

SUMMER 2010

CHEUNG KONG

GRADUATE SCHOOL OF BUSINESS



**AMAZON'S
CHINA CHIEF
Wang Hanhua**

**PETER DRUCKER
WAS WRONG**
On Chinese Business Leaders

Corporate Strategy:
**A PRIMER FOR
CHINESE
COMPANIES**

TABLE OF CONTENTS



CHEUNG KONG
MAGAZINE
SUMMER 2010

FEATURES

15 Amazon's China Chief: Managing Triple-digit Growth at Joyo

Wang Hanhua, a student in the Cheung Kong China Country Manager Program, stepped into Joyo Amazon's lead role just as e-commerce was taking off in China.

19 Roadmap for Growth

Fanchen Meng, China Country Manager Program '09 intake, has written a how-to book on crafting corporate strategy in China.

Editor K.C. Swanson
Design Brain Media
www.brainmediacn.com



长 | 江 | 商 | 学 | 院
CHEUNG KONG GRADUATE
SCHOOL OF BUSINESS

Address Oriental Plaza,
Tower E3, 3F 1 East Chang
An Avenue
Beijing, China 100738
Tel 86-10-8518-8858
Fax 86-10-8518-6800
Web www.ckgsb.edu.cn
E-mail contact@ckgsb.edu.cn

1 LETTER FROM THE DEAN

Rethinking the Goals of Economic Development The values embodied in *tian ren he yi* could serve as the core of a future global value system.

4 SCHOOL NEWS

9 Media Mentions Time for Beijing to Step on the Brakes? • China's Growing Cultural Influence

ALUMNI PROFILES

23 Fashioning Growth MBA grad Catherine Zhang heads up Giorgio Armani's flagship China store.

27 Total Immersion Korean alum Seong Bong Joo gives Chinese-language EMBA a thumbs-up.

CHEUNG KONG IN THE COMMUNITY

33 A Social Education Cheung Kong launches the Children's Library Project.

ACADEMICS AT WORK

41 China Business In-Depth Newly-introduced intensive module delves deep into China business issues.

45 (Truly) International Finance Visiting Economics Professor Gan Li teaches global trade from a Chinese perspective.

47 High Financial Returns Cheung Kong's new Finance MBA catches on with mid-career professionals.

BUSINESS STRATEGY

51 Management: China Still Awaiting Transformative Leaders Peter Drucker was wrong – at least in his predictions about Chinese business leadership, says Strategy Professor Teng Bingsheng.

53 Pay Up: China's Third-Party Payments Market Takes Off Strategy Professor Brian Viard discusses the (payment) engine behind China's growing e-commerce market.



XIANG BING

RETHINKING THE GOALS OF ECONOMIC DEVELOPMENT

The values embodied in tian ren he yi -- harmony between human beings and nature -- could perhaps serve as the core of a future global value system.

From April 9 to 11, China's southern island of Hainan played host to the Boao Forum for Asia Annual Conference 2010. This year's theme was "Green Recovery: Asia's Realistic Choice for Sustainable Growth." The following is an excerpt from an interview with Cheung Kong Dean Xiang Bing conducted during the conference by *Sohu Caijing*. It has been translated into English by Cheung Kong staff.

Sohu Caijing (SC): The theme of this year's Boao Forum is "Green Recovery." In light of the improving global economic environment, what changes do you think businesses need to make in their operations?

With or without a financial crisis, the question of reducing carbon use while maintaining economic development would still be extremely important. In the past thirty years, China has achieved enormous successes in terms of development. Nevertheless, our development model, to a very large degree, has seen us play the role of housekeeper to the world. The work we do is low added-value and fairly low-tech, and has step by step created a serious pollution problem in China. But our population is huge, so by merely relying on this low value-added work, we've been able to create businesses with enormous production volumes, sales quotas, and bottom lines. We've also seen the emergence of a number of incredibly rich businessmen and women. But this model has several elements that are simply unsustainable. The environmental damage that has resulted from pollution will ultimately act as a check on our development.

We need, therefore, to adjust our model of development. But lately companies have been distracted by the financial crisis, so it's been much harder to make these kinds of adjustments. Company management has been primarily focused on simply surviving and dealing with issues of labor and social stability. So I see this as a major challenge for businesses and the government alike.

In addition, in the past in China we've primarily emphasized increasing GDP and output and expanding employment opportunities. At least some of our cities have not done enough to protect their strategic assets. For example, there was a time when Xi'an could have become the "Florence of the East." It should still be able to. But we keep fetishizing the new. Streets have to be broad; they have to be straight. While we're pursuing those goals, we may end up sacrificing our cities' real strategic advantages.

If you look around the world, you can see that it's been over 500 years since the Milan cathedral was built, but it still has the power to awe and move you. Maybe after you have material wealth, you can start to build things that will outlast the current era. It's worth consider-



Xiang Bing is the founding dean of Cheung Kong Graduate School of Business. He earned a Ph.D. at the University of Alberta and is a professor of accounting. Xiang speaks and writes frequently on the challenges of globalization for Chinese firms and on trends in Chinese business and the economy.

LETTER FROM THE DEAN

ing how we can build things to last 300 to 500 years or more.

People are paying more and more attention to the "green economy." What kind of economic model do you think the green economy represents? What changes do you foresee in companies following this operational model for development?

Our country isn't the only one facing environmental problems. Carbon reduction will remain a key issue for the entire world in the years to come. I think the way that we've gotten to where we are today is closely related to one of the cornerstones of Western civilization. For so many years, one of the main principles governing development in the West has been the idea of its being people-oriented, that it has humanity's benefit at its center. The Greeks have a saying that man is the core of the world. But really, we've been paying too much attention to what benefits humans at the expense of our environment.

We may be using up all of the resources available to us. All of the things passed down to us in the past centuries and millennia, even the resources that we will need in the future, may have been exploited within the next one or two generations. So I think by putting people at the center of the world, we're overstating our own importance and destroying the environment that we rely on.

In conferences abroad, foreigners are always asking: How did China develop its economy so quickly? What lessons can the rest of the world take away in terms of ideas of management and value?

I say that there are some lessons that the rest of the world can learn from China. The Chinese concept of *tian ren he yi*, which refers to harmony between human beings and nature, is an incredibly important concept. I think the concept of value expressed in *tian ren he yi*, passed down to us by our ancestors, perhaps can or should become the core of a future global value system. This may also be the biggest contribution we can make to the progress of global civilization. 📖



SCHOOL NEWS





ENTREPRENEURS CHINA CEO PROGRAM

In May, Cheung Kong welcomed over 60 China business leaders to Beijing for the commencement of its highly selective China CEO and China CFO programs.

The majority of participants in the China CEO and CFO programs head companies with sales of over USD 100 million per year.

The two Cheung Kong programs, which were first

launched five years ago, are organized in concert with Columbia Business School, IMD Business School, and the London School of Business. After the four-day opening session in Beijing, students will attend sessions over the course of the com-

The majority of participants in the China CEO and CFO programs head companies with sales of over USD 100 million per year.

ing year at Cheung Kong's partner schools in New York, Lausanne, and London, as well as a class held in conjunction with Cheung Kong's annual Sanya Forum.

The program provides a total of 24 days of classroom instruction, with tuition of 620,000 yuan.

The Beijing session will feature classes such as "Dealing Pro-actively with Globalization," "Reform of the Renminbi Exchange Mechanism: Past and Future Perspectives," and "Derivatives, Investment Banks and Risk Management."



DISTINGUISHED SPEAKERS DELL CIO ROBIN JOHNSON

Dell Chief Information Officer Robin Johnson, in a talk at Cheung Kong's Shanghai campus, discussed strategies to boost corporate technology efficiency. Johnson described "green" initiatives he introduced that cut Dell's costs by \$150 million and saved the company from having to buy new technology gear.

Cheung Kong Associate Dean Zheng Yusheng (郑渝生) hosted the event. Johnson's talk was moderated by Juliet Wu (吴士宏), a veteran of the China tech industry and graduate of the Cheung Kong China CEO Program. Wu, one-time general manager of Microsoft China, now chairs Blackspace Information Technology.

Johnson was hosted as a part of the Cheung Kong Graduate School of Business Distinguished Speaker Series, which supports thought leadership and international exchanges related to business, corporate strategy and leadership.



CHINA STRATEGY NEW CHEUNG KONG, COLUMBIA COURSE

Cheung Kong in April announced the launch of "Global Business Strategy: China," a new executive education course developed through a collaboration with Columbia Business School.

The program is designed for senior-level executives from multinational companies who want to expand their current business in China or have plans to enter the market.

"In the wake of the financial crisis, China plays a more important role than ever in the global economy," said Cheung Kong Dean Xiang Bing. "Understanding the China market is essential for a company's global strategy."

The Global Business Strategy: China program will feature content essential to understanding business in China, including coursework on the impact of the financial crisis, the competitive advantages of Chinese companies, opportunities for commercial gain and sustainable development in China, and the cultural traditions that impact business practices in the country.

The course will be taught by professors from both schools, featuring modules in New York and Sanya, Hainan. Visiting speakers will include Chinese government officials and CEOs from major Chinese companies and multinationals with extensive experience in China.



PROGRAMS 16TH EMBA CLASS

In May, China Securities Regulatory Commission (CRSC) Research Center Director Qi Bin told 260 newly-admitted Cheung Kong Executive MBAs that as long as China maintains its pace of financial reform, it will be on track to surpass Wall Street. But in the meantime, it must continue to strengthen its capital markets structure.

Speaking at the opening ceremony for the 2010 spring EMBA class in Beijing, Qi, who also teaches finance at Cheung Kong, urged students to keep abreast of changes in the capital markets. Companies that are not able to fundraise through the capi-

tal markets within their first decade risk falling behind better-funded peers, he said. From the macro perspective, a strong national financial infrastructure complements innovative technology, he added. One area where China could learn from the U.S. is in the close relationship between Silicon Valley and the Nasdaq stock market.

Qi said China must take care to avoid the fate of Japan, still mired in a two-decade long economic slump. Japan's economy was too rigid and internally driven. The lesson for China, Qi said, is to learn to be more flexible and to diversify globally.

DISTINGUISHED SPEAKERS CHINA'S ECONOMIC PRODUCTIVITY

Bart van Ark, chief economist for The Conference Board, told a group of senior executives at Cheung Kong's Beijing campus in March that "China shows extraordinarily rapid productivity growth versus other economies."

Over the previous seven years, van Ark estimated that productivity growth in China has averaged 10 percent, compared with 1.3 percent and 5.4 percent for the U.S. and India, respectively. He noted that China's rapid GDP growth far outstrips gains that can be attributed to employment growth, sug-

"China shows extraordinarily rapid productivity growth versus other economies." – Bart van Ark, chief economist, The Conference Board

gesting that China is "investing and getting solid productivity growth taking all inputs together, which is a sign of increasing efficiency." Van Ark was hosted as a part of the Cheung Kong Graduate School of Business Distinguished Speaker Series.



RANKINGS "MOST VALUABLE" EMBA

The Cheung Kong Executive MBA program was ranked first in an inaugural survey of mainland Chinese business schools released in April by *Forbes China*, which rated EMBA programs by their short- and long-term effects on students' career advancement.

In the survey, *Forbes* investigated and spoke to alumni from the 2005 and 2009 classes at 45 leading business schools in China. It weighed factors including students' salaries before entering school; their salaries in the year after graduation (and for the 2005 students, five years after graduation); and tuition. Based on these data, *Forbes* ranked the top ten best EMBA programs by value.

The Cheung Kong EMBA's number-one ranking reflects the significant salary increases reported by the school's alumni. Both the 2005 and 2009 graduates of the Cheung Kong had the highest salaries one year after graduation when compared to their counterparts at other schools. Students from the

2009 class enjoyed a salary boost of 53.6 percent from the time they enrolled to one year after graduation -- the biggest jump of any of the schools ranked in the top ten.

The 2005 alumni reported year-on-year aver-

Forbes ranked Cheung Kong's EMBA number one in a survey of mainland China programs.

age salary increases of 16.0 percent in the five years after completing their Cheung Kong study, also the highest of any leading business school in China.

Meanwhile, in a separate *Forbes* survey, the Cheung Kong MBA program was rated among the best full-time MBA programs in mainland China, earning a number-five ranking in a similar assessment of the programs' impact on career development.

ECONOMY: TIME FOR BEIJING TO STEP ON THE BRAKES? BY CODY SWYER

China's continued economic strength in the first part of 2010 augurs well both for this country and for the rest of the world, according to Cheung Kong professors. But they caution that new challenges await as Beijing grapples with the next stage of economic development.

Looking back at 2009, Professor of Finance Zhou Chunsheng pointed to the middle part of that year as a major turning point both for China's economy and for its society. Speaking to *The National*, an English-language paper based in the United Arab Emirates, Professor Zhou said the Chinese government's stimulus package had not only spurred economic performance, but also boosted consumer confidence. A dismal first quarter was followed by a period in which "credit was expanded, China's exports went down rapidly, economic growth resumed, and people regained confidence in our economy," he said.

Zhou expects this trend to continue through 2010. Due to the government's "proactive fiscal policy and loose monetary policy," he foresees an increase in both domestic consumption and Chinese exports as customers at home and abroad show a greater appetite for Chinese goods.

Zhou did warn that current monetary policy could give rise to increasing

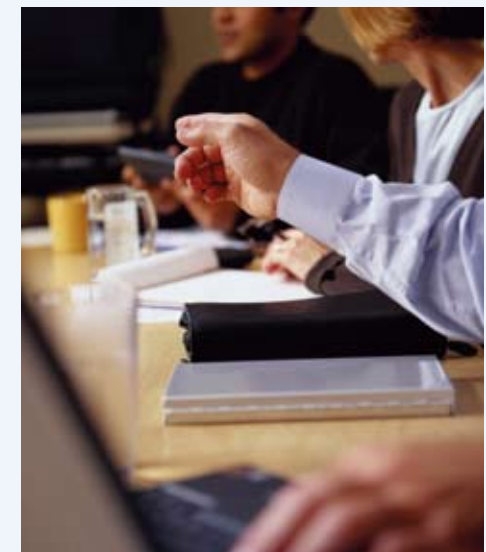
The rumor that Beijing was about to hike interest rates caused a sharp fall on Chinese stock markets.

inflationary pressure, though, a concern that was echoed by Professor of Finance Cao Huining in March. Speaking to *China Daily*, Cao pointed out a dilemma faced by China's policymakers.

While the U.S. Federal Reserve looks likely to keep its interest rates low through 2010 in the face of a slow and

uncertain recovery, if China's central bank fails to boost rates, its faster economic growth may lead to excess liquidity in the housing and equity markets. However, if China raises its interest rates before the United States, "hot money inflows will be difficult to tame," Cao said. Therefore, he recommends a "gradual opening of the Chinese currency to the global markets," predicting that Beijing will raise interest rates around the middle of 2010.

However, this process may not be painless. The mere rumor that the government was preparing to raise rates and reduce liquidity caused a sharp fall in the Shanghai stock exchange and other markets around the country in May.



Cao told *The New York Times* that such a fall did not necessarily reflect weaknesses within the Chinese economy, but rather the prudence of Chinese investors looking to get the best bang for their buck. With a global recovery still looking uncertain, and with increased limits on investment potentially being put in place in the domestic market, these investors may be looking abroad, he suggested, in the hope that "returns there are better." 

CHINA IN THE WORLD: CHINA'S GROWING CULTURAL INFLUENCE

BY CODY SWYER

The rise of a new generation of wealthy, ambitious Chinese business leaders is causing ripples throughout the global art and architecture market.

In the art market, in particular, a group of influential collectors are beginning to make their mark on the international scene. Their first target? The works of the major impressionists, according to Cheung Kong Professor of Finance Mei Jianping. Speaking to *China Daily*, Mei said wealthy Chinese collectors are determined to "demonstrate they are sophisticated and are in the same league as some of the best collectors in the world." The resulting boom in art prices could surpass a similar phenomenon in the 1980s, when newly-rich Japanese art connoisseurs pushed up prices nearly two hundred percent, he said.

In the architecture industry, Chinese developers and construction firms have also become more competitive with foreign peers, especially at home. In an interview with online business intelligence magazine *Portfolio.com*, Mei warned that U.S. builders could no longer take for granted being able to snap up the glossiest and highest-profile construction projects in Shanghai and elsewhere. While Western developers still enjoy a strong reputation, "the Chinese have learned from the Americans just how to be aggressive in winning lucrative projects," he said, adding that domestic developers' familiarity in navigating China's regulatory landscape also "helps them to better compete with foreign firms."

But while China's private enterprises are increasingly going head-to-head with foreign rivals in the domestic market, they still face major difficulties in attempting to expand abroad.

In part, says Professor of Finance Cao Huining, this is because the rewards structure at Chinese companies discourages risk taking. While American financial institutions have been criticized in the wake of the financial crisis for ty-

Chinese art collectors want to show "they're in the same league as some of the best collectors in the world."

ing employee pay too closely to performance, thereby promoting dangerous levels of risk taking, Cao told *The Wall Street Journal* that China has the opposite problem. By raising salaries for banks' CEOs and high-level employees, he said, China could encourage them "to earn higher returns" and "to reduce corruption."

More fundamentally, though, Cheung Kong Dean Xiang Bing says Chinese companies aiming to expand overseas are constrained by a shortage of global management talent. Whereas "you can find many Indian senior vice presidents at multinational companies," he told Reuters, "not many Chinese" have scaled the ranks to acquire meaningful international experience. When Chinese companies begin to venture abroad, they are often unable to find Chinese veterans of foreign markets who can help them to bridge cultural and economic differences.



MEET CHINA'S NEW GENERATION OF BUSINESS LEADERS



Since Cheung Kong Graduate School of Business was founded in 2002, nearly 6000 students have attended its MBA, EMBA and executive education programs. In the pages that follow, we profile a handful of Cheung Kong alumni who are changing the face of business in China.

In a feature article, **Wang Hanhua**, president, Joyo Amazon, describes the unlikely professional path he took from earning a Ph.D. in Nebraska to heading up online retail giant Amazon's business in China.

Fanchen Meng, senior vice president, Siemens China, discusses what led him to write a how-to book on Chinese corporate strategy – and explains where managers in China have room for improvement.

In our alumni profiles section, **Catherine Zhang** discusses her post-MBA career transformation from aviation official to manager of the flagship China store for Giorgio Armani. And Korean **Seong Bong Joo**, the China representative for GS Home Shopping, describes what it was like for a non-native speaker to attend Cheung Kong's Mandarin-language EMBA program. ■

AMAZON'S CHINA CHIEF

MANAGING TRIPLE-DIGIT GROWTH AT JOYO *BY STAFF*

Wang Hanhua, a student in the Cheung Kong China Country Manager Program, stepped into Joyo Amazon's lead role just as e-commerce was taking off in China.

Earlier in his career, Wang Hanhua would hardly have predicted he would be tapped by e-commerce giant Amazon for its top job in China. A Hubei native, Wang relocated to Nebraska to pursue a Ph.D. in 1990, initially planning for a stable career in academia.

But when an opportunity arose to do market research, he decided to take the plunge into the cor-

porate world. Before long he found himself back in China, on the career fast track. By 2005, he had been recruited to head up Chinese e-commerce firm Joyo, then newly acquired by Amazon.

With fortuitous timing, Wang, a student in the Cheung Kong China Country Manager Program, stepped into Joyo Amazon's lead role just as e-commerce was starting to accelerate in China.

WANG HANHUA

PRESIDENT, JOYO AMAZON

PREVIOUS EMPLOYERS:

MOTOROLA, GALLUP

Student in China

Country Manager

Program, '09 intake

Wang's five-year tenure as president of Joyo Amazon is itself notable in an online business world known for high turnover. But he has also helped led the company through a period of dramatic expansion. Amazon doesn't break out the China share of its global sales in its financial filings, but Wang says Joyo's team has delivered triple-digit annual growth since 2004. "That's easy in the early years, but once you grow and the base becomes bigger, the growth rate is harder. That's a lot of big numbers, but we've still managed to do it."

Wang declines to comment on whether Joyo is making a profit yet. But on a visit to China in 2007, Amazon CEO Jeff Bezos told reporters the company took seven years to break even in the U.S. and usually needs five to seven years in other markets to be in the black.

Wang says Amazon's senior leadership "really views China as a long-term market, so anything we do is really for the next ten years, twenty years. So

in our planning book, three years is very short term. That view has remained a constant."

Wang followed an unlikely route to his current post, having started off earning a doctorate in education psychology from the University of Nebraska in Lincoln. He later worked on market research for the Gallup Organization, then spent eight years at Motorola, where he rose to become general manager for cell phone operations before being recruited by Amazon.

Despite a tight work schedule, in 2009 he made time to take part in Cheung Kong's China Country Manager Program, following the recommendation of a friend who attended a previous class. Wang says he valued the practical benefits of the course. "With this kind of program, you can get as much from the participants as from the professors. And the quality of the participants at the session I attended was very high."

"The other part I really enjoyed was getting a chance to hear from government officials [visiting

speakers from research institutes affiliated with the government.] It was very helpful to hear their point of view and how that influences their decision-making."

Wang notes that in China, Amazon has had to tweak some of its usual operating strategies. For example, China is the only country where Amazon operates its own delivery system to supplement third-party services. Since many potential Chinese customers were initially skeptical about making online transactions, the company decided to make it a top priority to create a trustworthy "last-mile delivery network"—even if that meant doing the work itself. Since it was acquired by Amazon, Joyo has built out a reliable delivery and logistics infrastructure that now extends to 900 cities, including such far-flung locales as Lijiang in Yunnan province and Inner Mongolia's Hohhot.

Joyo's products have special appeal for customers in some of China's less developed areas, Wang says. "People in the biggest cities have easy access to goods, but for people in third- and fourth-tier cities, it's harder to find the brands and products they like." Joyo helps fill the gap, he explains.

Granted, there's a downside of dealing with such consumers: they typically don't have credit cards, relying instead on cash. In fact, some 70 percent of e-commerce transactions in China are paid for with cash on delivery. (In contrast, about 95 percent of U.S. consumers make online purchases with plastic.)

Bowing to Chinese preferences, Joyo has opted to develop its own cash collection network. "There's risk associated with cash handling," concedes Wang. "But we think we have to listen to what the customers want. At this stage, if they feel secure and comfortable with this transaction method, we have to find a way to offer it to more customers."

Though the company now reaches more consumers outside China's biggest cities, Joyo's customer demographic still tilts towards white-collar professionals who are slightly older than the typical youth-oriented Chinese Internet population. The company's average selling prices (ASPs) have steadily increased in

line with the rising incomes of white-collar workers.

Wang recalls that when he first joined the company, there was some debate as to whether Joyo should try to sell pricier goods. "People were used to buying goods online for 30 or 40 RMB, and at that time, for cell phones you were talking about paying 3000 or 4000 RMB. I said, why not try it? And we saw consumers really had an appetite for expensive goods – they were more ready for them than we had anticipated."

Though Joyo started off as primarily a media company, it now draws more than half of its business from non-media goods, having expanded into consumer electronics, cosmetics, jewelry, watches, toys and baby products. Last year, it made a big push into

Amazon's senior leadership "really views China as a long-term market, so anything we do is for the next ten years, twenty years."

selling home appliances. "Our biggest flat-screen TV is a 52-inch Panasonic – and people are buying them, which shows how consumer trends have changed."

Wang puts a premium on high-quality customer service. To that end he spends at least an hour each week with staff sifting through customer feedback in the form of emails and phone calls. He sets aside another two hours a week to shop Joyo's site himself, keeping a sharp eye out for poor-quality photos, customer-unfriendly promotions, or – worst of all – broken weblinks.

On the product front, Wang declines to comment on whether the company will eventually offer Mandarin-language books for the Kindle, Amazon's popular digital reading device. But he says he's "fallen in love" with the Kindle he bought for himself. Calling his reading "event-driven," he says he's lately been buying works by Franz Kafka and Milan Kundera in preparation for an upcoming vacation to the Czech Republic and Hungary. 📖



ROADMAP FOR GROWTH

Chinese
Companies:
What Now?

中国企业
怎么办

BY STAFF

Fanchen Meng, China Country Manager Program '09 intake, has written a how-to book on corporate strategy in China.



One of the most common criticisms leveled against Chinese business leaders is that they focus too much on the short term. So what can they do to develop a more strategic, long-term mindset?

Fanchen Meng, China Country Manager Program '09 intake, seeks to answer that question in his new book, “中国企业怎么办” (Chinese Companies: What Now? World-Class Management Theory, System and Practice from Siemens, Xerox and A.T. Kearney.) He drew on insights from his own experiences as a consultant in Germany and, later, as a high-ranking executive at Siemens in writing the book.

Meng studied civil engineering as an undergraduate at Shanghai Tongji University, then went on to earn a Ph.D. in economics at the University of Bochum in Germany. He later worked for A.T. Kearney in

Germany before returning to China in 2000.

In his current position as general manager of Siemens Region East/Shanghai, he is responsible for business development in Siemens' largest overseas location, Shanghai, plus six surrounding provinces. He oversees more than 30,000 employees and over 50 operating companies in the post.

Meng's book is currently available in a Chinese-language edition.

Why did you decide to write this book?

I started to collect material for this book more than four years ago. After I returned to China from Germany, I realized strategic management in China was a weak spot, both in terms of business education and in companies' daily business decisions.

So I decided to write a book. Much of the content was based on Siemens, where I work now. I also drew

from my experience at Xerox, which I consulted for, and A.T. Kearney, where I worked before.

Basically I start by explaining how to create strategic targets, then I talk about how to set up management information systems to implement them. Later I discuss benchmarking. I explain how to create strategies to encourage innovation, and I also talk about how to make sure your strategies fit with the value system of your company.

Living abroad in Germany for 14 years, you must have developed somewhat of an outsider's perspective on business in China. When you returned to China in 2000, what did you think about the state of China companies?

In terms of the degree of maturity of Chinese companies, I'd say that they're still mainly focused on doing concrete things. The boss's attention is always focused on nitty-gritty details. Top managers haven't yet made it a priority to communicate strategy throughout the entire organization in a way that's tangible and that employees understand. This is a big gap.

In China, you need to categorize the three types of companies to assess their strategic management and development needs. For the state-owned enterprises, you usually have a super-capable and intelligent boss, but the overall company is weak in terms of consistently implementing its business strategy.

Privately-owned companies tend to be driven by the personality of the owner and his personal networks and government contacts. Usually the boss or owner is strong on execution, but very short-term oriented. These companies usually don't do so well in developing and promoting a brand or innovation.

Then you have multinationals, which usually act as a branch of headquarters. They don't really act as independent enterprises. The major mistake MNCs make in China is not enabling entrepreneurship. They don't support a reasonable amount of risk taking.

During the China Country Manager course I did at Cheung Kong, we spent some time studying the



successful example of Samsung in China. It's only been in China since 1992, so it doesn't have as long a history as some foreign companies in China. But because it's done such a good job of localizing, it now draws about a third of its sales from China. If MNCs can be more like Samsung, they'll really benefit from China's growth. If not, they might be able to grow their China business but will still gradually lose market share.

For now, it seems like Chinese companies still lack a strong pool of middle managers.

Chinese companies need to make sure they have a proper pool of managers that they train and grow in a systematic way. But to do this you need to have a very long-term approach, which is still lacking in China. MNCs tend to do a better job in offering professional development and training. If you

take a company like Siemens, it has a core of 300 to 500 managers worldwide who are a key source of its competitiveness. They have global experience and have had multifunctional career development.

When you were writing this book, did you come to any conclusions that surprised you?

I think it's a pity that companies like [contract manufacturer] Foxconn haven't tried to innovate more. They could try to develop their own brands. But they're very good at manufacturing, and even though their profit margin is only three to five percent, they do such a huge volume of business that they have made a lot of money.

What do you think is a reasonable timeline for Chinese companies to start becoming more innovative?

I do believe Chinese companies in the coming five or ten years will learn global best practices and start to compete against MNCs from the industrialized world. The Foxconn model will remain, but the future champions from China will move up the value chain. I have no doubt that in addition to having low labor costs and being competitive in terms of resources, they will also develop the capacity to innovate.

Chinese companies fundamentally still have three big advantages. They have a huge pool of inland demand which is currently consolidating. In the past the Chinese market was broken into different regions, but now you're seeing a lot of nationwide consolidation. So Chinese companies will have a comfortable level of demand from their home market – that's the first advantage.

Second, they have easy access to cheap capital. Right now, great companies that list publicly in Shanghai are getting price-to-earnings multiples of 80 or 90, compared to P/Es of four or six in Europe.

The third advantage is government support and incentives to promote key industries. Right now Western governments and private households are both in tough financial straits due to the financial crisis, but

the Chinese economy is still performing quite well.

Can you give an example of a Chinese company that's succeeded at moving up the value chain?

Zhenhua Port Machinery Company (ZPMC) is a company I discuss in my book. When they started off, their competitive advantage was that they had very low labor costs. Then they worked very closely with MNCs, including Siemens. They developed the technical skills of their workforce and became much more of a technical systems integrator. Now they have over 60 percent of the global market share in crane sys-

After I returned to China from Germany, I realized strategic management in China was a weak spot.

tems, and they're a technical leader in harbor crane systems. At Siemens, we collaborate with them in a very win-win way. We've teamed up with them in product, technology and market development.

As a top manager at Siemens, you recently participated in the China Country Manager Program. Could you tell me a little about your experience?

I did the program last year, and for me it was a great experience. Cheung Kong is well-known as a good place to network, but I also had many takeaways from the program itself. The class on best practices at MNCs was especially good.

Between working, writing and studying, what do you do to relax?

I have two hobbies. One is playing golf, and losing to Dean Xiang. [laughs] The other hobby is macroeconomics. I publish regularly. Between Christmas and Chinese New Year, when I have a little extra time, I always do a research project and publish the results afterwards. So in this area, I suppose I could be doing something that was more relaxing, but to me the benefits of researching and writing are worth it. 📖

CATHERINE ZHANG

Cheung Kong MBA '05
Store Manager,
Giorgio Armani's
Flagship China Store
Previous Employers:
Louis Vuitton, CAAC



FASHIONING GROWTH

MBA GRAD HEADS UP GIORGIO ARMANI'S FLAGSHIP CHINA STORE

BY STAFF

Catherine Zhang, MBA '05, says the luxury fashion industry is tough on newcomers, but worth it.

Armed with an MBA, in just a few years Catherine Zhang (Zhang Shu) transformed herself from an official in China's aviation bureaucracy to a manager for luxury brand Giorgio Armani. To some, it might seem like a major shift in focus. But Zhang, MBA '05, sees the change more as an evolution in a career oriented towards the service industry.

She now manages a staff of 20 at the 1000-square meter Armani flagship store that opened in Beijing in November 2008. We spoke with her about her career in the fashion industry.

What do you like most about working at Giorgio Armani?

Three years ago I decided to join Giorgio Armani. I was very attracted to the idea of working for a high-

end brand focused on fashion, as opposed to a brand that just focuses on one product line, like watches or jewelry. I really appreciate fashion and it's very exciting when we receive a shipment of clothes for the new season. It's great being able to share that with my customers.

Another thing I really like about this job is that I've led the team here from the beginning, so I have a deep emotional connection with them. And now that I've had three years with Giorgio Armani, I've gotten to understand the culture and history of the company at a deeper level.

What's it like working in the high-end fashion business? How does it compare with what you expected?

After I got my MBA degree, I got a job offer from



Louis Vuitton to work at the global store in Beijing. At first, like everybody else, I thought managing a luxury brand store sounded glamorous and elegant. But it turned out to be quite different from what I'd imagined. The glamour and elegance are for customers, but working in the luxury industry is very tough. I lost 4.5 kilos in the first month on the job. I started losing hair, too.

We were running a global store that was over 2000 square meters with 80 staff. There are whole product lines in the store, like leather goods, ready to wear [apparel], shoes, watches, jewelry and so on. I often had to work overtime. The longest I ever had to work, when we were doing monthly inventory checks, was from 9 in the morning one day to 5 in the morning the next day.

It was really tough for the first several years, but I

learned a lot. Working in management, I had to coach staff, deal with customer complaints, keep track of inventory and make sure our store achieved sales targets. And I also needed to make sure we offered the best customer service and supported our brand image.

After graduating from college, you started off working in the aviation industry. Why did you decide to go back to school to get your MBA?

I studied at Liaoning University, where my major was international trade. After I graduated in 1995, I joined the northeast branch of CAAC [the Civil Aviation Administration of China] and worked in Shenyang for nine years. I was responsible for improving aviation service in the northeast. I dealt with resolving customer complaints and managing airplane ticket agents. I also supervised the training, qualification, and supervision of flight attendants.

I was really interested in business, though, and my dream was to get an MBA degree some day. So I spent most of my spare time studying, and I applied to schools in 2004. I got several offers.

I got accepted at the University of Washington in the U.S., and I actually went to Seattle to do a short pre-MBA program. I was very happy living in Seattle, but I

"When you work in retail, it's not like a regular office where you get weekends off. It's always changing and dynamic."

felt a bit confused about being there. Did it really make sense for me to start a career in the U.S. when the economy in China was growing so fast? Finally I decided to come back to China. I came to Cheung Kong because I was attracted by its entrepreneurial spirit.

After earning your MBA, you went to work for Louis Vuitton. Why did you decide to go into the luxury industry?

Actually I got two offers after graduation -- one was from Louis Vuitton, the other was from a U.S.-based human resources consulting company. I took the consult-

ing company's test and turned out to be very well suited for the job. Usually consulting is considered a typical career for an MBA graduate. But my main concern was what would be most interesting for me.

When I was a little girl, I studied folk dance and singing, and I've always been attracted by art and beauty. I think real luxury goods are a kind of art. I'm not necessarily talking about things that are expensive -- just about products that were made with care, that reflect

ion brand was very attractive to me, so I decided to join the company in September 2007. Now I'm in charge of the biggest flagship store in Beijing.

What would you tell someone who wants to get into the high-end retail business?

Working in this industry, you need to have a good sense of fashion and trends, to have a natural appreciation for them. If you're just selling goods to customers on the selling floor without any real feeling for the prod-



a true appreciation for beauty. So I decided to take the offer from Louis Vuitton and go into the luxury industry.

How did you end up in your current position at Giorgio Armani?

After working at Louis Vuitton for a while, I was transferred to Chengdu, where I was put in charge of two stores. I liked Chengdu very much, the city and the staff there -- they were very smart, straightforward, hard-working people. It's a lovely memory for me.

But eventually I was approached by a headhunter who told me about a job opening in Beijing for Giorgio Armani. I'd already learned a lot at Louis Vuitton. I wanted to learn more about a different culture, a different brand. Giorgio Armani's reputation as a high-end fash-

ucts, it will get tedious soon.

Also you need to possess a very detail-oriented personality. There's a saying that "retail is detail."

Finally, you have to be very service-oriented and efficient. If you can provide high-quality service, your business will do well.

What did you learn in your MBA study that's useful in your job now?

I'm very thankful for my MBA education. The theories and models I learned in school may not solve all the problems I encounter in my daily work, but they've given me a framework for thinking. Combined with own experience, I'm able to figure out solutions efficiently and with confidence. 📖

TOTAL IMMERSION: KOREAN ALUM GIVES CHINESE-LANGUAGE EMBA A THUMBS-UP

BY SEOHYUN LEE

Seong Bong Joo, EMBA 11th Intake, aims to create the biggest home shopping network in China.

Cheung Kong's Executive MBA program, considered one of the most selective programs in China, has developed a strong reputation for its tight, supportive alumni network. In a *Forbes China* survey that rated programs by how much they advanced alumni careers (see more details in this magazine's "School News" section), Cheung Kong's EMBA program took the top spot.

Since the course is delivered in Mandarin, most of Cheung Kong's EMBA students to date have been

Chinese. But lately more foreign businesspeople have begun inquiring about the program. For fluent Mandarin speakers, the program offers not only in-depth instruction on the Chinese business environment, but also an excellent platform for networking among high-ranking Chinese executives.

So what's it like for someone who isn't Chinese to attend the EMBA program? We spoke with Korean Seong Bong Joo (朱成奉), who started the course in 2007 (11th intake), about his experience at Cheung



SEONG BONG JOO
Cheung Kong EMBA 11th Intake
China Representative,
GS Home Shopping
Previous Employer:
LG Electronics

Kong and in China. Joo, who enjoyed a twenty-year career at LG Electronics, recently left to become the China representative for GS Home Shopping.

Korea-based GS Home Shopping currently ranks as the world's third biggest home shopping network, after QVC and HSN. It sells products on cable and satellite TV and over the Internet, and has become Korea's biggest online retailer.

When did you first come to China, and why?

I joined LG Electronics in 1990. In 1994, when the company was looking for executives who were interested in relocating to China, I decided to come to Beijing and study the Chinese language and culture. After I finished the language course, I started working here. At the time, my main job was marketing for IT services.

Besides Beijing, you've also lived in Shanghai, Nanjing and Chongqing. What's your impression of these cities?

I like Beijing -- it feels like my hometown. Beijing is the first city where I settled down and many of my good friends are there. Shanghai is where I started to work and where I studied for my EMBA, so I have colleagues and classmates there who I'm close with and who have been very supportive and helpful.

What have you achieved professionally since you've been in China? What are your current goals here?

When I worked at LG Electronics, I set up a successful marketing structure and established strong partnerships with Chinese companies. That helped me to achieve my sales goals, gain market share for LG and successfully brand LG's IT products.



Now that I'm at GS Home Shopping, I'll do my best to make it the biggest home shopping network in China. We think this market has tremendous growth potential.

Right now we're preparing to choose a local partner. We still have a long way to go, but we're taking things step by step and I'm confident we'll make good progress.

Looking back over your career, what would you say were the most important decisions you've made?

Reflecting back on my life, I would say that I have made three important decisions. The first one is that I volunteered to come to China when LG Electronics was looking for executives to move here. That was when I first started doing business in China.

The second important decision was enrolling in the Cheung Kong EMBA, where I learned a lot and made some valuable friendships. That really helped me to understand more about China as a whole,

which was a big step forward for me in terms of doing business here.

And my last big decision was leaving LG Electronics, where I'd worked for twenty years, to start GS Home Shopping in China.

What's your approach to doing business? Have you developed any guiding principles that have helped you along the way?

I think the most important element of doing business is people. When I am selecting people to work with, I do it very carefully. But once I start working with them, I trust them 100 percent. I use the same principles when I'm selecting partners.

How did you first hear about Cheung Kong?

A few years ago I decided to do an EMBA course. At the time, Jin Kwan Park, the general manager of LG Electronics, was enrolled in the Cheung Kong EMBA ('07 intake), so he recommended it to me and introduced me to the program. Also, some Chinese friends of mine spoke highly of the faculty and said Cheung Kong was a great place to network with a lot of influential alumni.

I understand you paid the tuition for your EMBA yourself – it wasn't paid by your company.

I didn't really consider it as an expense; I considered it an investment in myself. It allowed me to develop my skills and improve myself as a person.

So what did you take away from the EMBA course?

First of all, we had the best professors with lots of experience in the field. Looking back, I also learned

a lot from my classmates – that was really inspiring. I'd say being at Cheung Kong and making friends with my classmates helped me understand Chinese culture much better. In turn, that has helped me do a better job of managing a business in China.

Do you still stay in touch with other alumni?

Since graduation we've had regular get-togethers and a few special events, too. Usually we have a reunion once a year in a different city. For example, this year we met up in Shanghai, and because the Shanghai Expo was taking place, we called our reunion the "Shanghai Expo," in honor of this important

"I'm Korean, but there's some part of me that's Chinese, too. I have a really deep connection with China and Chinese people, and Cheung Kong helped me develop that."

event. The Chinese friends I met during my EMBA have remained good friends. They've also helped advise me in business.

I'm Korean, but there's some part of me that's Chinese, too. I have a really deep connection with China and Chinese people, and Cheung Kong helped me develop that. I made friends in the program who I can really count on when I need them. They're like brothers and sisters to me. And that's made me feel like I'm at home here. 🇺🇸

Network with China's most influential business leaders.



Cheung Kong Graduate School of Business represents the collective choice of China's business elite. Jack Ma of Alibaba, Jason Jiang of Focus Media, and Fu Chengyu of CNOOC have all studied with us. Making connections that transform society, our EMBA and MBA graduates form the most influential business network in greater China. Shouldn't you join the class?

CHEUNG KONG IN THE COMMUNITY



SOCIAL EDUCATION

CHEUNG KONG LAUNCHES
THE CHILDREN'S
LIBRARY PROJECT

BY HEATHER MOWBRAY





As part of the
Children's
Library
project,
a group of

Cheung Kong
MBA
students
organized
a visit to a rural

elementary
school in
Qinghai
province in
April.



The challenges faced by students at the Sunshine School are

emblematic of those in many underdeveloped areas of China. In May,

a group of EMBA students visited the school.



Changping District, Beijing – Some of the students at this suburban Beijing school for migrant children, called the Sunshine School, told visitors they wanted Harry Potter bestsellers. Others said they'd like books on how to improve their English or collections of short stories by famed Chinese writer Lu Xun. Still others asked for books about science and stories about model citizens such as Lei Feng.

The primary school students offered up their reading wishlist during a May 11 visit by Cheung Kong EMBA alumni and students, who were volunteering in a new educational charity project. The Cheung Kong project aims to raise money from alumni, students and staff to buy libraries for poor elementary schools. The project's Chinese name, the "Red Scarf Bookroom," refers to the red neckscarves worn by Chinese schoolchildren. Each donated library will include 1,500 new books, at a total cost of 20,000 yuan per library.

Volunteers from Cheung Kong have already begun making visits to see some of the roughly 200 Chinese schools eligible to receive donated libraries.

The challenges faced by students at the Sunshine School are emblematic of those in many underdeveloped areas of China. Here in a district north of Beijing, the children of migrant workers who are excluded from traditional state-run schools study in an under-heated, one-story complex, surrounded by half-demolished buildings. The headmaster told volunteers from Cheung Kong that his school has relocated several times in the last 10 years.

The migrant children, who were mostly born in the rural provinces of Henan, Hebei and Anhui, said their parents rarely read books at home, since they work long hours in shops and restaurants and at construction sites around Beijing. When one visitor mentioned a classic Chinese novel, an 11-year old girl said she had seen the book in her teacher's office but never

had the chance to read it.

After the visit, Cheung Kong volunteers said they were struck by the sense that the migrant students had far fewer opportunities than their own children. EMBA student Jin Feipeng, who heads up a real estate development project in Beijing, said he noticed reading was taken even more seriously abroad. While visiting the U.S., he and his children were invited to an orthodox Jewish family's home, where he was impressed to see the family dedicate a whole morning each week to reading and talking about books. Jin said he was sure students at the Sunshine School would greatly benefit from better access to books, which could help to counteract the effects of too much exposure to TV.

By donating books, said Sophia Shao, EMBA 6th intake, "We're not just providing information; we're giving students the tools to achieve something."

Ma Tao, EMBA 7th intake, who runs a media company in Beijing, said he hopes the children will be able to read and enjoy the favorites of his youth, such as the epic kung fu novels of Jin Yong.

Meanwhile, a group of MBA students have also taken a leadership role in the children's library project. At the end of April, five students organized a visit to a rural elementary school with over 200 students in a predominantly Tibetan area of Qinghai province, a region that was recently affected by a severe earthquake. Visiting Cheung Kong students took part in two full days of classes for grades one to six and talked with the schoolchildren about their goals. Jerry Wang, MBA '10, gathered book requests to bring back to his classmates in Beijing. He's currently planning a series of fundraising activities, including a charity party, auction, and karaoke competition. The goal: raise the 20,000 yuan needed to stock a complete library at the Qinghai school.

For more information on the project, please visit: www.cheungkong-gsb.com.



No Other Business School in the World Knows China Like Cheung Kong GSB.

Founded in Beijing by billionaire philanthropist Mr. Li Ka-shing, Cheung Kong Graduate School of Business features world class professors who have joined us from the faculties of Wharton, Stanford, and INSEAD, and represents the collective choice of business luminaries including Jack Ma of Alibaba, Jason Jiang of Focus Media, and Fu Chengyu of CNOOC. To learn more about Cheung Kong MBA, EMBA, and Executive Education programs, visit our website today.



长 | 江 | 商 | 学 | 院
CHEUNG KONG GRADUATE
SCHOOL OF BUSINESS

contact@ckgsb.edu.cn
www.ckgsb.edu.cn
+86 -10-8518 8552



A NEW GENERATION
BUSINESS SCHOOL

China Business In-Depth ...41
(Truly) International Finance ...45
High Financial Returns ...47

ACADEMICS AT WORK





MBA PROGRAM'S INTENSIVE NEW SESSION TEACHES CHINA BUSINESS IN-DEPTH

BY STAFF

In a highly popular innovation in its MBA program, this year Cheung Kong introduced the China module, an intensive two-week session focused on business in China.

The 2010 module, which took place in late May and early June, featured a total of nine courses. Classes included "The Globalization of Chinese Companies," "China's Economic Reform and Its Impact," "China's Capital Markets," "Welfare Reform in China," and "VC Financing in China."

Cheung Kong's year-long MBA curriculum features a total of eight modules, so the addition of the China module has substantially increased the amount of coursework dedicated to China-specific business issues.

At a press conference to announce the introduction of the China module, Dean Xiang Bing said he believed the session would not only benefit students, but also serve as a platform for promoting faculty research on China business. "While top business schools in the United States focus on research into multinationals and their operations in developed markets, our research here focuses on how state-run and private-run domestic enterprises as well as multinationals operate in, compete and adapt to rapidly changing environments like mainland China."

Such research is becoming increasingly valuable outside China, Xiang pointed out, noting that foreign companies are trying to better understand Chinese business practices and strategies. "The Chinese market is a driving force in the world economy, and it's therefore essential for foreign companies to understand the ins and outs of the Chinese economy and Chinese businesses.

"Also, as Chinese companies go abroad, they will have a major impact on their respective industries. So other companies in these industries must understand what the development trends are for Chinese companies in the coming three to five years."

Against that backdrop, said Xiang, the China module "can act as a bridge to bring together Chi-

nese students and foreign students, as well as Chinese companies and global companies."

"Real Cases, Written in China by the Experts in China"

Courses in the China module are taught through a mixture of lectures and case studies. Some professors who taught in the 2010 session merely needed to tweak pre-existing material to increase the China content. For example, adjunct professor Philip Lin, who typically teaches a one-day course on venture capital, this time addressed venture investing in China as well as in Silicon Valley. But the session also included some entirely new courses, such as one focusing on the unique features of distribution channels in China.

Though not compulsory, more than 90 percent of students participated in the China module, which



took place this year from May 24 to June 6.

The session's concentrated China focus is especially valuable for Cheung Kong's foreign MBA students. Nearly 30 percent of students in the 2010 class come from countries outside China, including the United States, United Kingdom, Japan, and India.

As Indian student Krishna Murthy Ulluriah point-

ed out, "Chinese reforms haven't just impacted China, they've impacted the whole world and lifted millions out of poverty. So how did they work? Is it the political system, the economic system, the planned economy? And why have these reforms not worked in any other country? These are the things that help you understand what is going on in China."

"The China module is condensed, but we get the

enlightened business culture, one that meshes with Chinese humanitarian values. Currently, he said, too many Chinese entrepreneurs are willing to engage in unscrupulous behavior to further their own interests. They adopt a profit-at-all-costs mindset, flouting safety and environmental regulations with the aim of amassing a fortune to leave to heirs. That creates larger problems for the rest of society, which must



real cases, written in China by the experts in China," said fellow student Shintae Park. A native of Korea, Park added: "In class, we get real feedback from Chinese students, so we can share opinions and thoughts on the cases. That's one of the most beneficial aspects of the program."

Forging a New Chinese Business Culture

Besides examining the particulars of Chinese finance and management systems, students in this year's China business module also considered the evolving value systems of domestic companies. In his class on "The Globalization of Chinese Companies," Dean Xiang told students that Chinese companies must begin to develop a more cosmopolitan and

deal with the fallout from food safety scandals, pollution and other instances of corporate abuses.

It's not yet clear which group of stakeholders will claim priority at Chinese companies, Xiang added, noting that different countries have adopted systems that accord with their respective cultures. In the United States, a company typically answers first to its shareholders, he pointed out. But in Japan, employees matter most, followed by suppliers, then customers, with shareholders coming in a distant fourth place. Amid rapid economic and social change, China's own business culture is still taking shape.

Dealmaking with Chinese Characteristics

Teng Bingsheng, strategy professor and associ-

ate dean in charge of the MBA program, taught a day-long class, "Alliances and Joint Ventures," that delved into best-case and worst-case scenarios in China. "A good company has to know how to compete when necessary," said Teng, "and also how to cooperate when necessary." He added that the alliance between China's Huawei and U.S.-based 3Com was "probably the most successful JV that a Chinese company has ever achieved." At the other extreme, Teng discussed the JV between French Danone and China's Wahaha, which deteriorated into mutual hostilities before a final, acrimonious split.

In a class on "China's Capital Markets," Finance Professor Henry Cao discussed the particulars of China's still-developing equity and bond markets. Whereas many companies in developed markets are able to obtain financing by issuing stock or bonds, "bank loans still account for the vast majority of financing" in China, Cao said. Indeed, bank loans account for about 85 percent of financing for non-financial institutions.

China's immature bond market is far smaller than its counterparts in the United States, Japan, the U.K. and Korea, he said. Though state-owned enterprises

The China module "brings together Chinese students and foreign students, as well as Chinese companies and global companies." - Dean Xiang Bing

are able to sell bonds, private companies remain virtually shut out of the bond market. Another financing challenge: in China, bonds are often issued for relatively short periods of only a few years. For that reason, Cao told students, "it's difficult for companies to obtain longer-term financing and embark on longer-term projects."

China's equity markets remain the province of individual investors, while institutional investors dominate in the United States and Europe. "Retail invest-

A Selection of Courses from the 2010 China Module:

- *The Globalization of Chinese Companies*
- *China's Economic Reform and Its Impact*
- *China's Capital Markets*
- *Welfare Reform in China*
- *VC Financing in China*

tors are more prone to emotional trading; they're less rational and less long-term in orientation, and they're more prone to psychological biases," Cao said. In fact, though transaction costs for stock trades are considerably higher in China than in the United States, Chinese investors still trade heavily, he noted.

China Module to Expand, Plans for Complementary Session

Associate Dean Teng said Cheung Kong plans to steadily expand the scope of the China module, tapping more outside resources in the future. "We want it to function as a channel through which we can bring in new ideas and new research, as well as build stronger connections with the international community."

In the meantime, this fall the MBA program will debut a separate, complementary module to concentrate on China's five chief trading partners: the European Union, the United States, Japan, Korea and Southeast Asia. Lecturers will include professors with research backgrounds in those regions and countries. For example, Cho Dong Sung, a native of Korea who also teaches at Seoul National University, will teach a class related to Korean business. Besides focusing on economic and trade-related material, the trading partners module will also consider business in a broader cultural framework, featuring a class on "Confucian Humanism." 



(TRULY) INTERNATIONAL FINANCE

GLOBAL TRADE FROM A CHINESE PERSPECTIVE *BY STAFF*

Visiting Professor Gan Li views China's financial and social policies through an economic lens.

An economist who studied under two Nobel laureates at the University of California (Berkeley), Gan Li is currently a visiting professor at Cheung Kong. He teaches international finance and managerial economics, as well as a mini course on Chinese social welfare reform.

A native of Sichuan, Gan attended Tsinghua University as an undergrad before earning a Ph.D. in economics and a master's degree in statistics at Berkeley. He has served as an associate professor of economics at Texas A&M University since 2005.

We spoke to him about his teaching and research interests.

As a professor in China, how do you approach your international finance course? To what extent do you tailor it to the situation in China?

It's a challenge to teach because most of the existing textbooks are U.S.-based. I try to approach the subject from a more Chinese perspective. Here in China, we have a huge trade surplus and huge foreign reserves. That's not a problem the U.S. faces and it's not a problem a U.S. textbook would typically focus on. So at Cheung Kong, I've had to develop my own teaching materials. Some of the questions I ask my students are, is the exchange rate to blame for the trade surplus? Are Chinese trade barriers to blame for the trade surplus? My students' views are quite different; there's no consensus.

And the students come up with some interesting ideas themselves. For example, I think the widely-cit-

ed Big Mac exchange rate index is not particularly good because Big Macs are not tradable goods, so I asked students to come up with an alternative. They came up with lots of different ideas, then voted on the best one. The Coke [Coca-Cola] Index got the most votes. Coke is widely available and homoge-

neous, and I think it would make a better exchange rate index than the Big Mac Index. Maybe we could call it the "CKGSB" index.

Would the Coke Index indicate the renminbi is undervalued?

Yes, it does suggest the renminbi is undervalued.

You also teach a one-day elective course on Chinese social welfare reform. What kinds of issues do you discuss there?

I think it's important for students to understand these issues, because about 50 percent of labor costs in China are related to social welfare and social insurance programs. When I talk about social welfare and social insurance programs, that would include things like health insurance, retirement benefits, and unemployment insurance. Since the new labor law went into effect in 2008, companies have to offer these benefits. So that's changed the dynamics of the relationship between firms and workers.

One of the areas I'm interested in is trying to understand the firms' behavior in terms of the labor law, so I'm doing research on manufacturing firms, looking at the hiring and firing process and how companies use benefits to try to increase productivity.

So what are some of the other areas of policy you're interested in?

Health insurance reform is one area that I'm interested in. All things being equal, my research found that of elderly people living in cities in China, those who have health insurance live five years longer than those that don't. And the total expenditure was only USD 4000 more. So USD 4000 basically purchases five years of life. That's a huge return on investment.

You've done quite a bit of research on social policies in China.

Yes, one of the problems you run into in Chinese policymaking is the lack of serious research. Many of the government's policies are based on intuition, which may or may not be right. That's why there's a huge need for this kind of academic research. And I'm pretty confident that the government wants to hear it. ■

GAN LI

Ph.D. in Economics, University of California (Berkeley)

Visiting Professor of Economics from Texas A&M

ed Big Mac exchange rate index is not particularly good because Big Macs are not tradable goods, so I asked students to come up with an alternative. They came up with lots of different ideas, then voted on the best one. The Coke [Coca-Cola] Index got the most votes. Coke is widely available and homoge-



HIGH FINANCIAL RETURNS

CHEUNG KONG'S NEW FINANCE MBA CATCHES ON WITH MID-CAREER PROFESSIONALS

BY HEATHER MOWBRAY

Cheung Kong's Finance MBA, launched in October 2009, is fast gaining a reputation as a worthy investment for mid-career finance professionals. Already 109 students have enrolled in the two-year, part-time program, which costs 328,000 yuan. Next year the school expects to double its enrollment.

"The demand for financial talent in China is huge – China needs more finance professionals with a solid grasp of risk and return and an understanding of financial instruments and how they relate to China," explains Finance Professor Henry Cao, academic director of the FMBA.

What sets an FMBA apart from the more traditional MBA? Roughly 80 percent of coursework in Cheung Kong's FMBA relates specifically to finance, compared to 20 percent in a standard MBA course.

Unlike other FMBA courses taught on the mainland, which concentrate on developed markets, Cheung Kong's curriculum focuses on capital markets in China. For example, FMBA students consider the practical implications of Beijing's policies on the financial sector and government intervention in the markets.

"While the rest of the world is emerging from a crisis largely caused by the misuse of over-sophisticated financial tools, China is in the opposite situation. Our financial system is still immature and the pace of change and reform still too slow," notes Li Hongtao, mar-

keting manager for the FMBA program.

"It was bold of Cheung Kong to start up an FMBA program when the world had just gone through the turmoil of the financial crisis. But maybe it shouldn't come as a surprise, since the school promotes entrepreneurial thinking," says Gao Yihui, an FMBA student and senior vice president at CITIC Securities. "I feel fortunate to have the opportunity to spend two years together with

Unique among Finance MBA courses, Cheung Kong's curriculum focuses on China's capital markets.

great teachers and classmates from across the country."

FMBA classes are held in both Shanghai and Beijing over two weekends per month, in groups of roughly 55 students in each city. Instruction features a mix of lectures, case studies and talks by visiting industry professionals.

One brand-new perk: students in this year's spring Shanghai intake received iPads to share coursework and download teaching material.

The structure of the part-time FMBA program appeals to mid-career professionals on the corporate fast track who aren't willing to quit their jobs for a full-time course. Students in Cheung Kong's FMBA program boast an

ACADEMICS AT WORK

average of eight years of work experience rather than the three to five years of work typical of MBA students. Most are around age 30, with finance professionals accounting for half the student body. Women make up thirty percent of the class.

Many of the FMBA students earned an undergraduate degree in mathematics, economics or finance, and all have passed a tough entrance exam weighted towards quantitative skills.

The FMBA course consists of two sections: a six-month general management module, and 16 months of intensive finance modules that cover financial management and investment, financial accounting, corporate finance and capital markets.

A number of other business schools in China have recently unveiled finance-oriented programs similar to that of Cheung Kong. Shanghai Jiaotong University's Antai School of Management has pioneered its own program, while the business schools at Tsinghua University and the University of Hong Kong have begun joint pro-

Next year the Finance MBA program expects to double its enrollment.

grams with the Chinese University of Hong Kong and New York University's Stern School of Business respectively. However, Cao says none of the programs can match Cheung Kong's level of China expertise. "Their faculty fly in to teach and fly out again to live in the U.S., while Cheung Kong professors are immersed in emerging markets through our teaching and research. We have made a commitment to be here, to witness the progress of financial reforms."

Finance is the largest academic department at Cheung Kong, and this year the school has recruited an additional three permanent



finance professors, including Gan Jie, who previously taught at the Hong Kong University of Science and Technology and Columbia Business School; Liu Tinjun, who taught at Arizona State University; and Ou-Yang Hui, managing director of Nomura Securities.

Starting next year, Cheung Kong will begin offering the FMBA program in Shenzhen for the first time. The school will roughly double the total number of FMBA students enrolled from its three campuses by expanding the program to include both a spring and autumn intake in Beijing, as well as a spring intake in Shanghai and an autumn intake in Shenzhen. Class size for each intake will remain fixed at approximately 55 students.

Despite the program's part-time structure, students have already created clubs focused on investment, insurance and stock markets, aiming to invite visiting speakers and create opportunities to network with high-ranking professionals in their areas of interest. The school's FMBA department also sponsors regular lectures throughout the year and plans to hold a finance roundtable at this year's Cheung Kong summer forum in Kunming. 

Management: China Still Awaiting Transformative Leaders ...51
Pay Up: China's Third-Party Payments Market Takes Off ...53

BUSINESS STRATEGY



MANAGEMENT:

CHINA STILL AWAITING TRANSFORMATIVE LEADERS

BY TENG BINGSHENG

Peter Drucker was wrong – at least in his predictions about Chinese business leadership, says Strategic Management Professor Teng.

This article has been translated from Mandarin. It was originally published in *China Business Journal*.

In the 1990s, Austrian economist Peter Drucker predicted that within the next ten years, China would be producing its own management luminaries. These new leaders would generate innovative strategies and new frameworks for thinking about business, he said. Regrettably, we have yet to see the emergence of the high-level thinkers Drucker envisioned, and I'm relatively pessimistic about the near-term outlook. In fact, considering the current situation, I'm afraid we won't see such leaders emerge any time in the next decade.

In November 2009, I took Cheung Kong's EMBA class to Japan for a trip. With great interest we visited Kyocera, a company founded by Kazuo Iwamori, one of Japan's so-called "four sages" of management, whose business ideas are grounded in the basic notion of mutual respect. I was struck by the similarity between his principles and the traditional Confucian concepts of benevolence and charity.

Sadly, we don't yet see these ideas reflected in Chinese business models. Instead, entrepreneurs and top managers are driven to maximize profits for themselves, both on a personal and a corporate lev-

el. Such are the current realities of modern business culture in China. Yet it's worth pausing to consider how China, as one of the world's ancient civilizations, could one day contribute to improving the global business environment.

To be sure, we should approach the situation with an element of humility. We still lag behind other markets on many fronts, and we need to take gradual, practical steps to bridge the gap. We need to work on resolving problems within our legal and regulatory systems, while at the same time strengthening corporate ethics. Only then can we really focus on better business practices.

Our current state of affairs doesn't inspire optimism. From my standpoint as an academic who concentrates on corporate strategy, at present there are very few enterprises in China that factor ethics into their corporate strategies.

But one such example I have found is Hi-min Solar Energy Group, which has a remarkably enlightened approach to doing business. Hi-min president Huang Ming has said the company's mission is to develop a profitable business out of a technology that helps



protect the environment and by extension, benefits humanity. Both the business and administrative sides of the company operate on this principle. I believe leveraging socially beneficial technology to create profitable business is an incredibly valuable endeavor. If more business leaders began to employ this approach, it could set a powerful example for other Chinese companies.

It's important for companies to create positive environments, and this represents the first step towards broader changes. But for companies to truly transform their cultures, we need powerful entrepreneurial leadership.

Consider Japan's so-called "four sages," of whom Iwamori is one. Each of these business leaders basically made his name in the seventies. At the time, Japan was twenty years into its post-war development, but taking a longer view, the country's theories of modern business can be traced back to the Meiji Restoration. So basically, business models in Japan can be said to have over 100 years of continuous and unbroken development and progress.

China's era of modernity, having begun in the

late 19th century, can also claim more than a century of history, and since economic reforms began 30 years ago we've experienced a period of extremely rapid growth. Yet as a result of various upheavals in our social history, the development of corporate culture in China has been severely disrupted a number of times over this period. We're still focused on copying other countries and remaking ourselves. It will take time to forge our own business principles.

The path we have taken in developing our commercial climate and culture is unique. When we established the People's Republic, we relied heavily on the advice and practices of the U.S.S.R. Later, when we opened up to the world in the 1980s, we aimed to follow in Japan's footsteps. Further economic development in and after the 1990s brought about a focus on the business practices of the United States. In addition, China's own business culture and traditions, including Confucianism and local mutual aid associations, have also contributed to the current business climate.

Some may look to Japan as the most likely model for corporate and economic development, due to our long shared cultural history, but I disagree. We may have a number of cultural similarities stemming from extensive interaction in the Tang Dynasty period, but when it comes to us as people, I think we're much closer to the Americans. The Japanese have a strong tendency to be group thinkers, whereas I believe individualism is deeply engrained in the Chinese people. Even Confucian ideology reflects this principle. Mencius said, "When you're poor, develop your own goodness; when you succeed, share your goodness with the world." In other words, he viewed the world from the standpoint of the individual.

Thus, I believe we need to aim for a Chinese corporate culture that lies somewhere between Japan and the United States, and is infused with our traditional values. In the meantime, we must wait for the emergence of a new generation of innovative business leaders before we can know precisely what shape the Chinese business model will take. ■

PAY UP

CHINA'S THIRD-PARTY PAYMENTS MARKET TAKES OFF BY STAFF

Strategy Professor Brian Viard on the (payment) engine behind China's growing e-commerce market

China's e-commerce market has grown by leaps and bounds. But in a country with few credit cards, how do consumers pay for online purchases? The majority still do it the old-fashioned way, paying cash when they take delivery of goods.

Yet for convenience, an increasing number of consumers are turning to so-called third-party payment systems – services like Alibaba's AliPay and government-backed ChinaPay, which facilitate payments between users.

The value of third-party payment transactions jumped from 7.4 billion yuan in 2004 to an estimated 210 billion yuan by 2008, according to iResearch.

Though industry leader AliPay has staked out a strong position, it's not yet certain which players will

dominate the market in the long term. Cheung Kong Professor of Strategy and Economics Brian Viard has written a case study of China's third-party payments market that he uses to teach students about business strategy. We spoke to him about his conclusions.

How do you teach this case to your MBA students?

Part of the reason I use this case is to teach my students about the idea of network effects. A network effect, or network externality, happens when each person's value from the network increases as more people join the network. So one question I ask is: Do you think one firm will eventually dominate the payments market? The network effect would say that might happen, because if everybody's on the same network, they can all transact with each other easily. But it's not inevitable.



tipping the market.

Then I talk a little about differentiation in the market. In the case of AliPay, most of its transactions originate from its parent sites: Alibaba.com, a B2B [business-to-business] site, and Taobao.com, a C2C [consumer-to-consumer] market. So how should a smaller player like 99Bill position itself? Most students conclude that it's reasonable for them to focus on B2C [business-to-consumer] so they can differentiate themselves from AliPay. In other words, if the market here is fairly big, why directly attack someone else's territory?

What kind of comparisons can you draw between the development of payment systems in China and in the U.S.?

If it's not costly for consumers to continue to use multiple providers, there may still be room for two to three players. In that case you have what's called multi-homing – to have more than one home. If multi-homing costs are fairly low for both users and merchants, the market is not as likely to tip to one player.

A market is also less likely to tip to one player if the competitors are highly differentiated. That is, different systems have very different features that different market segments value.

Then I get into more specific strategies. I ask students: If you wanted to tip the payments market in your favor, what could you do to accomplish that? There are various tactics we talk about, given these network effects that might be effective.

For example, when people are initially adopting a service, you want to make it as cheap and easy as possible. Also, if you want to tip the market in your favor, there are complementary products and services to think about. You want as many banks as possible, as many phone companies as possible and as many merchants as possible in your network. Those are the main elements we discuss in terms of

In China, a lot of the payment systems have developed because of the Internet. In the U.S., payment systems originated long before the Internet. Credit cards developed in the U.S. in the 1950s, when there

“I think mobile payments have a much better chance of taking off in China than in the U.S.”

were no alternative technologies at the time. Now you have PayPal in the U.S. But in some sense, the infrastructure here in China I think has been much more driven by the Internet than in the U.S. just because of the timing of economic development.

I ask my students to make some comparisons between the U.S. and China. Do they think credit card penetration in China will reach the same level as in the U.S.? How big is the mobile payments [payments by cell phone] market likely to become in the U.S.? Right now the credit card penetration rate in China is very low, whereas the average consumer in the U.S.

has around 2.5 credit cards. At the same time, mobile payments have been slow to develop in the U.S. despite its high average income level.

Socioeconomic differences between the two countries would imply different rates of adoption of these payment technologies. But also because of the network effects, you get something called path dependence. That means that past events affect the way something will develop in the future even if the original conditions change. One reason mobile payments have developed slowly in the U.S. is due to path dependence. Credit cards are widely adopted in the U.S. and are a reasonably good substitute for mobile payments. Even if mobile payments are now technologically feasible and more convenient in many circumstances people may be slower to adopt. In China, the low penetration of credits cards means this same inertia does not exist.

Another historical factor affecting the development of payments technologies in the two countries is the difference between the cell phone industries. Here in China, cell phone plans are virtually all pre-paid. So Chinese consumers would already have money in their accounts if they wanted to use some of it for goods or services other than their cell phone plan. That's different than the U.S., where most people on cell phone plans commit to a certain amount of usage, then pay at the end of the month.

“It's not obvious to me that there will be as much credit card usage in China as we've seen in the U.S.”

Another difference is that people in China are used to texting. In the U.S., a lot of people have cell phones, but they often use them while driving, so they're more likely to be speaking than texting.

So for these reasons, I think mobile payments have a much better chance of taking off in China



than in the U.S. At the same time, it's not obvious to me that there will be as much credit card usage in China as we've seen in the U.S. Credit card usage may be leapfrogged by other technologies such as mobile payments.

Many of your students grew up in China, so I imagine they must have some of their own insights into the way the market could develop.

Right, I do get some interesting responses from my students. This year when we discussed this case, some thought ChinaPay would have a huge advantage because it's essentially part of the government – that the private firms would have a tough time competing with ChinaPay because of that. A few students who had a more extreme view even thought there was a risk the government could destroy this market for the private sector.

Once we'd finished the discussion, I polled students on whether they thought the market would tip to one dominant player. About one third said yes; two thirds said no. So it was pretty mixed. It shows there's no consensus on how this might go. 📊



长 | 江 | 商 | 学 | 院
CHEUNG KONG GRADUATE
SCHOOL OF BUSINESS



Cheung Kong CEO Programs. 40 Sharp Minds in One Place.

With students including Jack Ma of Alibaba, Fu Chengyu of CNOOC and Jason Jiang of Focus Media, the Cheung Kong China CEO and Finance CEO Programs bring together Chinese executives of unprecedented seniority. Delivered by Cheung Kong GSB in partnership with London Business School, Columbia Business

School and IMD, this year's four-module programs start in Hong Kong in early May 2009. The

Cheung Kong CEO Programs are just some of the many compelling courses

Cheung Kong GSB offers next generation business leaders today.



A NEW GENERATION
BUSINESS SCHOOL

Beijing Campus Oriental Plaza, Tower E3, 3F
1 East Chang An Avenue
Beijing, China 100738
Tel: 86-10-8518-8858
Fax: 86-10-8518-6800
Web: www.cheungkong-gsb.com
E-mail: contact@ckgsb.edu.cn

CHEUNG KONG



长 | 江 | 商 | 学 | 院
CHEUNG KONG GRADUATE
SCHOOL OF BUSINESS