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Cover image: Joan Miró. *The gold of the azure*, 1967. Fundació Joan Miró, Barcelona

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Professional·Creative
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Redrawing the bottom line

Issue One 2020

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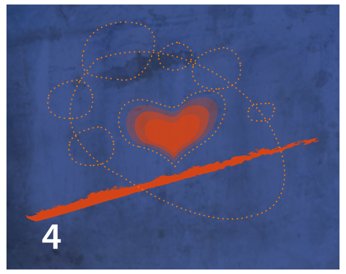

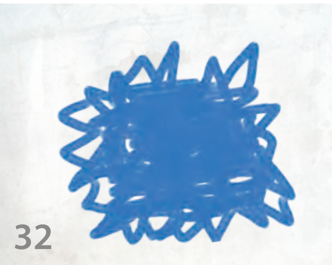

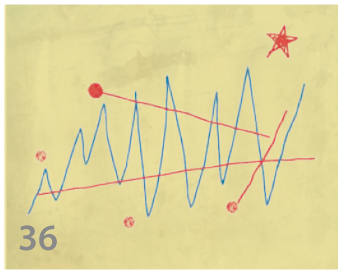

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City Business Magazine takes a fresh look at breaking global business issues with an East Asia perspective. We showcase the achievements of our faculty, students, alumni and distinguished guests. Established in 2014, we publish twice a year in English and Chinese, and reach some 50,000 alumni, international partners, and corporate stakeholders in hard and soft copy.

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ON THE COVER

The Gold of the Azure, by Joan Miró

The Gold of the Azure, painted in 1967, is the work of Catalan artist Joan Miró (1893-1983). His artwork serves as an inspiration throughout this issue, and is also featured on the centre pages. A collection of Miró's work can be viewed at the Fundació Juan Miró in Barcelona.

From the Dean

Over the years the Hong Kong accountancy profession has become a by-word for integrity, transparency and due process. Traditionally, the insistence on an accurate "bottom line" was all about the nitty gritty of financial profit and loss. Nowadays, the demands for greater accountability, morphing with ever-more-urgent demands for greater environmental sustainability, and the ongoing technological revolutions of our times are resulting in a "new bottom line." We tell the story of how the new approach is impacting the accountancy profession from multiple perspectives.

In *Roadmap boosts convergence of global accountancy standards*, Professor Jeong-Bon Kim, Chair Professor and Head of the Department of Accountancy, describes how changes in accountancy procedures have been integral to China's successful integration into the global economy, helping to create an internationally recognised standard for the bottom line.

From another perspective, *CSR – Entering the mainstream*, by Dr Yangxin Yu, shows how the global shift towards corporate social responsibility has enlarged the scope of financial reporting as it gets integrated into quarterly and annual reporting.

In *Rolling back "too big to fail*," Dr Zilong Zhang details how increased accountability has been brought to bear on state-owned enterprises in China. Following a series of SOE defaults, investors can no longer cling to the old belief in implicit government guarantees.

Dr Sidney Leung, and Professor Phyllis Mo describe *How social enterprises are facing the challenge of sustainability*. Given the relatively poor track record of Hong Kong SEs in financial sustainability, here the bottom line has to be redrawn to embrace dual investment objectives, that are both financially as well as socially-driven.

The impact of new technology on accountancy features heavily in this issue. Dr Xiaoli Hu and Dr Wenfeng Wang look at *New technologies and the future of accounting*, including the way in which the profession will have to adapt to the use of unstructured data. In this way, new technology allows the bottom line to be expanded and redrawn to embrace a wealth of hitherto uncaptured granular data.

Just when we were beginning to fear that AI is pushing human beings out of the picture, Professor Jeong-Bon Kim puts us back centre stage in *Seeing is believing? Executives' facial trustworthiness, auditor tenure, and audit fees*, and asks what the implications are for personalised trust in business accounting and auditing settings.

Finally, back to technology. Corporates are now typically sharing technological platforms across supply-chain and product market sectors and this brings leveraging opportunities to the accountancy profession. Dr Bing Li analyses *How technology knowledge spillovers are transforming the audit profession* whilst Dr Stephen Sun shows how technology links among companies can indicate predictable (and highly profitable) returns.

I would also like to mention that our CityU MBA programme has entered the Financial Times' 2020 MBA top-100. My congratulations go to Director Professor Kevin Chiang, and all members of his dedicated team who have put in such a tremendous effort since the programme's relaunch in 2013.

I do hope you enjoy this vibrant and many-faceted exploration of the "new bottom line," and the many innovative contributions from our colleagues in the Department of Accountancy.

Houmin Yan
Acting Dean

Roadmap boosts convergence of global accountancy standards

By Professor Jeong-Bon Kim

Professor Jeong-Bon Kim, *Chair Professor and Head, Department of Accountancy describes how changes in accountancy standards, which converge substantially with the International Financial Reporting Standards have been integral to China's successful integration into the global economy. An earlier version of this article appeared in China Daily.*

China's economic development over the last three decades is widely viewed as the largest socio-economic expansion in the history of human civilisation. This phenomenal growth would not have been possible and sustainable unless it had been accompanied by concurrent developments of supporting institutional infrastructure. The accounting profession provides important foundations for well-functioning capital markets, effective corporate governance, and the resolution of conflicts of interest among various stakeholders in the economy.

A key success factor in China's development is the Chinese government's continuing effort to further develop, reform and improve the country's accounting standards and practices. Understanding the past development of accounting in China is useful for us to better predict the future of economic development in China and other transitional economies.

Over the last four decades, the Chinese government has restructured or privatised state-owned enterprises as joint stock companies and successfully attracted foreign direct investment. During this period, the demand for external finance has risen dramatically, which in turn has spurred the Chinese government to develop well-functioning stock markets.

In this process, China has undergone fundamental changes in its accounting system. In the old days of the planned economy, accounting in China primarily served the central government. The transition from a centrally controlled to a market-oriented economy created the demand for credible accounting information from various stakeholders, including investors, creditors and financial analysts. As these capital market participants have different information needs, China's regulatory authorities have successfully made various accounting and auditing reforms in response to rapidly increasing demands for reliable, verifiable, auditable, and thus credible accounting information.

Overall, China has made significant progress in improving accounting practices and the accounting profession, which provides the Chinese economy with crucially important institutional infrastructure. For example, in preparation for entry into the World Trade Organization, the Chinese government realised the necessity of accepting international accounting practices.

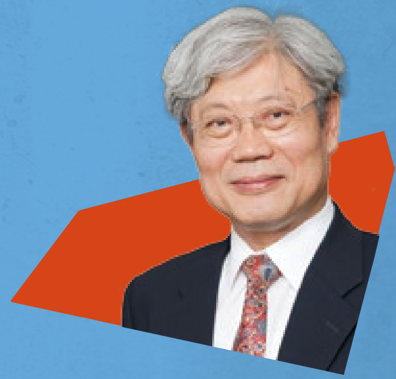
In response, the Ministry of Finance took a significant step forward for the integration of capital markets and accounting standards by announcing new accounting standards in 2006. The new standards, which converge substantially with the International Financial Reporting Standards (IFRS), contributed much to improving the comparability, reliability and credibility of accounting disclosures in China.

It has been argued that IFRS-based accounting standards can better reflect the underlying economic transactions conducted by business enterprises. Unlike traditional Chinese accounting standards which adhere to the historical cost principle, IFRS is considered fair-value-oriented, and thus helps accounting reports better reflect the underlying economic performance.

In more recent years, the implementation of the "Roadmap for the Continuing Convergence of Chinese Accounting Standards for Business Enterprises with IFRS" has updated the five standards of long-term equity investments, employee compensation, financial statement presentation, consolidated financial statements and financial instrument presentation. It has also formulated the three standards of fair value measurement, joint venture arrangements, and disclosure of interests in other entities.

The roadmap has steadily promoted the construction and implementation of common classification standards for corporate accounting standards, served the economic and social development of enterprises, and provided accounting technology to support the "Go out," "Belt and Road" and "Made in China 2025" strategies. The effort has been backed up by a thorough-going promotion of grassroots accounting work and accounting service markets.

Although it takes time, effort and resources for corporate managers to adapt to the new accounting standards, the adoption of IFRS that is now widely accepted in the global market will benefit China's economic development in the long-run, for example, by allowing enterprises to obtain external finance from outside (particularly foreign) capital suppliers at a lower cost. This benefit accrues largely to those Chinese firms who have cross-listed or seek to cross-list their shares on overseas stock exchanges.



Professor Jeong-Bon Kim
Chair Professor and Head
Department of Accountancy

Message from Professor Jeong-Bon Kim

I am delighted to contribute to this accountancy-themed edition of City Business Magazine. Special thanks go to my colleagues in the Department of Accountancy who have written many interesting articles, as well as to the magazine's editorial team.

Over the last two decades, the accountancy profession has gone through something of a revolution. This includes global convergence of accounting standards via the adoption of International Financial Reporting Standards across many countries around the world. In addition, the use of information technology in transmitting accounting information to outside stakeholders will bring about profound changes in the way accounting will be practiced in the future. Examples of these changes include the adoption of XBRL (eXtensible Business Reporting Language) for financial reporting and the use of social media for disseminating fundamental information about the firm.

Sometimes it is difficult to see the wood for the trees, so we have summarised the main takeaways from this edition.

"Redrawing the bottom line" means:

- Realising global accounting standards
- Embracing corporate social responsibility
- Rolling back "too big to fail"
- Promoting the sustainability of social enterprises
- Using new technologies to capture more granular data
- Rethinking our ideas of "trust"
- Leveraging accounting synergies across platforms

These are some of the issues we look at in this edition.

We hope you enjoy the read!

CSR – Entering the mainstream

By Dr Yangxin Yu

***Dr Yangxin Yu**, Associate Professor in the Department of Accountancy, takes a critical look at the rapidly expanding sector of corporate social responsibility, the growth in independent assurance of CSR data, and how it is entering the mainstream of financial reporting. This article makes reference to "Financial analyst coverage and corporate social performance: Evidence from natural experiments," by Cuili Qian, Louise Y Lu, Yangxin Yu, published in the Strategic Management Journal, December 2019.*

When, campaign group ClientEarth launched a complaint against BP for creating a "potentially misleading impression" in promoting its environmental credentials in December 2019, it was the latest in a long line of criticisms of "greenwashing." Back in the 2000s, BP once known as "British Petroleum," rebranded itself as "Beyond Petroleum." As events would turn out, their marketing campaign was overly ambitious. In 2010 the company suffered the largest marine oil spill in the history of the petroleum industry. The US Federal Government estimated that the Deepwater Horizon disaster discharged 4.9 million barrels of oil into the Gulf of Mexico. BP currently claims that it is moving away from fossil fuels and towards renewables but ClientEarth maintains that the vast majority of its planned investment – 96% – is in oil and gas.

"Greenwashing" is not unique to the petroleum industry, and is just one facet of "corporate social responsibility," a self-regulating business model which is designed to help companies be more socially accountable. With the growing recognition that the earth is in climate crisis, the meaning and scope of social responsibility is being drawn ever wider. And the role of the corporate sector is under increasingly scrutiny. Contemporary environmental, social and governance problems cannot be tackled by governments alone. Investors, stakeholders and the general public are demanding that corporates play a key role in combating these issues. So how has the accounting profession responded to the global demand for CSR? How much influence are stakeholders bringing to bear on multinationals? And what are the key areas in which accountants can apply their skills?

CSR is getting integrated into financial reports

CSR reports are now typically included in the mainstream financial reporting system. Annual reports increasingly feature disclosure alongside financial information, and there is a mounting expectation that larger firms disclose CSR information. In the 10th annual survey of corporate responsibility reporting in 2017, KPMG reviewed corporate social responsibility and sustainability reporting from 4,900 companies in 49 countries and regions. Around 75% of the companies issued stand-alone CSR reports, and 60% included CSR information in their annual report along with financial performance data. But the vast majority – 78% – of the world's biggest companies now integrate CSR in their annual financial reports, a massive shift from the 44% in 2011. Why the change?

Leading CEOs are actively exploring alternative metrics for measuring the long-term health of their companies and the communities they serve. A myopic focus on earnings or stock price is no longer sufficient. Boards are now asking more qualitative questions. Deloitte's 3rd annual Readiness Report (2019) surveyed more than 2,000 C-suite executives across 19 countries and showed that nearly 60% of executives said that "increasing their companies' positive impact on society" was among their top-five desired outcomes for Industry 4.0.[1]

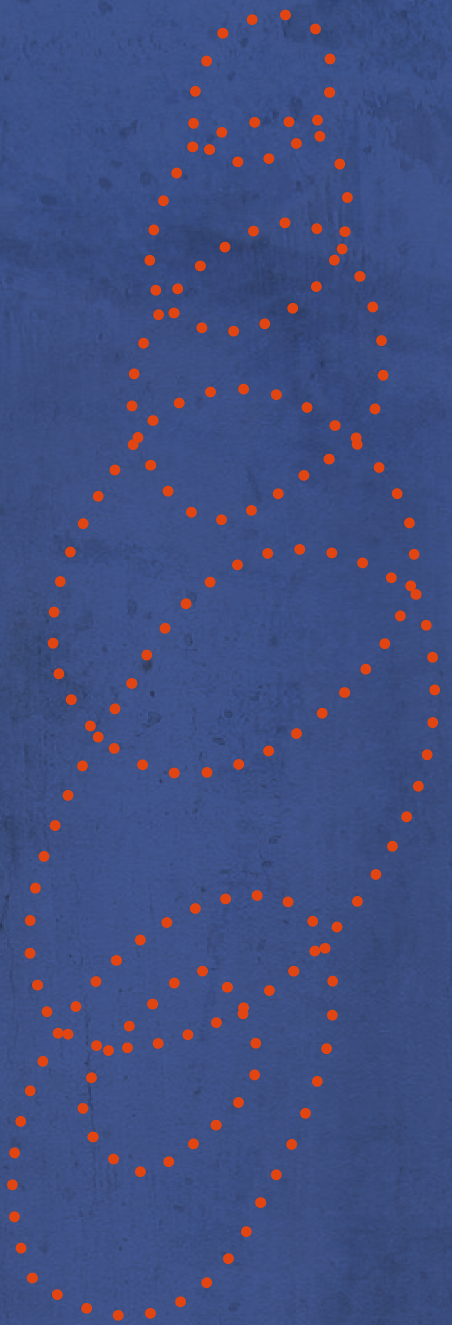
PwC found 69% of CEOs agreed that "the purpose of business is to balance the needs of all stakeholders[2]." Over 9,000 companies now work with the United Nations Global Compact to advance broader social objectives such as the UN Sustainable

78%

of large companies worldwide integrate CSR in their annual financial reports

Development Goals. Overall, there are four major emerging trends in CSR reporting: Firstly, to account for climate-related financial risk, secondly, to include the UN Sustainable Development Goals (SDGs), thirdly to embrace human rights, and lastly to take account of carbon reduction targets.

The rollout of the CSR disclosure agenda, however, differs greatly around the world. Broadly speaking, stakeholder concerns are considered vital in developed countries. The views of regulators, shareholders, creditors, environmentalists and the media all play a role in how CSR information is disclosed by companies. By contrast, in countries with emerging economies, CSR reporting is more heavily determined by external influences such as international buyers, foreign investors, international media and international regulatory bodies such as the World Bank. Here, companies are under relatively little pressure from domestic forces.



The United Nations takes the lead

The United Nations Global Reporting Initiative is the most widely adopted framework for CSR reporting. According to KPMG[3], around two-thirds of companies apply the Global Reporting Initiative (GRI) G4 Guidelines. Also, there is a clear trend that companies are aligning their own CSR strategies and targets with global goals, such as the UN 2030 Agenda for SDGs launched in 2015. These are a set of 17 goals designed to end poverty, protect the planet, and ensure prosperity for all as part of a new global sustainable development agenda. Each goal has specific targets to be achieved over the next 15 years. According to a 2018 PwC survey, 72% of companies surveyed mention the SDGs in their annual corporate or sustainability report.

Mandatory CSR reporting is also a trend in most markets around the world. New reporting requirements are being introduced through company acts, and accounting regulations, as well as instruments that address reporting on specific themes such as corporate governance or environmental pollutants. China illustrates the close interrelation between voluntary and mandatory reporting. Here the CSR regulations of the central government are followed by industry regulatory bodies and local government. Also, state-owned enterprises act as pilots to set an example to private companies which comply with these supposedly voluntary initiatives.

Governments and regulators increasingly encourage companies to disclose CSR information in annual financial reports. The number of reporting jurisdictions that require this integrated reporting nearly doubled worldwide between 2013 and 2016[4], while jurisdictions that require disclosure in stand-alone reports have also increased but by a lower proportion. This trend indicates pressure from investors for improved information about the material relevance of sustainability risks.

CSR can be reduced to impression management

Despite its prevalence, the credibility of CSR reporting has been called into question. Although the GRI is widely followed as the de facto standard, the framework allows considerable flexibility with respect to compliance. Companies may focus on positive CSR performance metrics, using descriptive information such as graphs or narratives that do not accurately reflect their overall CSR strategy. And in more relaxed jurisdictions, companies may simply disregard mandatory reporting regulations. In such cases, CSR reporting is reduced to impression management, symbolic in nature. The PwC survey in 2018 reported that the average score for reporting quality for those companies that had prioritised SDGs was just 2.71 out of 5. Clearly there is room for improvement.

Growth industry in the independent assurance of CSR data

CSR audit assurance is becoming a necessity as the awareness and engagement of investors, audit committees and management fuels demand for reliable data. In Japan, there has been serious investor pressure where the Government Pension Investment Fund demands reliable CSR information from its investee companies. International frameworks are also an important stimulus in Japan. Assurance of CSR information is required for listing on sustainable stock indexes such as the Dow Jones Sustainability Index, and this has driven up assurance rates in Japan.

Stakeholders are also interested in how external assurance can help improve CSR disclosure. The main assurance providers are accountancy firms, engineering firms and other professional services firms. The International Standard on Assurance Engagements (ISAE) 3000 was developed by the International Auditing and Assurance Standards Board (IAASB), and came into force in December 2003 and is used by accounting firms to guide their assurance engagements on CSR reports. According to KPMG, independent assurance of CSR data has more than doubled from 2005 to 2017 (now 67% of reports), indicating that the largest companies see value in promoting the reliability of CSR information.

Internal audit CSR assurance is also considered a growth industry. Trotman and Trotman[5] interviewed 29 senior audit committee members, senior accountants, in-house internal auditors, and external auditors from outsourcing partners. The report showed that the value of internal audit as part of CSR reporting is widely accepted.

CSR is entering the mainstream

Financial stakeholders understand the business logic behind treating environmental and social issues as core. In emerging countries, CSR is seen as a proxy for good

Sustainable and Responsible Investments gain traction

- Two-thirds of millennial investors believe that environmental or social factors are important considerations in making investment decisions[6].
- The United Nation’s “Principles of Responsible Investment” aims to encourage sustainable and responsible investment by institutional investors considering environmental and social factors in portfolio selection and management. Over 1,500 institutions holding assets worth more than $80 trillion signed up to the PRI initiative by 2018.
- SRI is going mainstream with $30.7 trillion assets in the United States, Europe, Canada, Japan, Australia and New Zealand, a 34% increase in two years[7].
- The global mutual fund leader BlackRock launched the “BlackRock Impact US Equity Fund” in 2015, which aims to cater towards the growing demand for sustainable and impact investment solutions.
- The pioneering MSCI KLD 400 Social Index remains one of the most influential socially responsible investment indices in the US. The two iShares ETFs issued by BlackRock (the MSCI KLD 400 Social ETF and MSCI USA ESG Select ETF) are largely based on the KLD index, which have $1 billion and $679 million in assets, respectively.
- Corporate green bonds have become increasingly popular. For example, Apple issued a $1B green bond to finance “renewable energy and energy efficiency at its facilities and in its supply chain” in June 2017.

governance, which is critical for attracting foreign investment. Elsewhere, investors are increasingly concerned with how companies are building and protecting long-term value, recognising the role of CSR or non-financial performance information in a company's current financial performance long-term value creation. Increasingly CSR performance is seen as an investment guide for investors, asset managers and ratings agencies. These business groups now factor environmental, social and governance information into their assessments of a firm's performance and risk. "Sustainable and responsible investments" have become part of mainstream investing strategies in leading financial markets.

Institutional shareholders are making their voices heard. After purchasing the "hunger bond" of Venezuela in May 2017, Goldman Sachs was criticised for "funding a systematic human rights violator." Large institutions, such as BlackRock, New York State Pension Fund, and the Commissioners of the Church of England, backed a shareholders' vote in ExxonMobil for an annual assessment to address climate change, despite board opposition in June 2017.

Denial is no longer an option

Demand for CSR reporting also comes from company business strategies. The payoffs include greater customer loyalty, positive publicity, and enhanced corporate reputation. Denial is no longer an option: In 2012, Ikea dropped 70 of its suppliers for failure to comply with the company's supplier code of conduct in areas such as working conditions, waste, and safety. In 2014, the Walt Disney Company cancelled its contracts with several textile suppliers in Pakistan who failed to maintain health and safety standards; the canceled contracts were worth US$150 million.

CSR is becoming an integral part of business practice. Recent CSR studies find that firms use CSR as a reputation repair strategy targeting customers, employees, and geographic communities in the period after an accounting restatement or a litigation event. However, while some researchers find support for what is commonly referred to as "doing well by doing good," others suggest that

CSR activities are an irresponsible use of corporate resources. A recent study finds that CSR expenditure is not a form of corporate charity nor do they improve future financial performance[8]. Rather, firms undertake CSR as a disclosure strategy when they anticipate stronger future financial performance, i.e., signaling information about the firm's future prospects. These findings support the insight that strategic CSR is simply a profit-maximising strategy motivated by self-interest.

On the other hand, as a long-term investment, CSR is also influenced by short horizon imperatives of the stock market which in turn drive short-term thinking. Financial analysts are important players in this dynamic. My recent study published in the Strategic Management Journal[9] shows that, ironically, CSR improves when analyst coverage decreases. When analysts set quarterly earning goals for firms, managers may feel that socially responsible investment with a long-term horizon will not contribute to hitting short-term performance targets. It is our belief that despite analyst pressure, managers should still try to pursue both short- and long-term goals. We believe financial analysts themselves are seeing CSR more and more positively and there are value creation elements in firms' engagement in CSR in the long-run.

Overall, the corporate community is increasingly sensitive to the environment. Whilst writing this article, Australia has been battling scores of fires across the country for a period of months. A new survey by Deloitte released in January 2020 showed 81% of Australian executives believe climate change will harm their company. The concern from Australian executives is significantly higher than the global average of 48%.

The rising trend in CSR disclosure indicates surging market demand for CSR information that also feedbacks into firms' practices. Over the next few years, countries without CSR reporting regulations will introduce them, and existing regulations will be strengthened. New requirements will also likely be adopted on intensifying issues such as climate change, human rights and globalisation.

Sustainability issues - Key areas in which accountants can apply their skills[10]

- **Reporting –** with their long experience of reporting, accountants know how important it is to understand the regulatory, voluntary, and legal reporting environment in which business and government operates, and automatically keep abreast of any changes which may impact on reporting scope or legal requirements.
- **Risk –** accountants can give advice on risk management, and on the implications for an organisation if it opts to start reporting on sustainability issues voluntarily.
- **Establishing frameworks –** accountants have a deep understanding of how to collect, measure, and analyse relevant information. This means they are able to develop frameworks which embrace new sustainability information and which suit the circumstances of their own organisation. This skill is vital, as at present there is little specific guidance from government, and the capture and collation of social and environmental data will not be as easy for some organisations as it is for others.
- **Policy –** it often falls to the accountant to determine organisational policy on "necessary to report" decisions; they are therefore well placed to advise on the reporting of sustainability issues, identifying what should be covered by a report.
- **Information provision –** accountants are trained to provide clear and reliable information and, where required, assurance of this information; they are also able to gather the evidence required to support a business case, and establish the necessary supporting processes and procedures. In addition, many senior accountants report directly to senior management or the board – to do this effectively, an accountant has to know the business inside out and, as a result, can link sustainability issues to organisational performance.

Source: ACCA

References:

Dr Yangxin Yu
Associate Professor
Department of Accountancy

Rolling back "too big to fail"

By Dr Zilong Zhang

***Dr Zilong Zhang**, Assistant Professor in the Department of Accountancy, looks at the chequered history of China's state-owned enterprises and how a series of defaults brought a systemic response and increased financial discipline to the sector. This article is based on "The Value and Real Effects of Implicit Government Guarantees," by Shuang Jin, Wei Wang, and Zilong Zhang, May 2017.*

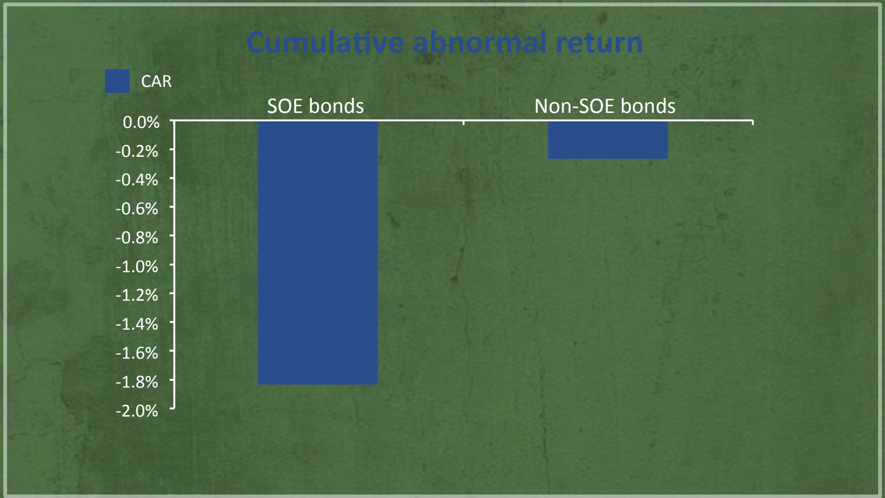
State-owned enterprises (SOEs) are systematically important in China's economy, helping to create and maintain millions of jobs, as well as support strategically important industries. Historically, publicly-listed SOEs have contributed up to 85% of the total sales of all listed companies in China[1], and were widely seen as being "too big to fail." But behind the impressive statistics opinion remained divided on the efficiency of the state-owned sector. In the early 2010s sentiment began to change. At the fourth meeting of the US-China Strategic and Economic Dialogue (S&ED) in May 2012, China committed to "developing a market environment of fair competition for enterprises of all kinds of ownership and to providing non-discriminatory treatment for enterprises of all kinds of ownership in terms of credit provision, taxation incentives, and regulatory policies." The winds of change seemed to be gathering force over the SOE sector. Was accountability now to be the name of the game?

Investors cling to the old belief in implicit government guarantees

Initially, investors were not too bothered. They clung to the belief that SOEs were simply "too big to fail." When these often gigantic companies were in danger of default, the government had always somehow found a way to bail them out. After all, back in 1997, when Jiangxi Radio Factory was on the verge of bankruptcy, the local government had invited Tsinghua Tongfang, a software company based in Beijing, to acquire the factory and inject capital into the merged firm. The government provided policy support for the merger and the debt repayment. Again, in 2008, the central government – in the form of the State-owned Assets Supervision and Administration Commission – had directly subsidised five state-owned electricity companies that were deeply distressed. The subsidies shared by the five companies amounted to a then massive USD 1.8 billion in total.

Such "implicit government guarantees" created a safe harbour not only for SOEs' bond investors, but also for their managers. In anticipation of a government guarantee, managers tended to borrow excessively and overinvest in inefficient projects without worrying too much about the consequences. Such implicit government guarantees were criticised as an important cause for the high financial leverage of SOEs' overcapacity and inefficient production.

The unprecedented credit boom of the early 2010s further aggravated the overleverage and overcapacity problems. According to the China Stock Market & Accounting Research (CSMAR) database, during 2011-2015, the financial leverage of SOEs averaged 54% while the average return on assets of SOEs was only 3.3%. The corresponding numbers for non-SOEs, however, were a rather more financially competitive 39% and 5.7%. To deal with these problems, Chinese regulators encouraged firms to de-leverage and called for the cutting of inefficient production. A series of non-bailout events were to follow, reflecting the government's declining tolerance for non-performing firms and its attempt to allow market forces to play a more decisive role in restructuring the economy.



▲ The average cumulative abnormal return of SOE bonds during a 60-day window around the Tianwei default

The historic default of Baoding Tianwei

The first major shockwave to hit was on 21 April 2015. Baoding Tianwei, a manufacturer of power transmission and distribution equipment including the strategically important photovoltaic and wind power sectors based in Hebei province, defaulted on one of its onshore bonds. Tianwei was a wholly-owned subsidiary of China South Industries Group, an SOE ranked 102nd in the Fortune Global 500 in 2016. This was the first-ever SOE default in the entire history of Chinese onshore bond market, and it came to symbolise the end of an era. The implicit guarantee had fallen through the trapdoor of history.

A series of SOE defaults followed in quick succession. In July 2015, Jilin Grain Group, a grain producing enterprise owned by the Jilin government, defaulted on its private placement bonds. In September, China National Erzhong Group, a heavy machinery company owned by the central government and located in Sichuan Province, defaulted on a medium-term note issued in 2012. In October, Sinosteel Corporation, a mineral processing and steelmaking company owned

> "The first-ever SOE default symbolised the end of an era. The implicit guarantee had fallen through the trapdoor of history"

by the central government and headquartered in Beijing, failed to pay interest due on 2 billion CNY notes maturing in 2017. And in December, Tianwei defaulted again, this time on one of its private placement notes. The wave of SOE bond defaults continued in the following couple of years. In the aftermath of the Tianwei default, Moody's stated, "Recent episodes of SOE distress show that regional and local governments' autonomy to provide direct financial support to struggling SOEs is diminishing as a result of restrictive central government regulations."[2]

The retreat of the government's guarantee came as a shock to the corporate bond market. Investors reacted by bidding down the price of SOE bonds. Using the data provided by CSMAR and WIND, we have calculated that the average cumulative abnormal return (CAR) of SOE bonds was 1.53% lower than that of non-SOE bonds during a 60-day window around the Tianwei default.

The behaviour of SOE managers begins to change

Now the SOE managers faced a real threat of corporate failure. Would the threat discipline the managers and discourage them from making bad investment decisions? We answered this question by conducting regression analyses using a large sample of SOEs and non-SOEs from January 2013 to December 2016. We first matched SOEs and non-SOEs based on various financial metrics and then examined the change in the SOEs' investment record from before to after the Tianwei default relative to the change of non-SOEs' investment in the same period.

We found that SOEs cut their investment by 1.9% of book assets relative to non-SOEs in the first semiannual period after the Tianwei default. We further split our sample into different groups according to manager characteristics and performed an analysis for each group. Interestingly, we found that the investment reduction was mainly made by bad managers (characterised as those managers with above median misconducts or lawsuits recorded against them before the Tianwei default). Finally, we found that SOEs managers made better acquisitions after the Tianwei default, as evidenced by a better stock price reaction to their acquisition announcements. SOE acquirers' abnormal stock returns outperformed non-SOE acquirers' by 2.4% in the 5-day window around acquisitions.

The advent of financial discipline

Overall, our findings suggest that the reduction of implicit government guarantees, or the disappearance of "too big to fail," disciplined corporate managers. This finding not only confirms theoretical predictions by academia, but also has important policy implications – allowing the market mechanism to play its role in restructuring troubled SOEs has a positive effect on the real sector in the long-run, even though it may bite current bondholders.

"Too big to fail" is not a phenomenon exclusive to China. The experience of GM and Chrysler during the 2008-2009 financial crisis highlights the prevalence of US government support in bailing out systemically important corporations during severe economic downturns. Other real-sector firms that have been bailed out by their home governments include Groupe Bull SA (France), Norilsk Nickel (Russia), Bangkok Land (Thailand), Malaysian Airline System (Malaysia), Railtrack (UK), etc. In this sense, the effect we document can travel around the world.

References:

Dr Zilong Zhang
Assistant Professor
Department of Accountancy

How social enterprises are facing up to the challenge of sustainability

By Dr Sidney Leung and Professor Phyllis Mo

__Dr Sidney Leung__, Associate Head and Associate Professor in the Department of Accountancy, and __Professor Phyllis Mo__ of the Department of Accountancy show how Hong Kong's burgeoning social enterprises sector is shaping up to the challenge of maintaining financial independence. This article is based on "Enhancing the competitiveness and sustainability of social enterprises in Hong Kong : A three-dimensional analysis," by Sidney Leung, Phyllis Mo, Howard Ling, Yanto Chandra, So Sum Ho, published in the China Journal of Accounting Research, 2019.

Hong Kong social enterprises have reached an all-time high and increasing numbers can sustain themselves financially, breaking the stereotype that they depend on government bailouts. There are, however, tensions in the DNA of these organisations, particularly with regard to financial discipline. How important is the bottom line? Is self-sufficiency sufficient? Or is it acceptable if business revenues cover only part of the costs? Modern-day ideas of managerial accountability tend to encourage a regime of profit, so that SEs can reinvest in social activities or support further social causes. So how are Hong Kong's SEs doing?

Profitability of Hong Kong social enterprises

- 27% of SEs made no profit over the past five years
- 41% generated profits in one to three of those years

Growth of Hong Kong social enterprises

- 222 in 2008
- 654 in 2017

In a society of rampant inequality, The Hong Kong SAR Government and social service sector have been actively promoting the development of social enterprises with entrepreneurial thinking and innovative approaches. The idea is to enable the socially disadvantaged to be self-reliant through employment, and to meet the needs of various community groups. But SEs are not merely benevolent entities. They are also welfare operations that work according to market mechanisms in an effort to generate substantial social value and jobs for the socially disadvantaged in the community.

Inequality: Hong Kong's Gini coefficient now stands at 0.539, its highest level in 45 years, the eighth most unequal country in the world. By comparison, Singapore is at 0.459 and the US is at is 0.450. This inequality is most starkly apparent in the housing market. Hong Kong is ranked as the world's least affordable housing market. It takes an average family 20.8 years of savings to afford a home.

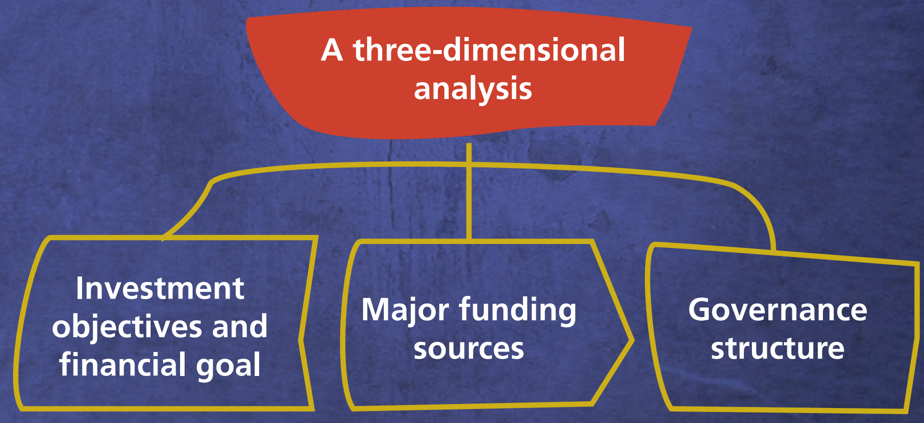
In the Gini coefficient, zero represents maximum equality and one represents maximum inequality.

Source: http://worldpopulationreview.com/countries/gini-coefficient-by-country/

A harsh reality — many SEs suffer losses

Many SEs with important social missions have failed after a few years or are struggling to survive. The findings of the Fullness Social Enterprises Society Report (2015) provided a glimpse into their sustainability. This report showed that only 19% of SEs were able to achieve break-even or profit by the end of their second year of operation, rising to 53% by the end of the fifth year. This improvement is encouraging, but also points to a harsh reality that many SEs suffer endemic financial losses in their operations. The 2015 report also showed that 23% of SEs ceased operations within five years and the non-survival rate increased to 55% within ten years.

As they wean themselves away from government funding, SEs are now facing up to the challenge of achieving economic sustainability. There is an increasing demand from SE practitioners, the government and other stakeholders for a better understanding of what causes the success or failure of Hong Kong SEs. Our study, "Enhancing the competitiveness and sustainability of social enterprises in Hong Kong: A three-dimensional analysis," focuses on the impacts of three key dimensions of social entrepreneurship on the SE's profitability, business planning and management: (1) investment objectives and financial goal; (2) major funding sources; and (3) governance structure.



Can social enterprises survive without support?

Through two rounds of invitation sent to randomly selected SEs, a total of 22 SEs agreed to participate in our study. In-depth interviews based on the questionnaire were conducted with the owner/founder or key manager of each selected SE during the period from December 2017 to April 2018. The participating SEs operated mainly in retail businesses (45%), catering businesses (23%), and workshops (14%).

Regarding investment objectives, 55% of SEs aimed at dual investment objectives, that is a mixture of social impact and financial return, whereas the remaining 45% said that social impact was their sole investment objective. In terms of financial goals, less than one-third (32%) rated "profitability" as their financial target. Nearly half of the SEs (45%) aimed at "self-sufficiency." Another 23% accepted losses and their financial goal was "contribution," that is business revenues should cover part of the costs.

In terms of profitability, 27% of SEs had never made a profit in any single year over the past five years, 41% of SEs had generated profit in one to three of those years, whilst about one-third (32%) recorded profit in at least four of the past five years.

In terms of main funding source, 41% of SEs relied on private funding, 32% on funding support from non-governmental organisations and 27% on government funding. Regarding governance structure, the majority (64%) were run by non-owner managers. In the remaining 36%, the owner also served as the key manager. Just under half, (45%) of SEs had established an overseeing/advisory committee.

The investment objective makes a difference

Unsurprisingly, we found that SEs with a dual investment objective of social mission and financial return were more sustainable than those only aiming for social impact. SEs with dual investment objectives had an average of 2.75 profitable years in the last five years, outperforming SEs with the sole objective of social impact (2.1 profitable years).

High-profitability SEs, those with at least four profitable years in the last five years, were more likely to aim at either "self-sufficiency" or "profitability" as their financial goal and to adopt more rigorous business and financial management than low-profitability SEs. Specifically, 86% of high-profitability SEs aimed at either "self-sufficiency" or "profitability" as their financial goal. In contrast, 50% of low-profitability SEs considered "contribution" (business revenues cover part of costs) as their financial goal. Over 70% of high-profitability SEs had a business plan and were more likely to use budgeting to measure business performance than low-profitability SEs. Also, high-profitability SEs produced cash flow forecasts more frequently compared to low-profitability SEs.

The funding source makes a difference

We partitioned the sample into three groups based on their major funding sources, namely NGO-funding, government-funding, and private-funding, and compared various attributes of their business and financial management. We found that 86% of NGO-funding SEs had dual investment objectives, reflecting that NGOs typically expect their SE subsidiaries or units to earn profit and be self-sustainable. Indeed, NGO-funded SEs were the most profitable with an average of 3.29 profitable years in the last five years. Only 33% of government-funding SEs had dual investment objectives. Although many government-funded SEs had a single objective of social impact, their profitability index (2.67 years) ranked second out of the three groups. It is alarming that privately funded SEs had the poorest record of profitability (1.67 years only) even though they had ranked "profitability" as their first preference in terms of financial goal. Such SEs had the lowest scores in financial planning and management.

The presence of an owner-manager makes a difference

As with any for-profit enterprise or family firm, the presence of an owner-manager impacts on how an SE is managed. SE governance structures vary according to funding source. Specifically, 67% of privately-funded SEs were run by owner-managers, compared with just 33% for government-funded. As expected, all NGO-funded SEs were managed by professional managers. The establishment of an overseeing or advisory committee was not common in privately-funded SEs (33%). Half and slightly more than half of government-funding and NGO-funding SEs respectively had an overseeing/advisory committee.

We analysed the differences in profitability and business management practices between owner-manager SEs and non-owner-managed SEs. The results showed that non-owner-managed SEs performed better in profitability (2.71 years) than owner-manager SEs (two years). Compared to owner-manager SEs, non-owner-managers SEs had more detailed budget including capital expenditure and operating expenditure of start-up costs and were more likely to profile competitors in the business plan. Non-owner-manager SEs were also more sophisticated in financial planning and management. These findings are consistent with the notion that SEs managed by a non-owner key manager are more competitive and sustainable than owner-manager SEs.

We also addressed the question "Does having an overseeing/advising committee matter in Hong Kong SEs?" The results showed that SEs with an overseeing committee prepared more detailed budgets and had a greater tendency to adopt updated business plans than those without one. SEs with an overseeing committee also developed their business start-up plans more comprehensively and thoughtfully such as by setting up a supply chain for their product/service in business start-up plans.

Policy implications and recommendations

Collectively, the research findings showed that Hong Kong SEs are in general not yet embracing the importance of financial sustainability, nor the notion of "social enterprise" as a for-profit business.

To enhance the competitiveness and sustainability of the SE sector in Hong Kong, we have the following recommendations.

- SEs should embrace realistic and sustainable dual investment objectives and should manage and run their enterprises from a sustainability point of view.
- SEs should prepare quarterly, if not monthly, cashflow and profit and loss forecasts, evaluate the operating performance with the forecasts and revise business plan and forecasts accordingly.
- SEs should establish an overseeing/advising committee with at least 3 members, at least one from sales and marketing, one from accounting/finance and one from the expertise in the related industry.

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New technologies and the future of accounting

By Dr Xiaoli Hu and Dr Wenfeng Wang

***Dr Xiaoli Hu**, Assistant Professor in the Department of Accountancy, and **Dr Wenfeng Wang**, Assistant Professor in the Department of Accountancy, look at how the extensive application of information technology will affect the accounting industry, and what new skills accountants will need to learn to navigate this transformative and revolutionary era.*

The wide-ranging economic impact of information technology is clear when we think of organisations and markets as information processors. New technologies, such as big data, artificial intelligence (AI), cloud computing, and 5G are leading our economy to a possible Fourth Industrial Revolution. The technology not only brings cost efficiencies to firms, but also significantly changes business models, organisational structures, and the composition of the labour force. Firms are investing heavily in technology related to data analytics for use in areas such as marketing, operations, financial reporting, and internal audit. The International Data Corporation (IDC) forecasts that worldwide revenue for big data and business analytics solutions is set to reach USD 274 billion in 2022, with a five-year compounded annual growth rate of 13.2% (IDC 2019).

Replacement or helping hand?

How will the extensive application of information technology affect the accounting industry? What are the futures for accountants? Is it likely that AI-powered robots will eventually completely replace accountants and do jobs such as transaction verification, asset measurement and detecting abnormal journal entries more efficiently and effectively? If that is the case, we accountants are facing a gloomy future. If, on the other hand, AI will take a long time to reach a level to challenge human intelligence, and will be used as tools to help us make more efficient and accurate decisions, then a critical question is what new skills will we need to learn in order to adapt to this new era?

Nobody can predict the future, but we can be sure that preparation will help us. In this article, we will discuss how two most relevant technologies, AI and big data, are related to the accounting industry, the potential impacts they may have on the future of accounting, and how accountants can get prepared.

AI will take over many accounting tasks

AI refers to the use of computers to do jobs that used to require human intelligence. The concept dates back to the 1950s, when John McCarthy, the father of AI, first described it as *"The science and engineering of making intelligent machines, especially intelligent computer programs."* In recent years, AI applications have started to appear in more and more business scenarios. Natural language processing (NLP) allows firms to use auto-reply customer support, greatly reducing human workload. Image recognition algorithms produce great performance in areas such as medical diagnosis and virtual banking. And network based algorithms are determining what people see on online shopping websites or social media.

Given the power of AI, many tasks that used to be done by accountants can be done by AI-enabled algorithms or robots. Indeed, many companies are already using basic automated accounting processes. According to Forbes, machines will carry out or streamline tasks and processes such

▲ Drone imagery of cattle pens: image before using automated software

▲ Image after using automated software and auditor corrections (note numbers on each cow)

as supplier onboarding, accounts payable, audits, procurement, purchasing, expense management, and customer queries. More advanced applications will follow.

Time-consuming inventory checking can be completed within minutes

In the future, a standardised sales contract will be easily analysed by a customised NLP system to identify the key terms for further information processing. Preparation of routine internal financial reports will be done automatically on a daily basis. Time-consuming inventory checking will be completed within minutes with the help of drones taking panoramic photos. Further automatic analysing and counting will be done with the help of image recognition technologies. And cross-checking processes for internal control purposes can be fulfilled by well-designed systems that retrieve and compare information across different departments. For instance, the pictures above show cattle pens taken by a drone. The pictures are analysed by an algorithm to count the number of cows in the picture. One can easily see the efficiency improvements such new technology can bring.

Computers can go even further by performing tasks that used to be too costly to implement. Reports describing the key functions of a firm can be prepared on a weekly, daily or even hourly basis, replacing the old monthly or quarterly reports. Bad debt provisions can be analysed on a granular level. Such timely and detailed information can improve the value relevance of accounting information in facilitating business decisions.

The accounting department will coordinate the re-engineering process

The efficiency of daily accounting tasks and processes will be improved by AI-based automation technologies, but this will require a more integrated firm information system as basic infrastructure. The transition from the traditional silo information systems to such an integrated system will not be without pain. The accounting department, as the central functional department, will need to coordinate the re-engineering process. This will require a deep understanding of the entire business model, taking a critical look at the value of current accounting tasks, foreseeing potential future accounting practices and needs, as well as commanding an updated knowledge of new information technologies.

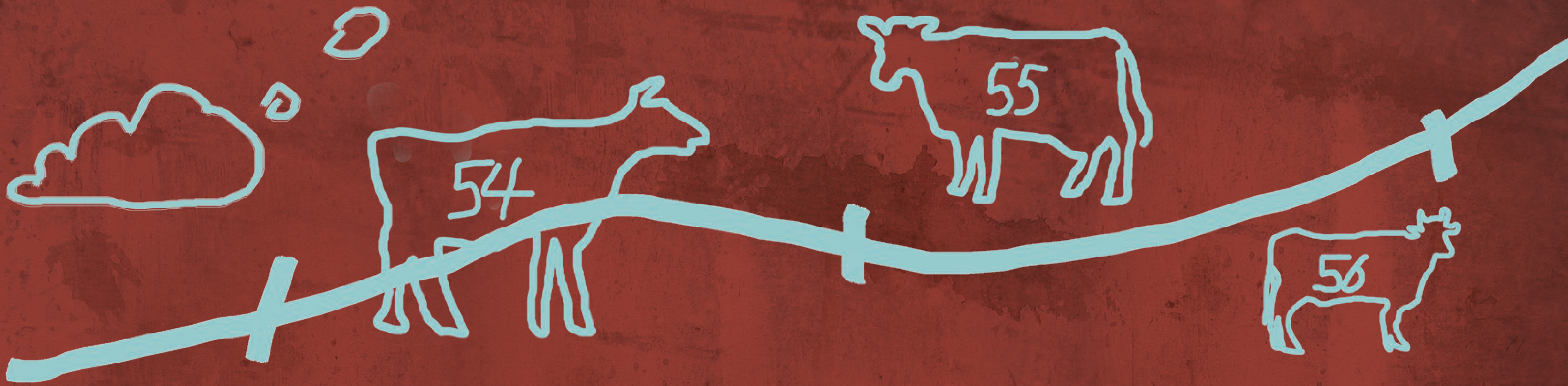
Along with the change of firms' accounting systems, auditing practices will need to be changed too. For example, auditors will need to understand the coding language, or at least the logic of coding expressions to evaluate the efficiency of internal control systems, and to decide whether accounting numbers generated from the system comply with international accounting standards. The traditional sampling practice in auditing process may also evolve toward a full-screening methodology, changing the entire design, implementation and quality control process of audit work.

The scope and complexity of big data will continue to grow

Big data is another growing trend that will affect the future of accounting. Big data refers to data sets that are so voluminous and complex that traditional data processing application software cannot deal with them.[1] With the development of information storage technology, computing power, mobile devices, and wearable devices, we will have access to a much greater range of data with growing volume, dimensions, formats, and complexity. Consider these statistics: Google processes more than 40,000 search queries per second. Facebook users send about 31.25M messages and watch 2.77M videos a minute.[2] According to IDC, "by 2020 the digital universe – the data we create and copy annually – will reach 44 zettabytes, or 44 trillion gigabytes."[3]

Real-time information will replace traditional accounting sources

Traditionally, the accounting system has been viewed as one of the most relevant and reliable information sources to help with economic decision-making, both internal managerial



accounting and external financial accounting. But going forward accountants will face growing competition from new information sources. Conventionally, a firm's performance as reflected in accounting numbers is one of the most important pieces of information for stock pricing. However, nowadays investors may find that the real-time updated information provided on some e-business websites can provide more timely (though maybe less accurate) projections of performance. One example could be the "search index" information on some social media, which reveals the most popular pop stars/movies/ products, etc. How should the accounting industry embrace such trends and retain its competitive advantage as an information source?

One foreseeable change is that more granular supplementary information will be documented and stored during the traditional book keeping practice. For example, in the payroll process, individual level performance information is calculated and documented usually on a monthly, quarterly or annual basis. In the future, daily or even hourly personal working related information can be recorded and stored for further analysis. Such information can help better evaluate employee performance, improve efficiency, and predict failures in manufacturing processes. To help utilise such information, book keeping practices, flows of information and information systems all need to be re-designed or re-engineered. The Internet of Things, which links, transfers and stores data from computing devices, mechanical and digital machines, objects, animals or people, provides a great opportunity for accountants to keep track of assets and resource flows in a timely and accurate way and may largely change the overhead allocation practices in cost accounting.

Professional judgement will play a more prominent role

With workload released by robotic process, accountants will devote more time to utilising new information sources, improving the quality of professional judgement. They will also provide more customised supporting reports and data analysis to meet the growing demand for better decision-making. One example would be the estimation of bad debt provision. While the traditional practice is to estimate the probability of bad debt using historical records, in the future accountants may use big data to evaluate the credit worthiness of individual customers and better predict the probability of future bad debt. Also, the large volume of big data will allow accountants and auditors to perform different statistical models, or deep learning technologies to predict important economic events such as supplier or customer financial distress, employee crime, financial fraud, etc.

Accountants will learn to deal with unstructured data

One challenge is the use of unstructured data. This is unlike the traditional structured data that are clean and usually stored in relationship-based databases. It takes great effort to retrieve, understand, validate and process the data before they can be used for further analysis. Accountants will need to gain some basic understanding of the techniques involved in dealing with this big data, and cooperate closely with data expertise or scientists as necessary. Instead of focusing solely on data processing, accountants have the advantage and expertise in understanding the business logic of a firm. This allows them to ask valid questions, which is the starting point of meaningful data analytics. More importantly, through modern algorithms such as neural networks, deep learning can identify or construct unspecified features or factors in a predictive model. Very large amounts of data and computing power are required to make effective predictions. These conditions are not always met or are too expensive in business scenarios. Accountants, instead, can use their expertise to help improve these models and make better predictions.

Working in a transformative era

In the near future, we believe AI will become ubiquitous. Though it is unlikely that AI-enabled robots will completely replace accountants, they will substantially transform the accounting industry as we know it. Accountants will need to develop sets of new skills and continue to be resilient, adaptive and innovative to remain competitive and help their organisations navigate this transformative and revolutionary era.

References:

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Seeing is believing?

Executives' facial trustworthiness, auditor tenure, and audit fees

***Professor Jeong-Bon Kim,** Chair Professor and Head, Department of Accountancy argues that auditors tend to charge an audit fee premium to firms with untrustworthy-looking CFOs. This article is an abridged version of "Seeing is believing? Executives' facial trustworthiness, auditor tenure, and audit fees" by Tien-Shih Hsieh, Jeong Bon Kim, Ray R. Wang, and Zhihong Wang, and published in the February 2020 issue of Journal of Accounting and Economics.*

By Professor Jeong-Bon Kim

"We look at a person and immediately a certain impression of his character forms itself in us. A glance, a few spoken words are sufficient to tell us a story about a highly complex matter." (Asch, 1946)

Recent studies in psychology and neuroscience document the effect of facial trustworthiness perceptions on observers' subsequent decision-making process. Specifically, neuroscience research finds that the amygdala in the human brain plays an important role in interpreting facial trustworthiness. We make trust-related decisions by triggering autonomic responses to emotional stimuli. Several business studies, in particular in the areas of economics and finance, have applied the findings in neuroscience to various settings, and provided evidence that a trustee's facial trustworthiness may affect a trustor's subsequent decision-making process in peer-to-peer lending, legal defense, government contracting, and various trust games.

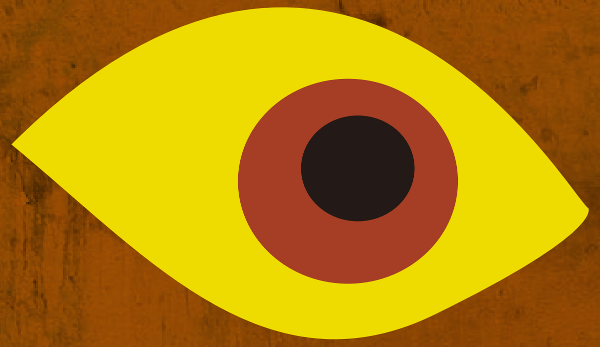
Facial trustworthiness in an audit setting

How important is the issue of facial trustworthiness in an audit setting? We are particularly motivated by the requirement of the Public Company Accounting Oversight Board (PCAOB) Auditing Standards (AS) that auditors should communicate with management to assess the risks of material misstatement (see AS 2401 for an overview). This communication involves face-to-face interactions between auditors and client firms' executives. One can therefore expect that during initial and subsequent interactions, auditors may develop perceptions of client executives' facial trustworthiness and incorporate such perceptions into their subsequent decision-making processes.

The purpose of our study is to investigate whether and, if so, how auditors incorporate facial trustworthiness of Chief Executive Officers (CEOs) and Chief Financial Officers (CFOs) into the pricing of their audit services, when making audit engagement contracts with their client firms.

The literature of psychology provides evidence suggesting that people tend to extend less trust to an individual with lower facial trustworthiness. Building on this evidence, one can therefore expect that auditors may be less trusting of the business information provided by client firms' CEOs and CFOs with lower facial trustworthiness, and accordingly perceive a higher audit risk for such clients, necessitating a higher fee. To provide large-sample, systematic evidence on this prediction, we propose and test the hypothesis that auditors charge a higher fee to client firms with untrustworthy-looking CEOs and CFOs to compensate for the higher perceived audit risk.

We further expect that at the general level, gaining more relevant information about an individual's past behavior may weaken the impact of perceived facial



untrustworthiness when making strategic decisions related to that individual. Auditors accumulate more experience and knowledge about client firms' business facts as audit tenure increases. One can therefore predict that auditors with longer tenure may tend to rely more on their understanding of client firms' underlying risk factors and thus rely less on their initial perception of CEOs' and CFOs' facial trustworthiness. To test this prediction, we propose our second hypothesis that length of auditor tenure weakens the impact of CEOs' and CFOs' facial trustworthiness on audit fee.

How auditors assess inherent risk

In theory, audit fee is determined by audit efforts and litigation risks. Empirical evidence has shown that auditors incorporate management integrity into their judgment and decision making when assessing inherent risks and control risks associated with audit engagements. Auditing standards emphasise the importance of assessing management's values and integrity throughout the audit. AS 2110 requires auditors to make judgments about the integrity of their clients' management team, including CEOs and CFOs, based on face-to-face communication and interactions. The International Standard on Auditing 260 also requires the auditor team to enhance auditor client communications by establishing an effective two-way communication throughout the audit engagement process. AS 2401 also asserts the importance of understanding CEOs and CFOs, stating that "management has a unique ability to perpetrate fraud because it frequently is in a position to directly or indirectly manipulate accounting records and present fraudulent financial information."

The fraud triangle is a framework commonly used in auditing to explain the motivation behind an individual's decision to commit fraud. The fraud triangle outlines three components that contribute to increasing the risk of fraud: (1) opportunity, (2) incentive, and (3) rationalisation.

Source: corporatefinanceinstitute.com

Public Company Accounting Oversight Board requirements

In line with the fraud triangle, the Public Company Accounting Oversight Board (PCAOB) claims that the occurrence of fraudulent behavior is related to the personality and ethical values of top executives; when they encounter unethical situations, managers' attitudes may affect their judgment or decision making, thus influencing the likelihood of fraudulent behaviour. Consequently, the PCAOB requires auditors to identify top managers' personal beliefs or ethical standards as a risk factor for fraudulent financial reporting. During face-to-face inquiries and communication about auditing issues, auditors may cognitively develop their perceptions about top managers' ethical values and level of integrity based on factors that they observe, such as the facial trustworthiness of management. Nevertheless, AS 1015 requires auditors to "neither assume that management is dishonest or honest" when exercising professional skepticism.

Exercising professional skepticism

Auditors should assume no bias in management's representations based on forecasts rather than actual results, and exercise their professional skepticism during audit engagement. However, prior studies suggest that auditors' perceived management integrity has an effect on judgment. Specifically, auditors who view management

as being of high integrity exhibit a lack of professional skepticism, while auditors with lower trust in client's management subsequently make higher assessments of fraud risk. Thus, trustworthy-looking management may affect auditor's professional skepticism. Auditors need to rely on the information provided by management to determine clients' audit risks, audit hours, and their bid for the audit engagement. In practice, auditors interact significantly with their clients' management teams when making audit fee decisions. Management, especially CFOs, plays an important role in selecting auditors and in determining the information to be distributed to audit committees and auditors. Management tends to spend a significant amount of time interviewing and evaluating potential auditors. Thus, auditors may rely heavily on their communications with client firms' management when judging audit risks and estimating audit hours to make audit fee decisions.

The role of external validation

Auditors tend to seek external validation of data when they perceive management integrity to be low. Auditors respond to the assessed risks of material misstatement by adjusting the nature, timing, and extent of auditing procedures, for example, as reflected in audit staffing allocations (AS 2301). One key factor determining audit fee may be an audit firm's staffing efficiency, since staff is a significant and scarce resource and audit pricing is mainly based on the hourly rates of auditors assigned to an audit engagement. When auditors perceive higher risks of material misstatement, they need to allocate more staff hours to identify issues and corroborate audit evidence. They also need to perform substantive testing and increase sample size or perform analytical procedures at a more detailed level (AS 2301). Therefore, the facial trustworthiness of CEOs and CFOs could affect auditors' pricing decisions. To summarise, auditors may associate untrustworthy-looking executives with low management integrity and high audit risk, which leads to an audit fee premium.

What makes a face trustworthy?

Using the latest machine-learning-based facial-feature-point detection techniques developed in neuroscience, psychology, and computer science, we construct a proprietary facial-trustworthiness database for CEOs and CFOs of US listed companies. First, we develop a computer algorithm to collect CEO and CFO pictures from Google Images, based on the full name of each executive and his/her affiliated firm during the sample period of 2001–2014. Second, following the neuroscience and psychology literature, we use a face detector to identify the facial features in the CEO and CFO pictures, thereby calculating a rich set of facial-trustworthiness measures, comprising: (i) angle of inner eyebrow ridge; (ii) face roundness; (iii) chin width; and (iv) nose-to-lip distance. We then construct a composite facial-trustworthiness index for each executive. Our analysis focuses mainly on this composite index, though it also considers individual facial features separately. This approach is based on the prior finding that people tend to interpret an individual's face as an integrated whole. We perform two validity checks to confirm that our computer-measured facial trustworthiness index is a valid and reliable measure of individuals' assessments of facial trustworthiness.

Auditors charge higher audit fees based on looks

We collect audit fee data from Audit Analytics, financial statement data from Compustat, and corporate governance data from RiskMetrics. Our final sample comprises 4,411 firm-year observations for 1,179 CEOs and 1,360 CFOs from 845 firms in the sample period of 2001–2014. The results of our regression analyses show that auditors charge a higher audit fee to firms whose CFOs have lower facial trustworthiness, indicating that auditors do factor client CFOs' facial trustworthiness into their pricing decisions. We find, however, that CEOs' facial trustworthiness is not significantly related to auditors' pricing decisions. This is consistent with the view that CFOs play a more important role than CEOs in communicating with auditors and in shaping financial reporting strategies.

We find that the effect of CFOs facial trustworthiness on audit fee is weakened as auditor tenure becomes longer; this suggests that, during multiple rounds of audit engagements, auditors tend to develop a comprehensive understanding of their clients' internal control environment and business operation, and thus rely less on their initial perceptions of management facial trustworthiness when evaluating audit risks.

The implications of personalised trust

Our study contributes to the accounting literature and the auditing profession in several ways. First, to the best of our knowledge, this is the first study that adopts a large sample to provide systematic evidence on auditors' use of facial trustworthiness. Our study, therefore, extends the auditing literature documenting the impacts of executives' individual characteristics on audit fee. Second, we provide further support to the literature on CFOs' crucial role in financial reporting by documenting that auditors consider the facial trustworthiness of CFOs, but not CEOs, in pricing their audit services. Third, the results of our study extend the literature documenting the important role of perceptions based on executives' facial appearance in firm valuation and executive compensation by presenting empirical evidence that CFOs' facial trustworthiness affects auditors' assessment of audit risk and, thus, audit fee. Finally, but importantly, our study develops a novel methodology to measure facial trustworthiness using recent image processing techniques developed by prior neuroscience, computer science, and psychology studies. Given the scarcity of prior accounting and auditing research on the role of facial trustworthiness as executives' personal attribute, we recommend further research on this innovative individual-level trustworthiness measurement and the implications of personalised trust in various business accounting and auditing settings.

Conclusion

By using machine learning-based facial-feature-point detection techniques, which are well-developed in the field of computer science, we construct a novel database of executives' facial trustworthiness for US listed companies and investigate whether and how auditors incorporate the facial trustworthiness of client firm executives into their audit pricing decisions. Our results suggest that auditors tend to charge an audit fee premium to firms with untrustworthy-looking CFOs, although the impact of CFOs' facial trustworthiness on audit fee is weakened as auditor tenure increases. To our knowledge, our study is the first to provide large-sample, systematic evidence on the correlation of CFOs' facial trustworthiness with audit fees.

The Public Company Accounting Oversight Board

The Public Company Accounting Oversight Board is a private-sector, nonprofit corporation created by the Sarbanes–Oxley Act of 2002 to oversee the audits of public companies and other issuers in order to protect the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports. The PCAOB also oversees the audits of broker-dealers, including compliance reports filed pursuant to federal securities laws, to promote investor protection. All PCAOB rules and standards must be approved by the U.S. Securities and Exchange Commission.

Source: Wikipedia

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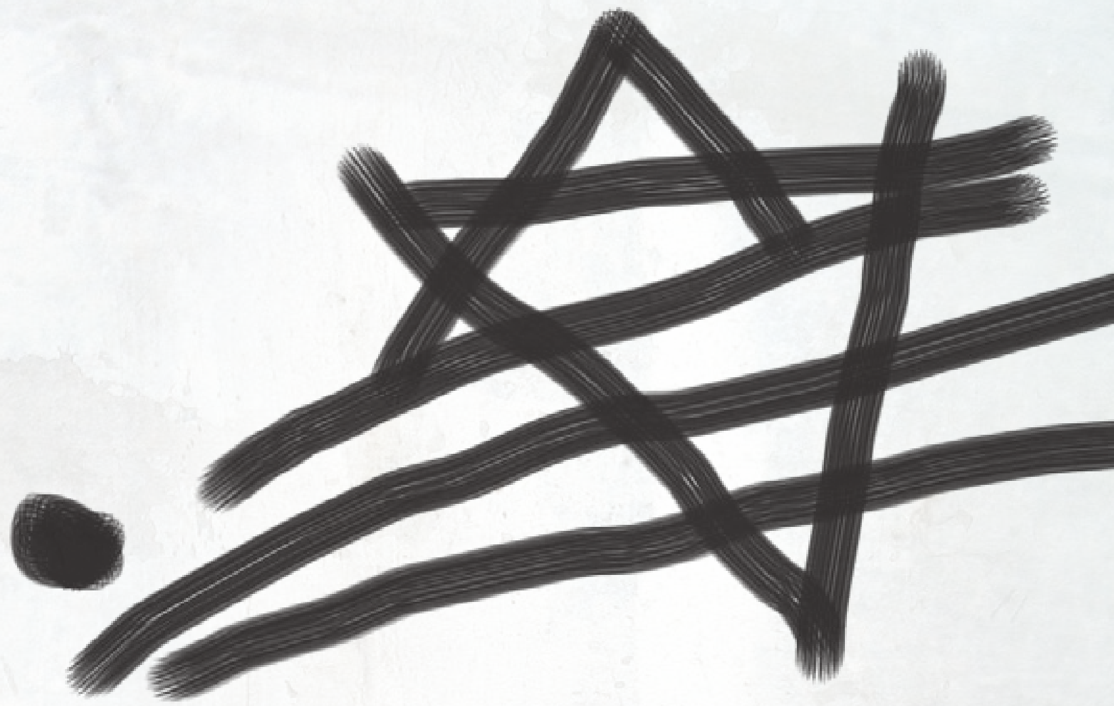
Animated Landscape by Joan Miró

Animated Landscape was painted in 1927 and is part of the collection of the Metropolitan Museum of Art, New York

Joan Miró, Animated Landscape, 1927

How technology knowledge spillovers are transforming the audit profession



By Dr Bing Li

__Dr Bing Li,__ is an Associate Professor in the Department of Accountancy. In a world of increasingly monopolistic accountancy firms she looks at the way in which technology knowledge spillovers are affecting the audit process, potentially to the benefit of both auditing companies and their clients. This article is based on the working paper, "Auditor expertise developed from client technological links," by He, Y., J.B. Kim, B. Li, and Z.B. Liu, 2020.

The 2018 Nobel laureate in Economics, Paul Romer, proposes that technology is the key input to a firm's production function and the key source of economic growth[1]. His models explain how innovative technologies in the early 1990s, such as computer codes for word processors or the internet, gave rise to increasing returns to scale in production and sustained exponential growth in the economy. Technology has moved on a long way since then, and these days technological platforms are increasingly shared across sectors. Firms interact with one another to inspire innovations, and technological advancement created by one firm can rapidly diffuse to other firms in related technological fields even when they are not in the same product market. Such knowledge "spillovers" have become increasingly important in the daily operation, growth and productivity of firms. In this innovation and technology-based economy, how can auditors best leverage their clients' technological position to make better auditing decisions and professional judgments?

The benefits of technology knowledge spillover

The new-found technological expertise is transforming the nature of audit work. By knowing how a client uses technology to execute and record business transactions, auditors are better able to design audit procedures which can more effectively and efficiently collect appropriate evidence. Traditional substantive audit tests may no longer be fit-for-purpose in the light of key technological developments such as the Internet of Things, artificial intelligence, and smart contracts used in the financial reporting and internal control process. Auditors should be aware of the benefits and risks resulting from the implementation of new technologies in financial reporting and how they may affect planned audit procedures.

Here's how technology spillover might work to the benefit of auditing companies. American Airlines Group Inc. (AA) and AT&T Inc. (AT&T), the world's largest telecommunications company, are both audited by the Ernst & Young Dallas office. Although these two firms do not belong to the same industry or share any supply-chain linkages, their main patents both cover the same technological field of "automated reservations system (Cooperative Patent Classifications (CPC): G06 and Q10)," which constitutes the online booking

systems for their services/products. In a break from the traditional financial reporting process, most of the audit evidence for AA and AT&T is now available electronically, with many tests of controls and substantive tests performed using electronic data.

Clients may face many new business risks relating to their online reservation systems, for example, pervasive security risks such as virus attacks and infrastructure failures, or transaction integrity risks such as the need to distinguish between customer browsing, orders placed and cancelled. Auditors need to conduct tests of controls regarding whether the clients have implemented sufficient internal controls to address security and integrity risks, and to prevent unauthorised changes to the accounting system or records. It is plausible that Ernst & Young may develop their auditor expertise in the technology field of "automated reservations system" through their auditing of AA and AT&T, which, in turn, may facilitate their audit work for all other clients who have adopted the automated reservations system. Conversely, technology knowledge spillover from other clients in technology Class G06 and Q10 will benefit Ernst & Young's audits of AA and AT&T.

Innovation and client-specific production

Another way in which technological expertise can benefit auditors is related to innovation and client-specific production. Deloitte & Touche Chicago office provides audit services for both Deere & Co, an American manufacturer of agricultural, construction, and forestry machinery and Abbott Laboratories, an American medical devices and health care company. These two firms do not have any overlap in the supply-chain and product market. But both of their major patents cover the technological field of "measuring liquid level (CPC classes: G01F23)," which is crucial for their operations as it provides a way to reliably and accurately measure and monitor liquid inventories across the whole production process. From the auditor's point of view, the greater their experience in the technology field of "measuring liquid level," the better to evaluate the clients' inventory, which could influence the whole production process. If Deloitte & Touche gain expertise in liquid measuring knowledge from auditing Deere and Abbott, this will benefit their audit work on any other clients whose operations involve the same technology.

Auditor technological expertise is a benefit to clients

Technology knowledge transfer is occurring beyond traditional industry boundaries. Sharing an auditor with a product market competitor is a potential risk, which may result in negative business-stealing effects, a.k.a. product-market rivalry effects, to the leaked firm. But client firms are less likely to be concerned about potential leakage of proprietary information when they hire the same auditor as their close technology peers. Therefore, auditor technology specialisation developed from clients' technological proximity constitutes a critical type of auditor expertise, in distinction to auditor industry specialisation. One can therefore expect that auditors will be able to develop specialisation from clients with technology affinity to a greater extent than from those with product closeness, resulting in higher audit quality.

Technology affinity and audit fees

How does technology affinity affect audit fees? On the one hand, auditors who provide specialised services need to invest extra effort to gain and maintain their expert knowledge and to better polish their audit work. Such specialist auditors therefore require a normal rate of return on such additional investments, resulting in higher audit fees compared to non-specialist ones. In a similar vein, if auditors are able to develop a reputation for better audit quality arising from their technology specialisation, they can charge audit fee premiums for that expertise. Client firms are also willing to pay an audit fee premium for their auditors' technology specialisation. On the other hand, auditors will charge lower audit fees if client technology knowledge spillover provides auditors with economies of scale, reducing the effort required to understand, evaluate, and detect accounting problems.

In our paper[2], we exploit the technological closeness among clients of the same auditor to examine whether auditors develop expertise from their client technological links beyond product-market specialisation. At the audit office level, we find that a firm's technological proximity to the other clients of its audit office improves audit quality and results in an audit fee discount. Interestingly, although we simultaneously examine both clients' technological proximity and industry-level product similarity in our main models, we do not find significant evidence of improved audit quality or decreased audit fees associated with product similarity. At the audit firm level, there is no strong evidence that either technological proximity or product similarity among clients of the same audit firm affects audit quality or audit fees. Taken together, our findings suggest that technology knowledge is client-specific and cannot be easily transferred beyond the individual audit office.

References:

Dr Bing Li
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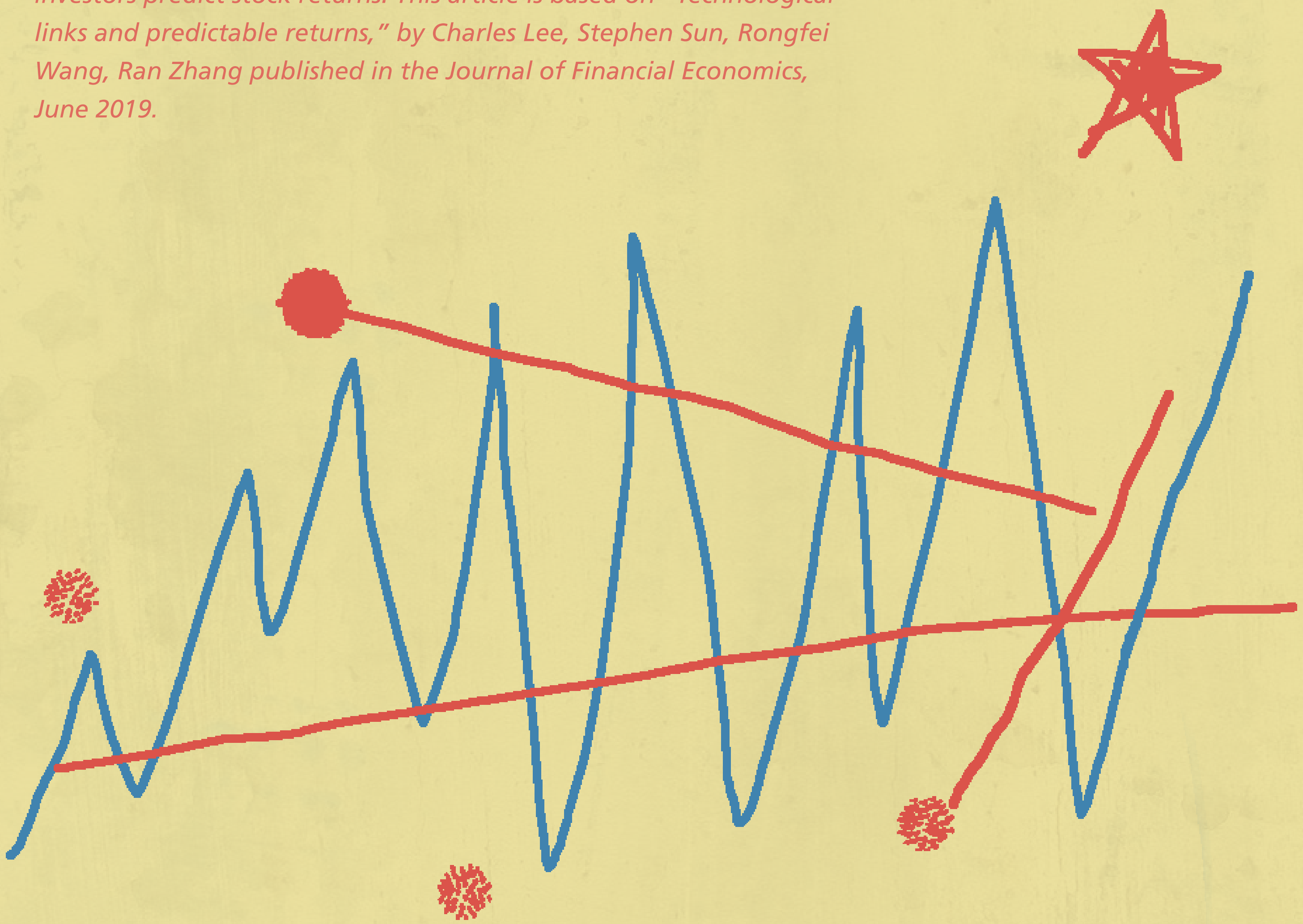
Department of Accountancy

Technology links and predictable returns

By Dr Stephen Sun

***Dr Stephen Sun**, Assistant Professor in the Department of Accountancy, shows how technology links among firms can help investors predict stock returns. This article is based on "Technological links and predictable returns," by Charles Lee, Stephen Sun, Rongfei Wang, Ran Zhang published in the Journal of Financial Economics, June 2019.*



In today's knowledge-based economy, technological prowess is becoming an increasingly important determinant of firms' short-term profitability as well as long-term survival. Many of the largest firms in the world such as Amazon, Google, Intel, and Samsung, may have minimal overlap in product space, yet are closely-aligned in terms of technological expertise. These technological affinities transcend traditional industry boundaries and are typically not readily discernible from firms' financial reports. Nevertheless, they can be key drivers of the economic fortune of today's businesses.

Our paper entitled "Technological Links and Predictable Returns" exploits this special type of inter-firm linkage and applies this insight to predict stock returns in the US equity market.

The "Steve Jobs' patent"

The inter-linkage of firms' technologies has been around for some time. Let's consider the so-called "Steve Jobs' patent." This patent basically opened the door for the creative production of smartphones as we know them today. It is entitled "Touch Screen Device, Method and Graphical User Interface for Determining Commands by Applying Heuristics." We can see a screenshot of the patent information from the Google Patents website above. It is indeed the core patent of Apple's multi-touch technology and has been cited and used in countless devices that have a multi-touch screen. This patent is nicknamed "The Steve Jobs' patent" as he is listed as the first co-inventor on the patent filing form and has been cited over 1000 times since its approval in 2009. The patent is so valuable that it has even received litigation to contest and invalidate it. It was initially invalidated in December 2012 and finally revalidated in October 2013.

Patent citations reveal knowledge flows among firms

We can see a screenshot of follow-on patents by other companies that cited this patent on the next page. Patent citation can give us a concrete way to see knowledge flows or technology linkages among firms. We observe a broad range of companies around the globe citing this patent, from well-known companies such as Google, Microsoft and Tencent, as well as companies in related electronics sectors in China, South Korea and the US. All these companies can be regarded as technologically linked to Apple in this respect.

The value of investigating firms' technology linkages

There are two major reasons why firms' technology linkages can actually be useful in transmitting values and helpful in predicting stock returns. First, firms working on areas of innovation that substantially overlap with each other could be subject to similar input or output linkages, which become important transmission channels for common price shocks. For example, breakthroughs in production technology have led to dramatic cost reductions in silicon chips, which in turn greatly impacted on the vitality of the electronics industry relying on these chips as a raw material. Similarly, technological progress in touch screen technology today bodes well for the firms making products that use these touch-screens.

The second reason is that, firms with similar technologies can also benefit from the spillover effect of each other's innovation activity along technological lines. More specifically, firms working on similar technologies may use similar inputs of production, with inputs being broadly understood as anything required in the production process, for example human resources, key raw materials, production equipment, information and communication technology, or intangible knowledge.

Scientific critique of new technology can directly impact share price

Here is a concrete real-world example to illustrate the point. CRISPR is a new bio-technology that can enable scientists to edit genes and has wide applicability. It is believed by some to be the most important biological breakthrough in the past decade. However, the technology itself is still in an early stage and rapidly developing. A letter in the renowned journal Nature Methods on 30 May, 2017 pointing out potentially dangerous flaws in the CRISPR-Cas9 gene editing system, gave biotech investors a sinking feeling that day and stocks in genome-editing companies using that technology had the same experience. By the close of trading Editas Medicine had fallen nearly 12 percent, Crispr Therapeutics was down just over 5 percent, and Intellia Therapeutics had plunged just over 14 percent. All these bio companies relied upon technology very similar to the CRSPR technology.

A similar event happened again on 8 January 2018. The world of science awoke to news that suddenly cast uncomfortable doubt on many of the past five years' major breakthroughs: A new paper had identified a possible barrier to using the revolutionary gene-editing tool CRISPR-Cas9 in humans. The news incited a temporary hysteria that sent the stocks of all three major CRISPR biotech firms tumbling in premarket trading, declining by as much as 11.9 percent.

How to exploit inter-firm technological linkages to make profits

In our paper, we find that investors can exploit the inter-firm technological linkages to make profits in the equity market. The idea is very simple. For each firm, we can identify a set of companies to which it is technologically related in terms of their patenting similarities. We call such closely related companies "technology peers." We then calculate the average stock return in the past month of these technology peers. We then sort firms at the beginning of each month according to the average stock return of their tech peers. We will buy those firms above 90% most profitable average tech peer returns and short sell those firms below 10% most profitable average tech peer returns, in equal weighting. This turns out to be a very profitable investment strategy, generating a mean annual return over 14% and is quite robust, with T-statistics over 5. We also explore the underlying mechanisms for this strong asset pricing anomaly result. We find the results are driven by investors' limited attention bias, consistent with a growing behavioral finance literature that documents similar patterns. That is, investors do not seem to pay enough attention to the timely change in technologically related firms' stock price changes. As the technologically related firms convey value-relevant information to the focal firm, ultimately the focal firm's stock price will move in similar directions to their technology peers.

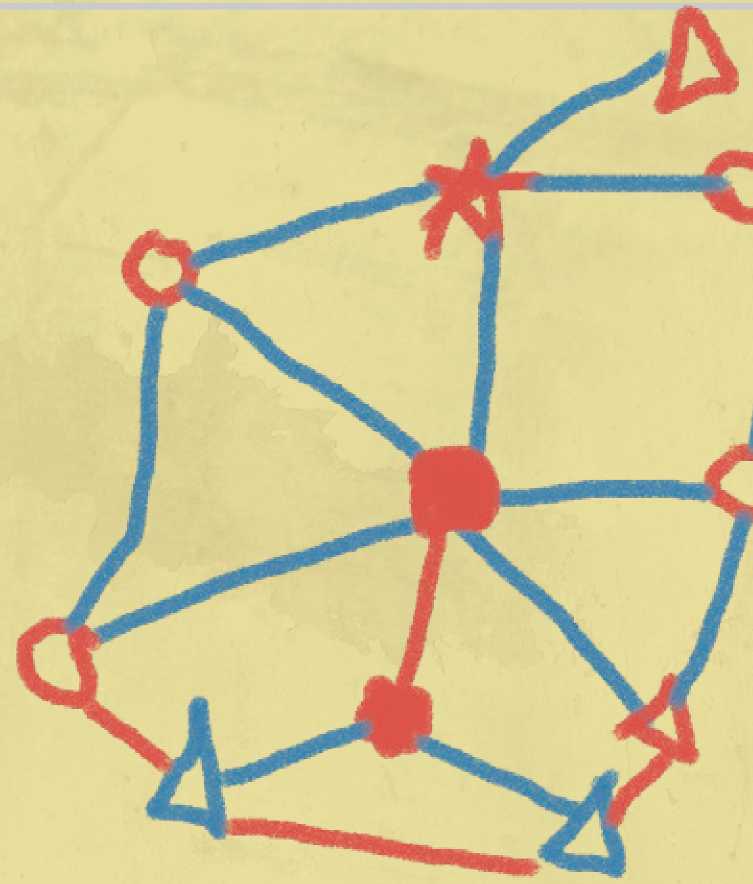
Greater attention to technology-linkages leads to better investment decisions

Our study matters as it points to researchers needing to better understand the mechanism through which such technological attributes impact information processing costs, and thus market prices. In our own words: "It is difficult to argue that this publicly available mapping should not be taken into account when forming expectations about technology-intensive firms' future cash flows. Certainly, from an investor's perspective, greater attention to technology-linkages could lead to better investment decisions. From a firm's perspective, educating investors on its technological capabilities, perhaps through greater media coverage, may likewise yield improvements in pricing efficiency."

A note from the author

The paper, "Technological Links and Predictable Returns" was coauthored with my former colleague Professor Rania Zhang and PhD student Rongfei Wang at Peking University, Guanghua School of Management, as well as Professor Charles Lee at Stanford University, where I obtained my PhD in economics in 2015. The paper was published in the 2019 June issue of the Journal of Financial Economics and has won the 2018 Roger F. Murray Prize by The Institute for Quantitative Research in Finance, also known as the Q-group. The work is not only published in a world-class academic journal, but has also been well received in the investment community. While our study only uses data from the US stock market, some Chinese hedge funds have replicated our results and applied it in the China equity market.

CN102929545B *	2012-10-22	2016-06-08	东莞宇龙通信科技有限公司	Terminal and terminal control method
US8819574B2	2012-10-22	2014-08-26	Google Inc.	Space prediction for text input
CN103777857A *	2012-10-24	2014-05-07	腾讯科技（深圳）有限公司	Method and device for rotating video picture
CN102929550B *	2012-10-24	2016-05-11	惠州Tcl移动通信有限公司	Photographs delete method based on a mobile terminal and mobile terminal
US9152297B2	2012-10-25	2015-10-06	Udacity, Inc.	Interactive content creation system
KR101448035B1 *	2012-10-26	2014-10-08	[illegible]	Virtual keyboard
US9684941B2	2012-10-29	2017-06-20	Digimarc Corporation	Determining pose for use with digital watermarking, fingerprinting and augmented reality
US20140152570A1 *	2012-10-29	2014-06-05	Thomson Licensing	On-screen keyboard design
CN102970343B *	2012-10-31	2015-04-08	小米科技有限责任公司	Method and device for displaying push information
US8786767B2	2012-11-02	2014-07-22	Microsoft Corporation	Rapid synchronized lighting and shuttering
KR20140060748A *	2012-11-12	2014-05-21	삼성전자주식회사	Apparatus and method for changing a setting value in an electronic device
US20140136985A1 *	2012-11-12	2014-05-15	Moondrop Entertainment, Llc	Method and system for sharing content
KR20140062886A *	2012-11-15	2014-05-26	엘지전자 주식회사	Mobile terminal and control method thereof
CN102999294B *	2012-11-16	2016-04-06	广东欧珀移动通信有限公司	A terminal device keyboard switching method, apparatus and a terminal device
KR20140064162A *	2012-11-19	2014-05-28	삼성전자주식회사	Method for displaying a screen in mobile terminal and the mobile terminal therefor
CN103823584B *	2012-11-19	2017-06-27	宏达国际电子股份有限公司	The touch sensing method and a portable electronic device



Dr Stephen Sun
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Department of Accountancy

Richard Li on entrepreneurship in Asia

Interview by Professor Xufei Ma

__Richard Li Tzar-kai__ is a leading Hong Kong business person who founded Pacific Century Group, an Asia-based private investment group with interests in financial services, technology, media & telecommunications and property in 1993. Mr Li visited the College of Business in November 2019, and talked on "Life as an entrepreneur in Asia" to students of the EMBA+MPA programme.

You started Pacific Century Group back in 1993. What gave you this belief in Asia?
In terms of GDP per capita compared to the many countries, at that time Asia was way behind. I felt Asia with all its energy and institutional reforms would catch up with the rest of the world. That was my belief back in 1993.

How do you pick industries and countries for your ventures?
Back in the nineties, if you looked at the whole of Asia and if you drew a poverty line, you would see a big sand dune of people just under the line of subsistence and wanting to get past that line. So, we chose to go into media. We collect advertising revenue, and the distributor collects subscription fees based on their infrastructure distribution. The cost to the consumer was about 70 cents US$ per month, enabling a rise from a very small amount of entertainment choices to gain access to roughly three times their average TV choices. We were offering a first taste of international entertainment at a very affordable price.

Fast forward to the second phase after the millennium, we saw central bankers around the world raising interest rates, and tightening monetary policy in the late 80s but reversing the actions after the 1997 Asian financial crisis. In an inflation-led economy, real estate infrastructure was the name of the game. It was not very difficult to execute, the barrier of entry was very low although in different places you had a non-level playing field. So we were exposed but never head over heels on real estate investments.

In the third phase we moved into insurance. Throughout south east Asia you have a very young population with a huge burgeoning middle class. When that sand dune comes up above the subsistence line, you have enormous buying potential. So, we thought insurance was one of the many items that this middle class would like to have for their families.

Is there such a thing as a Hong Kong spirit of entrepreneurship?
In most countries when GDP rises to a certain level, unfortunately entrepreneurship and risk-taking get slower. There are exceptions in some areas with very high disposable income. In Switzerland, Singapore, and the US you still see high GDP along with an active culture of entrepreneurship. It is related to safety nets. In the US or in China if you fail in the cities, there is always countryside that you can move into with much lower cost of living. In Hong Kong I still see a lot of entrepreneurs, a lot of drive, but I think the cost of living is a big deterrence factor here.

How to plan the best way to grow or sell a business?
I have had the luck of purchasing companies with normal growth,

where with the replacement of two or three key members out of a team of say 20, the company could be transformed within 12 months. I have also had the experience of purchasing companies with a company culture that I estimated would take three years to fix, and in the end took more than double. So I think that it is virtually impossible to do due diligence on corporate culture, especially if they are old enterprises. I think mergers and acquisitions are overrated. If you have people on hand that you trust at the time of an M&A who had been working in the target company for a while, then you have just done three years of due diligence, that is good but it is hard to come by. I am not offering an answer, just sounding a risk warning!

You own diverse businesses from telecom, to media, and insurance. What is your vision for the future?

With the telephone company there are two components, retail and wholesale. In the latter we are very competitive, we are top five in the business worldwide. In the retail business, which is very much localised businesses within most countries, you would put in the capital and spend it. Then the country may come back to you and change the rules and the investment may be lost. So our strategy on onshore telecom infrastructure, unlike others areas, is that we do not believe it should be a regional business. With insurance, apart from Japan we are growing at over 25% compound pretty much every year for the past five years.

How competitive is Hong Kong in nurturing entrepreneurship compared to other Asian cities?

I feel we focus too much on entrepreneurship. We should look more closely at local human resources. I believe, with the exception of Japan and China, companies in Asia struggle to identify good managers in senior management who have the ability to manage, say, 5,000 people to 20,000 or more. That level of senior management is really lacking. We have them but not enough.

Can you share some examples of long-term thinking?

If you look at private equity, it is believed that the trend changes every five to seven years. But when you have a change of industry or strategy the friction is very costly. So, if you can find a product or service that is good for the next 20 years, I believe that is where everyone should be aiming. The friction cost of buying or selling companies, changing industry, recruiting new teams has been far higher than one would expect. If you can grow at 15% compound growth per annum, compared to variable growth of say 30% one year and zero the next, you will see that the 15% compound growth is not a bad result.

Can you share your opinion on symbiosis?

You have symbiosis within an industry, in the insurance business or in banking. Of course, within every ecology you wish that everybody would have a high hope of making good money, so that they can distribute a greater number of products. But it is difficult to control. An example is the insurance business in Japan. One of the crucial sales channels is independent financial advisors, so called IFAs, but how they behave is uncertain. They may behave more aggressively than the population would wish and then the regulator may step in. We can only advise but not control.

If you were starting out as an entrepreneur nowadays, which sector would you choose?

If I were 30 years old, I would start up a human resources company, and I would like to do it to scale. The business model would be similar but different to the current head hunter firms. To hire someone wrong and then have to let them go, is an expensive situation. Nowadays human resources is a more difficult element to manage than, say, getting access to capital. I believe there is a much more equitable model available than the current practises of head hunting firms, but the stick and candy for that role would have to be a lot higher than it is today.

Richard Li
Founder, Chairman, and Chief Executive
Pacific Century Group

Winning in a disruptive world

How the accountancy profession needs to open up to right brain creativity

Interview by Eric Collins

__Peter Koo__ is the APAC Leader of IT & Specialized Assurance of Deloitte. He leads and manages different risk management consulting services in fintech, privacy, cyber, cloud and information security services, system processing consulting and re-engineering, Sarbanes Oxley attestation/readiness, internal audit and corporate governance.

You have been a partner at Deloitte for 20 years. What is the secret of your longevity?

I believe in work hard, study hard, and play hard. Part of working hard is keeping up-to-date and studying for professional qualifications, and right now I am studying for an MSc in Professional Accountancy. As far as fitness is concerned, I run from time to time to tune my body and cardiovascular health.

What transformations have you seen in your professional lifetime?

When I first started studying for my accounting examinations in Canada, there were fewer than a hundred major rules issued by the Financial Accounting Standards Board (FASB), and now there are 168 statements of financial accounting standards. Things have also changed massively in technology. We can foresee a quantum leap in the accounting profession in the next five to ten years. As one of the Big Four accounting firms, we take a lead in updating ourselves in professional knowledge and various industry specialisations.

Is AI advancing rapidly in the accountancy field?

Yes, to give you an overview, we at Deloitte talk in terms of "The R ABCD." R is for robotic process automation (RPA), A is for AI, B is blockchain, C is cloud and D represents big data. All these technological domains are helping us, but they are not just to do with the accountancy profession. The other day I was talking to a neurologist and he said that whereas most accounting professionals are competent at doing calculations and completing the execution part of their work, most of the functions of the left brain will be replaced by AI and RPA. Professionals such as accountants, lawyers and even doctors will look very different in the near future. The world will see more demand for right brained people. We are talking about innovation, imagination, and creativity. A lot of what we currently do as accountants will unfortunately be eliminated. We will move from being accountants to being advisors; from left brained to right brained people.

Does this mean that accountants will need an entirely new skill set?

The answer is yes. First of all, in terms of qualifications, a lot of present-day accountants have an accountancy major, and then focus more on mathematics, and then some accounting rules, tax and business law, and that's it. But in the future, we will need a combination of financial and technological knowledge.

Then there's the business domain. Fresh accountancy graduates will need to get more training in financial and technological areas. They will then become specialised in a particular business area. That's where the Big Four can offer training in a specialised business-industry domain. It is also necessary to understand the business life

> “We will move from being accountants to being advisors”

cycle, and how to transform from the status quo into a more digital, automated future.

In Australia, more than 80% of financial data is in digital form, so accountants there will face the challenge a little bit earlier than us. In Hong Kong we still see a lot of paper flow and are at 40%-50% digital. Some industries such as mining are traditionally very paper-based. But with the China boom, we can see lots of these companies will get eliminated fast, because China has adopted financial technology (fintech) faster than other parts of the world. The process has already started. If we as accountants cannot cope, we will be the ones lagging behind.

If you are a junior accountant or auditor, my advice is to catch up with this knowledge now. In the near future, audits will all be handled by blockchain, and payments will be digital. There will be no need to reconcile most source data. All these things will be done automatically. So, what will people do? Even if we look more on the creative side, say financial rules and

regulations, there are already apps to identify what is revenue and what is capital. These decisions affect many things, including year-end bonuses. But we will need more right brained auditors to check on this kind of creativity. The whole profession will have to catch up with new technological platforms.

How do you see people already in employment catching up? In-house training or back to university?

Allow me again to be a little bit bold in answering this. Lots of people currently in employment have a tendency towards inertia. They are very busy, without much free time to retrain until they get axed and have to face reality. In Hong Kong, the tertiary curricula may not be able to deliver what future roles require. Anecdotally, from a conversation with a leading academic, I have heard that "Yes, we can change the curriculum, but first we will have to retrain the professors!" Perhaps we have to work with professional bodies such as the HKICPA and other accounting-focused bodies. I believe that in Hong Kong we have high-calibre accountants, equipped with 'fin' and tech expertise, who may be able to cooperate in designing new curricula.

> "Profit for shareholders is the traditional bottom line, but if this jeopardises the environment, that puts us all in a dilemma"

In future, can accountancy departments at business schools work more closely with computing and engineering departments and cover the hardcore parts of fintech? And then can finance departments equip students with the 'fin' element? I hope Hong Kong tertiary education can come up with a more aligned effort to give students better exposure and a better future. In this brave new world, everything is disrupted. Maybe in turn colleges and universities need to disruptively create the solutions.

> "In this brave new world, everything is disrupted. Maybe in turn colleges and universities need to disruptively create the solutions"

How important is in-house training at Deloitte?

We do have accountants retraining for roles that are, for example, half accounting and half IT. Then they may acquire a further knowledge with an industry focus or business cycle specialisation. With this they will become finance, accounting and IT literate. They may not be tech gurus, but at least they won't have tech phobia. It is common to have two specialisations in our industry, for example, financial services plus technology, media and telecoms, through which we can have a perfect match of industry focus plus "fin" and tech knowledge.

How state-of-the-art is Hong Kong fintech?

Back in 2007, Octopus was one of the best payment media in the world, but what was once leading edge is now not so competitive. However, there are some solutions in Hong Kong using blockchain. eTradeConnect, the trade finance hub set up by the Hong Kong Monetary Authority and major banks, is leading edge but does not have too many users at the moment. Then there is a mortgage application by one of the major Hong Kong banks using blockchain. Finally, one of the largest life insurance companies directly links policies, premium payments and co-insurers both internally and externally. At Cyberport, there is another pioneering digital insurer and a well-known logistics unicorn.

Will blockchain operate without input from humans?

There will still be a role for digital auditors who have the capability to look into the source data and validate it before it is entered into the blockchain and gets logged. They will be our future "RoboCops" in accounting and auditing.

How significant is corporate social responsibility in financial reporting?

CSR has been around for perhaps half a century or more, and is more important than ever. Profit and even capital maximisation for shareholders is the traditional bottom line, but if this jeopardises the environment, that puts us all in a dilemma. A lot of the regulations in the CSR area, such as ISO 26000, are voluntary soft law rather than mandatory hard law. The effectiveness of CSR depends on the jurisdiction. CSR regimes in the US and Australia are loose, and lacking in stringent regulations. Hong Kong has its own CSR regulations, but these take more of a "comply or explain" approach, and again are not particularly stringent. We need regulators to take the lead so we create long-term gains for the whole world, not just short-term gains for shareholders.

How do you anticipate employment opportunities for graduates changing?

If you look at our requirements for accountants or auditors, Deloitte doesn't restrict recruitment simply to accounting majors. If graduates have good presentation and soft skills, we may take them. A financial and tech background is of course an advantage. Pure accounting or finance is not so competitive. If arts students are open to studying tech, then they will also be employable. Our tertiary institutions may not currently be able to offer us suitable graduates equipped with "R ABCD," so the next question is "Are you willing to learn?"

Peter Koo
APAC Leader of IT & Specialized Assurance
Deloitte

Breaking Boundaries with CityU MBA

City Business Magazine interview with Professor Kevin Chiang

Interview by Eric Collins

***Professor Kevin Chiang** is Director of the CityU MBA programme and has led the MBA since its relaunch in 2013. Over the past seven years the programme has attracted a stream of future business leaders and entrepreneurs. CityU MBA has also gained increasing international recognition and earlier this year entered the Financial Times' 2020 MBA top-100.*

What is your strategic vision for CityU MBA?

We are SHARP. It is our belief that the success of our MBA programme hinges on the career success of our graduates after they have been transformed by our education. Reflecting this belief, our slogan "We are SHARP" reveals our strategic vision: We are committed to fostering a business education environment with world class Software, state-of-the-art Hardware, and well-connected Alumni. The goal is to boost global talents Recruitment and power our students to achieve a career-advancing Placement. With this vision, CityU MBA has continually evolved, producing future business leaders and entrepreneurs whose skills, experiences and contacts are in high demand across the globe.

How does CityU MBA help students stay competitive in a dynamically changing global environment?

We break boundaries. Our curriculum stresses practical cutting-edge knowledge with an international perspective. Through a broad spectrum of experiential learning courses, we break boundaries between local and global learning, and between theoretical and practical knowledge. Given the complex nature of the global business environment and the needs of today's business practices, experiential learning or "learning by doing" enables our students to gain practical experience which they can then apply in real-world situations.

I must emphasise that, different to traditional case studies which have well-defined problems and measurable factors, our global experiential learning courses expose students to real-life and real-time decision making, with a great deal of built-in uncertainty. As business challenges become increasingly multifaceted, such experiences cultivate students' cross-functional and cross-regional problem-solving skills, crucial for them to stay globally competitive.

Does the CityU MBA partner with any universities/companies in offering global experiential learning activities?

Yes, in the UK we collaborate with Imperial College London for a global brand management workshop. Over the past few years, our students have worked on projects for iconic brands including luxury car maker Bentley, supermarket chain Tesco, and Edwardian Hotels, where they developed branding strategies for the Asian market. They have taken part in experimental methods and laboratory-based discoveries to test and transform original ideas into real business propositions.

Partnering with University of California, Berkeley, a similar workshop which focuses on fostering entrepreneurship has been offered in the US every year since 2014. This collaboration allows our students to learn from Berkeley faculty and entrepreneurs in Silicon Valley through seminars and visits to innovative companies such as Autodesk, Ford, Google, Intel, and Salesforce. Students put what they learn into practice by developing comprehensive business plans which they present to venture capitalists for genuine evaluation. Through the process, they learn the important lesson of how to formulate an idea and communicate the proposal in a succinct way that makes it a viable project for potential investors.

Besides Europe and North America our students have the chance to take part in a diagnostic residential trip in Asia, which provides the opportunity to work as part of a consulting team that helps partnering companies seeking to address business challenges. Working in small groups with their assigned supervisors, students analyse problems, develop solutions and produce a report for the senior management of the host enterprise. Originally focused on mainland China, as business in the Asia region has become more inter-regional, recent consultative assignments visits have taken place in countries as varied as South Korea, Cambodia and Malaysia. Depending on the learning need, the hosting companies and the topics of industry-sponsored projects vary from year to year.

What sort of networking opportunities enable CityU MBA students to develop their careers?

With the SHARP Forum, CityU MBA has proudly established a unique platform which brings together business executives, government officials, leading academics, and many more experts to discuss pressing business topics of the day. Allowing in-depth interactions with industry leaders, such a platform provides our MBA students with distinctive opportunities for career networking and development. Moreover, it spreads and stretches the frontier of innovative business knowledge through insightful dialogue and intensive discussion with leading experts.

The ethos that characterises the core value of the SHARP Forum is that students are responsible for every aspect of putting together an industry-focused discussion panel, from contacting the speakers to promoting and hosting the forum event. Decisiveness, organisation, communication, delegation – through organising a forum, students must put these skills into action to develop their knowledge, business acumen and confidence, so that they are ready to take on new career challenges.

Since its launch in 2016, over 100 notable speakers with 5,000 business professionals have participated in the SHARP Forum. Along with many senior executives from Fortune 500 companies such as Amazon, HSBC, Huawei and Tencent, renowned business leaders such as Dr Allan Zeman, Chairman of Lan Kwai Fong, Ricky Wong, CEO of HKTV Mall and Sunny Cheung, CEO of Octopus have been speakers in past forums. To underline the value of the SHARP Forum, I would like to add that some of the forum speakers have even become the business partners of our students who started their own business after graduation from CityU MBA.

What sort of students does the MBA attract and how successful has the programme been in placing students?

We value diversity. While our students were typically from Hong Kong and mainland China in the past, as the result of world-wide promotion in recent years, many international students including those from Australia, Austria, Bangladesh, Canada, Finland, France, Germany, Greece, India, Indonesia, Japan, Malaysia, Nepal, Netherlands, New Zealand, Norway, Pakistan, Russia, South Korea, Sweden, Taiwan, Thailand, UK, US, Vietnam, etc. have graduated from our MBA programme. With faculty and students from various cultures, work backgrounds and ages, everyone can learn from each other and network in a way that sets the stage for a successful career.

Our career team has been working closely with local and international companies to identify career opportunities for our students. Most of our recent students have been employed within three months after graduation. Taking up various positions in different functional teams or management associates, they have landed jobs or internships at companies such as Amazon, Bank of America, BGI, China Mobile, China Railway Construction Group, COSCO, CICC, Deloitte, Ernst & Young, Hang Seng Bank, HSBC, ICBC Asia, KPMG, L'Oréal, Merrill Lynch, Nielsen, PWC, SAP, Standard Chartered Bank, Tencent, The Ritz-Carlton and so on. Some have also successfully ventured into their own business and became entrepreneurs.

After the programme was relaunched with your strategic commitment in 2013, what sort of recognition has CityU MBA received?

I would like to reiterate our belief that the most essential indicator of a successful MBA programme is career advancement of its graduates. That is, our job is to prepare students for success. Despite the fact that it is impossible to define the measure of success in a way that can be agreed by everyone, various ranking surveys attempt to provide relevant measures, among which the most widely recognised is the Financial Times' Global MBA Ranking.

While ranking is not our main pursuit, I am delighted to share that, propelled by salary uplift and career progress of our graduates, CityU MBA entered the FT's MBA top-100 in 2020. This is the first time we have taken a spot on this list, and I must point out that we are one of the youngest, if not the youngest, international programme. According to the FT survey, CityU MBA posted the 7th highest salary increase for graduates in the world (+159%). With respect to career progress (changes in the level of seniority and the size of company alumni are working in now, compared with before their MBA), we are placed 38th in the world.

We have also been consistently rated one of Asia's top MBA programmes by other well-known surveys in recent years (e.g. the QS Global MBA Rankings and the Eduniversal's Best Masters & MBA). Clearly, the achievements of our students, graduates and faculty have received a broad level of global recognition – We are SHARP, indeed.

Professor Kevin Chiang
Director
CityU MBA

The Computational Finance expressway to success

By CS Wong

***CS Wong** is a year four Computational Finance major, who has accepted an offer to work with XY Capital in Hong Kong after graduation. CS won second prize in an algorithm trading competition organised by the University of Toronto, Rotman School of Management in 2019 (Rotman International Trading Competition). Here he tells us why he chose to study at CityU and start his career in Hong Kong.*

When I was back in Malaysia I never once considered coming to Hong Kong. That's the truth. I got offers from top universities around the globe and was looking to study in the US or Europe. But then one of my friends at CityU told me about the Computational Finance programme. I saw what it covered, found that it was really well-structured, and decided to go for it. I am glad I made one of the best decisions in my life.

Computational Finance offers a focused approach to study. In most other universities in the US and Europe, in the first and second years you study the liberal arts. That's good in so far as it exposes you to a lot of new influences. But if you really know what you want to do, a more direct approach may suit you better.

Gaining a competitive advantage

I find the Computational Finance programme to be very well-structured. It covers finance, statistics, and maths, but it doesn't just skim the surface, it goes into detail. It has helped me in all sorts of ways: improve my knowledge on financial products, learn how to price, learn how to think logically when making financial decisions. Ironically, you usually only get exposure to this sort of information when you get into the industry. So that's why I think I was pretty lucky to get into this Computational Finance major where they teach you all sorts of applied statistical financial skills in advance. It's a competitive advantage.

Professor Tao Li pitches his coursework at a high level. He teaches on pricing financial products, and you can't find this information even in the industry itself because there's no definitive guide to follow. But what Professor Li has done, is accumulate all of his experience, and come up with a guide written from his own perspective. He often teaches one-to-one so you get a really clear idea of how to do pricing and what to be careful on.

Another facet of the programme is competitions. CityU is really generous in terms of competition sponsoring. A lot of people from other universities say they have to sponsor themselves to get into these competitions. When I won second place in an algorithm trading competition organised by the University of Toronto, Rotman School of Management, I got recognised by a lot of companies. I think this was a really good takeaway.

Opening horizons on exchange

Exchange was a stunning part of the programme. I went to Italy, Bocconi University in Milan. I think around 60 or 70 percent of the people have a chance to go on exchange at CityU, another real plus. It was a great opportunity for me to get exposure to the rest of the world. The reason why I chose Italy is that I really wanted to travel in Europe. I travelled around all of Europe and some North African countries as well including the blue city of Chefchaouen in northwest Morocco.

Bocconi is a pure business school. For half of the 11-week semester they invite professionals from industry, let's say people from BlackRock, from the London Stock Exchange, Goldman Sachs and so on to give talks on themes related to the curriculum. A lot of the students on the course are from US Ivy League universities so it's a great opportunity to network with top people from around the world.

Compared to Hong Kong, Italy is pretty chilled. No one is walking fast. People in Hong Kong are stressed from everything – work, business life, hectic life, but in Italy people are more like trying to enjoy their life. They put a lot of emphasis on work-life balance. So if you want to go to the supermarket, you better go before 7 pm. In Italy the food culture is really good but again, it's not Mong Kok. You won't find a restaurant open in the middle of the night.

A steeper learning curve

I got a few job offers from hedge funds, including various big and mid-sized hedge funds, but at the end of the day I'm going to go back to the company who took me as a summer intern, that's XY Capital here in Hong Kong, and I'll be working with them as a quant trader.

When it comes to accepting job offers, I think it's really important to look at the working environment, the person or the team of people you're going to work with. The other thing is how much responsibility they're going to give you. I'm looking for long-term growth. I don't want to keep transferring from one company to another.

What made XY Capital stand out for me was the CEO, who I was working under during the summer. I think his is a really successful case which I can learn from. If I were to go to another perhaps larger organisation, I might be working in a team. Don't get me wrong, I think team work has its place, but if you want to go for a steeper learning curve this is the way forward.

I'm going to work under the CEO. I'll be trading purely off my own account. I'll have unlimited space to exercise my creativity.

CS Wong
Year 4
BSc Computational Finance

NEWS

CB achieves 5-Year AACSB re-accreditation

The College of Business has achieved re-accreditation with the Association to Advance Collegiate Schools of Business (AACSB) for a further five years.

Professor Houmin Yan, Acting Dean of the College said, "This is a significant contribution to CB's international profile, and places us in a select group of top Business Schools worldwide."

The AACSB Accreditation recognises high-quality business schools through a set of rigorous criteria and standards, coordinating peer reviews and consultation. The accreditation provides an assessment framework of 15 international standards that focus on strategic management and innovation; students, faculty, and professional staff; learning and teaching; and academic and professional engagement. The College of Business has maintained continuous accreditation with AACSB since 2005.

CB ranked 27th in the world for research

The College of Business is ranked 27th in the world and 1st in the Asia-Pacific region for 2019, according to the latest University of Texas at Dallas (UTD) Top 100 Business School Research Rankings™. In terms of the 5-year period (2015-2019), CityU CB is ranked 36th.

Professor Houmin Yan, Acting Dean of the College of Business, said "I have to thank our faculty and staff members for their tremendous contribution in making the College of Business one of the premier business schools in the region. With our concerted effort, I believe we can further benefit our students, stakeholders, and the wider community."

The rankings analyse faculty's research contribution in 24 leading business journals and measure the strength and productivity of the research effort of business schools.

College of Business Distinguished Alumni Award 2019

The College of Business Distinguished Alumni Award recognises the outstanding achievements and contributions of our distinguished alumni to their professions, the university, and society at large.

Mr Wilson Chong Ngai-kin
BA in Quantitative Analysis for Business, 1992

Mr Chong is the Managing Director of Rightlink Technology Ltd, specialising in design, R&D, production and sales of mobile phones and tablet products, and has more than 20 years of experience in the mobile telecom industry. He serves as a mentor of the College's Young Scholars Programme and CityU's KTO Inno-preneurship Mentoring Scheme.

Dr Toa Charm Ka-leong
Doctor of Business Administration, 2014

Dr Charm is Chairman of OpenCertHub, principal advisor to elite AI/Big Data, FinTech, and advises enterprises for digital transformation and eCommerce start-ups throughout the Asia Pacific region. Dr Charm has held senior management positions in Cyberport, HSBC, IBM, Oracle, Kingdee and Jardine Pacific, and is currently an associate professor at The Chinese University of Hong Kong Business School.

Professor Yan Anthea Zhang
MPhil in International Business, 1997

Professor Zhang is Fayez Sarofim Vanguard Professor of Management at the Jones Graduate School of Business, Rice University. Professor Zhang's research focuses on CEO succession, corporate governance of public-listed companies, foreign direct investment and technological entrepreneurship in emerging markets, and has been published in leading academic journals, and widely cited in top business media outlets.

NEWS

CityU MBA enters FT's top-100

Global MBA Ranking 2020

The College's Master of Business Administration programme has entered the Financial Times' 2020 MBA top-100, a ranking system widely recognised for listing the best management programmes available worldwide

Professor Houmin Yan, Acting Dean of the College of Business, said "My congratulations go to **Professor Kevin Chiang**, Director of the MBA programme, and all members of his dedicated team who have put in such a tremendous effort since the programme's relaunch in 2013."

Highlights of the CityU MBA listing include the salary increase of graduates pre- and post-MBA, which is ranked 7th in the world with an average increase of 159%. Meanwhile, graduate career progress, which measures changes in level of seniority, is rated 38th in the world.

The Financial Times rankings are based on 20 different criteria including alumni responses, school data, and research. This year a new criterion, corporate social responsibility, has been introduced based on the proportion of teaching hours from core courses dedicated to CSR, ethics, social and environmental issues.

Professor Robert Davison named AIS Fellow

Professor Robert Davison of the Department of Information Systems, was recognised as a Fellow of the Association for Information Systems (AIS) at the 2019 International Conference of Information Systems (ICIS) held in Munich last December.

Professor Davison's research focuses on the use and misuse of information systems, especially with respect to problem solving, guanxi formation and knowledge management in Chinese organisations. He has published over 200 articles in a wide variety of premier journals and conferences. He is particularly known for his scholarship in the domain of action research. Within the AIS, Professor Davison currently chairs the IFIP's WG 9.4 (Social Implications of Computing in Developing Countries) and is the Editor-in-Chief of both the Information Systems Journal and the Electronic Journal of Information Systems in Developing Countries.

The College of Business offers its hearty congratulations to Professor Davison for his exceptional achievements.

CB launches MSc in Accounting and Finance with Beijing National Accounting Institute

City University of Hong Kong has joined hands with the Beijing National Accounting Institute (BNAI) to launch a new Master of Science in Accounting and Finance with AI and Fintech Applications (MScAF). The programme has been approved by the Ministry of Education of the Mainland Government and admissions for the first student cohort are to commence soon.

"The College is committed to developing cutting edge academic programmes to meet the needs of society, and the introduction of the MScAF programme marks another curriculum innovation," said **Professor Houmin Yan**, Acting Dean of the College.

The programme targets mid-level accounting and financial managers who are interested in updating themselves with contemporary AI and fintech applications in their fields. At the College of Business, the departments of Accountancy, Economics and Finance, and Information Systems have been responsible for building the interdisciplinary curriculum.

BNAI is one of the three accounting education institutes established at the national level to provide advanced professional education to practicing accountants and finance managers at the master's level. MScAF will be delivered mainly at the BNAI's Beijing campus and partly at CityU's Kowloon Tong campus, with BNAI and CB faculty equally sharing the teaching.

CityU and ZhongAn International sign MOU

The College of Business of City University of Hong Kong and ZhongAn Technologies International Group Limited signed a Memorandum of Understanding to strengthen collaboration on talent development and research in September 2019.

Mr Wayne Xu, President of ZhongAn Technologies International Group, said, "Talent is important for a young tech company like ZhongAn. We are looking to hire young talents and bring them crossover opportunities in technology and finance fields."

Under the MOU, ZhongAn will engage in talent development activities with CityU such as internship and graduate programmes, career fairs, capstone projects, mentoring programmes, and fintech certificate programmes. Both parties will identify research topics of mutual interest and participate in one another's research activities, opening up new opportunities for faculty and students in the field of FinTech or InsurTech.

Founded in December 2017, ZhongAn Technologies International Group is a subsidiary of ZhongAn Online, an InsurTech company in China. In March 2019, ZhongAn International was granted a virtual banking license through its wholly-owned subsidiary ZA Bank Limited, as part of the first batch of licenses released by the Hong Kong Monetary Authority.

NEWS

CityU welcomes delegation from RANEPA

The Executive Education Programme unit of College of Business and the Russian Presidential Academy of National Economy and Public Administration (RANEPA) co-organised an executive education programme on "Issues of Improving the Quality of Education" at CityU from 28 October to 1 November 2019. Participants included 25 senior Russian government officials from the Presidential Executive Office, State Duma, Ministry of Education, Federal Service for Supervision in Education and Science, as well as the Ministry of Labour and Social Protection of the Russian Federation. The event marks the 7th time that CityU and RANEPA have co-organised programmes since a long-term strategic partnership was established in 2012.

CB hosts HSBC Life Insurance Innovation Competition

The first ever HSBC Life Insurance Competition, in early January, gave students a chance to showcase their innovative ideas for insurance products and services, ultimately aimed to increase customer satisfaction.

Ten shortlisted teams with a total of 47 students from various universities competed for prizes in the Innovation and InsurTech categories. Apart from cash prizes, HSBC Life also offered ten internship opportunities to qualified winners and would consider implementing outstanding ideas from students.

Professor Houmin Yan, Acting Dean of the College, said, "This competition offers students an interdisciplinary learning opportunity and encourages them to unleash their creativity for original discoveries. What will be the biggest innovation in the next ten years? We are counting on you (students) to make it happen."

Kelvin Cheung, Business Operations Management student from the College, joined his fellow members from other universities to form Team M.O., which won the Innovation stream. He said that the competition was a valuable opportunity to learn about proposal composition, idea-pitching and working in a rather diversified team, which included students with different backgrounds and fields of study.

Sponsored by HSBC Life, the competition was jointly organised by the Business Career Development team, the Department of Information Systems and the Department of Economics and Finance of the College of Business.

Comings & Goings

We welcome our new faculty who joined CB between September 2019 and February 2020

Professor Jane Lu

Head and Chair Professor
Department of Management

Professor Jane Lu received her PhD in General Management from the University of Western Ontario, MBA from the China Europe International Business School, and BA in Economics from Shanghai Foreign Studies University. Her research interests are in international business, organisational and management theory, entrepreneurship, non-market strategy, corporate governance and stakeholder engagement. Her work has been published in the Journal of Management, Journal of International Business Studies, Business & Society, Asia Pacific Journal of Management, Management and Organisation Review, etc.

Professor Yangyang Chen

Professor
Department of Accountancy

Professor Yangyang Chen received his PhD from the University of Melbourne and worked at Hong Kong Polytechnic University and Monash University before joining CityU. His research interests are in corporate finance and financial accounting, including management compensation, corporate innovation, audit quality and pricing, earnings management, stock price crash risk and so on. His works have been published or accepted in The Accounting Review, Journal of Financial Economics, Journal of Financial and Quantitative Analysis, Contemporary Accounting Research, Review of Accounting Studies, etc.

Professor Ye Lu

Professor
Department of Management Sciences

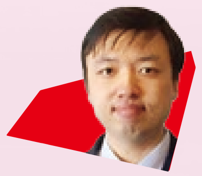
Professor Ye Lu received a PhD in Operations Research from MIT in 2009, a PhD in mathematics from the University of Notre Dame in 2006, and a BS in applied mathematics from Tsinghua University in 2002. His research interest is to develop optimisation models and algorithms to solve real world problems. He worked at CityU from 2009 to 2018 and rejoined in 2020.

Dr Jianfu Wang

Associate Professor
Department of Management Sciences

Dr Jianfu (Jeff) Wang received his PhD in Operations Management from Rotman School of Management at the University of Toronto. His research interests include queueing theory and its application in service operations, queueing economics, healthcare operations, and revenue management.

Dr Zhixin Zhou



Assistant Professor
Department of Management Sciences

Dr Zhixin Zhou received his bachelor degree in applied math from UC Berkeley and PhD in Statistics from University of California, Los Angeles. His current research interests include random tensor theory, minimax theory of PCA and experimental design on network data. He is also interested in information retrieval, neural ranking and generative adversarial network.

Alumni class notes

Share your news with classmates and CB alumni! Tell us about the highlights of your year – family, career, accomplishments, and interests. We will publish your updates in the "Alumni class notes" section of City Business Magazine and on the CB website.

Simply submit your information (name, major, graduation year) and your news to us. Don't forget to attach photos with your write-up!

Frances Tang

BBA Human Resources Management '99
MA Global Business Management '04
MBA '05

I studied at CityU, met my husband there, and after graduating with three business degrees all from CityU, ran my own business. I have received scholarships for further study in music at Trinity College London and won international prizes for harp performances. I am the founder of Arts and the City Harp School, and harpist of the Hong Kong Symphony Orchestra. I have also performed many harp recitals for CityU MBA orientation functions. My story was featured by TVB Jade in "Arts and Culture Magazine" in February 2019.

Dr Lo Man-fung

MA Quantitative Analysis for Business '12

I am very thankful to CityU for the study opportunity that I was given. After graduating from the MA(QAB) programme in 2012, I spent another four years on my doctoral degree. I am currently a university lecturer. In 2019, I was awarded "Master Teacher of Honor," presented by Kappa Delta Pi, International Honor Society in Education and "Distinguished Educator," presented by Phi Delta Kappa Association. All the best to CityU for the future!

Dr Anthony Lam

DBA '18

Studying for the CityU DBA programme has been one of the most precious experiences in my life, broadening my horizons and developing my skill set on research work. I was amazed by the level of resources that I received from the programme throughout my study.

After my graduation in 2018, I had some exciting opportunities to share my research outcomes with younger engineers, university students, and a few technical institutions, which provided with me a platform to give what I had learned back to society. Most recently, I had a chance to share my DBA research work with the Institute of Materials, Minerals, and Mining, one of the leading engineering and technology institutions in the UK, where I was awarded a fellowship.

I truly appreciated the fruitful DBA learning journey and would highly recommend this programme to anyone who is ready to take on new challenges in the professional research world. Wishing the College of Business and all the learning partners best of all.

Dr Lynne Sprugel

DBA '19

I am grateful for the CityU DBA journey and experience. The DBA Luncheon in December was a highlight finish! I was most honoured to be awarded the Outstanding CityU DBA Graduate Award. At the end of December, I accepted a promotion opportunity with my current company to return to the United States (Houston) to be Vice President of Global Sourcing. I'm fortunate to still oversee our Asian operations so will be back to Hong Kong many times. While it was difficult to leave Hong Kong, the DBA experience prepared me to take on new challenges with a better theoretical framework to apply to an elevated level of critical thinking. I treasure my time at CityU and the exposure and learning from many professors, my beloved cohort, and the DBA Office staff.

Ratish Thapa

MBA '19

Enrolling as an MBA full-time student at CityU, I was prepared to take the challenges away from my home country, Nepal, with a mindset of immersing myself into the cosmos of lectures and tutorials. I presumed this expedition would require my utmost dedication and commitment. Just as I predicted, the ride was indeed intense and filled with waves of assignments deadlines, presentations and projects. But to this very day, six months after my graduation, I dream of reliving every moment that I cherished in my one-year adventurous journey, as it was unlike any trip that I had undertaken before. After overcoming challenges and acquiring new knowledge in the study, I am now well prepared to dive into an exciting new adventure!