switching by offering them better value. Therefore, marketers should to do some work if a significant percentage of loyalty points are not redeemed.

As such, the study suggests that marketers should facilitate the estimation of the percentage savings and clearly identify the results of particularly difficult computations for their consumers.

"For instance, one credit card program in Asia is already working along these lines by allowing a retailer to swipe consumers' credit cards and inform them how much they could save on their next purchase using their accumulated points," says Prof. Kwong.

So, if your company would like to use a point-based loyalty program to retain customers, just keep the redemption simple!

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

Reference:
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CEO Spotlight: When There's Love, There's Hope

Viola Wong Ho Suk-ying, Founder and Vice Chairman of Executive Committee of Benji's Center which provides specialized professional speech therapy to children with communication problems, shares how she went through the pain of losing her beloved son and launched the center to help the children with special needs from low income families in Hong Kong. The following content is based on an episode in "Talking to CEOs" on Radio Television Hong Kong hosted by Prof. Andrew Chan Chi-fai, Director of CUHK Business School's EMBA program.

A Bolt from the Blue

Giving birth to your baby at the age of 37 was a turning point in your life. When you found that he suffered from Down syndrome, how did you feel?

Viola Actually that has been what I feared the most. When I was a Scout, I had the chance to visit a special school in Kwai Fong and help them set up a scout group many times. Most of the participants there are children with Down syndrome. So I understand how hard it is to raise a child who has Down syndrome. Also, I learn that older mothers have a higher chance of carrying babies with Down syndrome. So at that time, I thought that if I could get married and give birth between age 23 and 24, it would be best. But it turned out that I got married after I was 30. Since then, I had always been worried about the risk of being an older mother. Who would've thought it really happened to me when I had my son, Benji.

Apart from low intelligence, children with Down syndrome could have other diseases, such as thyroid, hearing and vision problems. I had even seen a child born with no ears because of the syndrome.

As Benji grew up, did he have other physical conditions apart from slow development of intelligence which made you exhausted?

Viola When he was six months old, he suffered from severe pneumonia and had to rely on the oxygen machine to breath. However, we were afraid that he, who was only six months old, would be struggling using a medical ventilator. So he was put in a medically induced sedation for sixty days. He was in intensive care for half a year before going to the extra care ward. The doctors even attempted to persuade us to give him up twice.

Fortunately, with a strong willpower, he got better afterwards. The doctor advised he should learn how to breathe by himself and he truly did it, with great effort sweating heavily. Finally, he got through the difficulty, and was discharged when he was one year and seven months old.

As a mother, I believe I have to train him properly. I attended courses and read many books in child development and set weekly goals. I also involved my husband and my maid in the training. Each of us was responsible for half an hour of his training every day. Besides that, we also taught him things in daily life. For example, we taught him how to pronounce the food he liked and encouraged him to order it by himself.

A Center to Remember Benji

You're a great mother who loved your son deeply. Unfortunately, five years later, Benji left you. It must be a severe blow to you. How long did it take you to heal?

Viola I don't know how long. When he passed away, I couldn't accept it at all. I even didn't want to get up to face the reality. Fortunately, one month later, my husband and I started to plan for the opening of a speech therapy center, in the hope of helping children with communication problems like Benji, especially those from low income families. However, that would need a lot of money. The education and health fund we saved up for Benji could only support the center for several years. Therefore, we decided to set up a business model first, in order to support the center in a sustainable way.

In 2002, we became the agent of a famous Belgian chocolate brand, Leonidas, which was new to the Hong Kong market. Subsequently, through the introduction of the Belgian Consulate, we got to know a Michelin chef who is also the chef of the Belgian royal family. Under his guidance, we opened a restaurant afterwards. The social enterprise, with the chocolate shops and restaurant, generated stable revenue and we were able to establish the center in 2004. Since then, we put all our efforts in the center, which is another way of memorizing Benji. In those 13 years, we got busy working hard with our colleagues, and we didn't even notice when exactly we came out of the shadow.

Although Benji lived with you for only five years, he changed you a lot. What did you learn from your son?

Viola Being selfless. Children with Down syndrome are very pure, simple and kind hearted. They do not think in a complex way. All they want is to get along well with others and share everything with others. They are just like angels, never fighting with others.

Changing Children's Lives

The Benji's Center chose to offer language services. Is it because language is particularly important to children?

Viola Yes, that's from my son's personal experience. After receiving speech therapy treatment, Benji was able to express his feelings and communicate with others, which made him more confident and happier.

It has been more than 11 years since the center was established. We have witnessed several successful cases of autistic children. They lacked the ability of self-expression and could only throw things when they felt angry. However, after receiving the training in our center, they have learnt to express themselves. During the recent four to five years, we have seen that some autistic children or children with hyperactivity disorder in our center have made remarkable progress. Some even behave just like ordinary children.

In Benji's center, you have organized a choir. These children are having trouble in speaking. But now you ask them to sing. Is that not a big challenge?

Viola The reason we have a choir is that we want to improve the children's language ability and arouse their interest in speaking. We found that singing could truly help them make great progress. Music can also help them practice speaking at home. We also teach the parents to sing, so that they can teach their children at home.

Since we established the choir in May 2014, these children have performed in public for more than 20 times. They were so excited about the performance that they would even tell their neighbors and relatives about it two weeks before.

Accepting Others' Help

Apart from assisting parents in training their children, you have invited them to candlelight dinners in your restaurant. Why?

Viola I would say that being a mother means no break throughout the year. Can any mother enjoy a holiday? I have visited many children's homes, especially those with autism or hyperactivity disorder, and I understand what difficulties and challenges the parents are facing. I remember there was a child who could not help but going back and forth to turn on the tap. In less than two hours, he turned on the tap for at least 200 times. When raising such a child, one would easily suffer from depression. So after that home visit, I told my husband that we had to find ways to help those parents, at least giving them a chance to rest for a few hours.

Although you encountered a lot of difficulty times in your life, you're still a positive and optimistic person. Is there any belief that encourages you?

Viola My belief is very old-fashioned: when there is love, there is hope. Facing the deaths of our beloved ones, our life would certainly be very miserable. But if we isolate ourselves and reject love and support from others, it would get worse. There is a saying: "It's more blessed to give than to receive," but I believe that we also need to learn how to accept others' help. It's not easy. But once we know how to accept others' sympathy and help, it will be easier for us to get rid of the shadows in our lives, move on and start a new chapter.

The Benji's Center has been established for more than 11 years. If Benji can hear you, what would you like to say to him?

Viola Last year, a parent wrote a letter to me with the words "A Letter to Benji" on the envelope. I opened it and it said: "Benji, don't worry. Because of you, there are now many people who care and love your mom and dad." I couldn't help shedding tears when I was reading it.

If Benji can hear me, I would say to him: "You let us learn about love and selflessness. So today we are able to love other children, who are like you. Thank you, Benji. You have given us a happy and rich life."

About "Talking to CEOs"

Since 2002, CUHK EMBA has been running the "Talking to CEOs" TV/radio program with Radio Television Hong Kong. Distinguished business leaders, academics and government officials have been invited to the highly acclaimed program to share their experience and insights with both alumni and students.

Translated by Tao Tao, PhD student, Department of Marketing, CUHK Business School. Abridged by Fang Ying.

The CUHK Business School MBA Town Center Grand Reopening

In celebration of the 50th anniversary of MBA programs, the School renovated the MBA Town Center with state-of-the-art facility to enhance teaching and learning, as well as engage academics, students, alumni and the business community.

The MBA Town Center of the Chinese University of Hong Kong (CUHK) Business School has been given a facelift and officially reopened in November 2016, marking a milestone in the School's future MBA education. As the teaching venue for the School's MBA and Executive MBA programs, the MBA Town Center aims to provide top-notch learning and training with state-of-the-art equipment and facility.

"I am delighted that CUHK Business School has fully renovated the MBA Town Center, which continues the School's vision to create an academic and professional hub which can serve and inspire the society of Hong Kong," remarks Prof. Kalok Chan, Dean of CUHK Business School and Wei Lun Professor of Finance. "The newly renovated MBA Town Center will provide enhanced and superior teaching and learning facilities for our students, as well as serving to connect and engage business communities with our students, alumni and academics," he says.

MBA Programs

According to Stephanie Villemagne, MBA Programs Director and Associate Dean of Graduate Programs at CUHK Business School, the onset of such a town campus for MBA programs can be dated back to nearly 40 years ago, when CUHK first introduced its three-year part-time MBA program in Asia.

At the time, CUHK received generous donations from renowned business tycoons in the city, including Dr. Cheng Yu-tung, Mr. Fung King-hey and Dr. Li Ka-shing. With the foresight and financial support from these Hong Kong business leaders, the original MBA Town Center was established in Tsim Sha Tsui in 1982.

In 2002, the MBA Town Center was relocated to the Bank of America Tower in Admiralty, an impeccable location in the city's financial district.

"Thanks to our business leaders' vision that many business professionals need MBA education at a convenient location close to where business is," says Villemagne. "Over the last 40 years, the part-time MBA has helped to develop numerous business leaders and continues to be a premier program of its kind in Hong Kong, in which the MBA Town Center plays a pivotal role."

The technology and process of learning have changed dramatically over the last 10 years, altering the interaction between teachers and their students. To that end, the Center has a full refurbishment of its seating, providing much more flexibility for casual mingling, alumni events, corporate executive training and other functions. Some classrooms are also equipped with movable walls, and advanced AV equipment.

"We trust the new design will facilitate teaching, learning and interaction among teachers, students, alumni and corporate friends for many years to come," says Villemagne.

CUHK Business School has pioneered in business education and launched MBA Programs since 1966, the first of its kind in Asia. Since then its MBA programs have gained world recognition of nurturing business leaders with immense contributions in Asia Pacific.

Executive MBA Program

Apart from the MBA programs, CUHK Business School's Executive MBA Program uses the Center for its teaching as well.

"One of the key features of the EMBA Program is the emphasis on personal interactions, especially among students, alumni and external CEOs," says Prof. Andrew Chan Chi-fai, Director of CUHK Business School's Executive MBA Program. "So, we are going to leverage the newly renovated center to serve these important stakeholders," he says.

CUHK Business School's EMBA Program always puts students first, according to Prof. Chan.

"We constantly think about how to facilitate our students in learning. Now, after the renovation, we are able to offer students the best facilities and optimal classroom setting, so that they have a more comfortable place to discuss and exchange ideas freely, and communicate more with their teachers. I believe that multi-dimensional communication can be expected in the new center," Prof. Chan says.

"As the large pool of CUHK alumni is one of the core assets of the EMBA Program, so it would be very convenient for alumni to come back," he adds.

With the aim to nurturing top-notch management talents in the region, the EMBA Program invites extensive CEOs to share their experiences with the current students, helping students to connect with business leaders. Since the Center is located in the financial district, where many multinational corporations have their headquarters, CEOs would find it convenient to come to share. In addition, with the high-standard facilities in the Center, the conference room there will be used as pre-interview meeting room for EMBA's TV program, "Talking to CEOs", a program with Radio Television Hong Kong where distinguished business leaders have been invited to share their insights with CUHK alumni and students.

"Through the Center, we can provide our students the best nutrition practically and external CEOs can share freely in a close-door classroom environment as well," Prof. Chan says.

CUHK was the first institution to offer Executive MBA Education in Hong Kong. Its original Hong Kong-based EMBA program, launched in 1993, was the first Executive MBA program in Hong Kong and remains a truly made-in-Hong Kong product. CUHK EMBA was recognized by the Financial Times as among the Top 25 Executive MBA programs in the world for 14 Consecutive Years.

About the New MBA Town Center

Great Accessibility

Situated in the heart of business district in Hong Kong, the MBA Town Center is within close proximity of various transport networks, and is accessible from Admiralty MTR station via a covered pedestrian walkway. The Center is an ideal location for a variety of events, including training, seminars, conferences, and other functions.

Well-Appointed Venues

The Center features a newly renovated reception area and a Conference Room, which can be combined to offer a premium venue for up to 100 guests for a cocktail or tea reception.

The tiered lecture theaters in the Center incorporate high-standard, state-of-the-art facilities suitable for hosting trainings, seminars and business events for up to 100 participants.

Flexible Meeting Package

The Center's venues are available for hire on an hourly, half-day or full-day basis. All packages offer complimentary usage of standard facilities. Other support services are also available upon request.

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