Zhang Yu: Academic Entrepreneur

By Charmaine N Clarke

In a sense, Zhang Yu's academic life came full circle when he joined CEIBS as Assistant Professor of Management last year. In 1995 while doing his undergraduate degree in economics at Shanghai Jiao tong University (SJTU), he envied the students doing their CEIBS MBA on SJTU's Minhang Campus. That was CEIBS' home before its first campus was built in Pudong. "They had the best library, the best database, the best cases," Prof Zhang says of those early CEIBS students. "Back then I wished one day I could apply for an MBA at CEIBS, but never in my wildest dreams did I imagine that I could come back on the other side of the classroom!"

After following up his undergraduate studies with a Master's degree from SJTU, his academic journey took him to INSEAD's Fontainebleau Campus in France. Later, with a PhD on his CV, it was on to the US where he taught strategy at UC Irvine before joining CEIBS.

Zhang is still settling into his role as a CEIBS professor. He loves helping his students understand how and why firms compete. He also believes he and other professors of strategy can help businesses compete more effectively. The only drawback is that it's a constant challenge to give his young children the attention they need while he carves out a name for himself as an "academic entrepreneur". It's a term he learned from one of his PhD professors at INSEAD. "Every professor is like an entrepreneur: when you do research you need to design a product that will be valued by your customers, be they managers or peer academics. You need to craft it, package it, promote it at conferences, seminars, and to reviewers and editors. You need to do everything you can to get it published, and hope to have a real impact on practitioners," he explains. "And there's relentless competition. So most academic peers at my stage of their career more or less have this problem of work-life balance.

Fast Facts:

Educational background

- 2008, PhD in Management, INSEAD
- 2005, MSc in Management, INSEAD
- 2002, MSc in Management, Shanghai Jiaotong University
- 1999, BA in Economics, Shanghai Jiaotong University

Research & teaching interests

- Interaction between Strategy and Capital Markets
- Competitive Strategy
- Corporate Governance
- Business Dynamics
- Managing Innovative Organisations
- Strategic Management
- Industry and Competitive Analysis

"I'm more creative when my office is messy."

After the 9 to 5 job you are still in research/start-up mode. So my five-year-old daughter would tell me I'm absent minded and my three year old son keeps telling me to stop looking at my phone."

But when he manages to get past the nagging feeling that he's not being the perfect father, Prof Zhang gets a great deal of satisfaction from his career. He purposely keeps a messy office as he's convinced it gets his creative juices flowing. "I used to be a very organised person but I realised that I'm more creative when it's messy. It's very difficult for you to connect the dots if everything is in place," he says with a laugh.

Read on for his very first interview with *TheLINK*:

***TheLINK:* Tell me a bit about your areas of expertise, and why you chose to focus on these topics.**

I guess everyone's interests are shaped by where they came from and where they've been. My research currently looks at the interaction between the capital market and firm strategy in terms of how capital markets influence the strategic decisions made by companies and their managers, and how it shapes the way they compete with other firms. My interest in this topic goes back to my college life. When I began college I chose finance as my major. It was a very hot major back then. I learned a lot about the newly-developed stock market in China. But later I realised that in order for the capital market to develop well, you really need to have good quality companies.

> *I really want to help companies grow better.*

And so when I went to graduate school for my PhD, I chose strategy as my major because I really want to help companies grow better.

At INSEAD I often took advantage of the free subscriptions to the *Wall Street Journal* and the *Financial Times* so that I could become well-versed in the language of business. It struck me that almost every day there was a front-page story about some big name company missing its earnings forecast and the resulting drop in its stock prices. So this led to my dissertation in which I looked at the pressure managers face to meet or beat analyst forecasts on firm earnings, and how this pressure influences companies' strategic decisions. I published a paper on that and that's how I got into this area of academic research. Over the last decade my co-authors and I have found that in almost all industries – whether it's in the US or in China, developed or developing countries – the pressure to meet or beat analysts' forecasts or earnings pressure is causing managers to engage in more short-term-oriented behaviour. That creates problems for firms to really perform well in the long-term. If you want firms to excel in the long-term, they really need to make a commitment and pursue strategic investments that might sacrifice short-term performance. But if they face pressure to deliver short-term performance in the current quarter, or current year, that's going to be a problem for them.

***TheLINK:* It seems analysts have a lot of power and can make or break companies with their predictions.**

One of the most interesting things I've noticed over the years is that when I interview stock analysts they never acknowledge that they create pressure for firm managers. Their view is that they're just doing their job and the managers have total freedom on whether they can meet the forecasts or not. On the other hand, the managers always complain that they face tremendous pressure from Wall Street, from stock analysts. So part of the challenge is to use very rigorous and sophisticated methods to show that there is this causal relationship between what the analyst is proposing, versus what the manager is doing, and how this then impacts firm performance in competition.

***TheLINK:* Are there any major differences between the way Chinese and US firms react to analysts' forecasts, and in how they allow these predictions to shape their strategy?**

If you compare China's publicly traded companies with those in the US, there's a big difference in terms of how they approach their strategy and how their strategic performance is reflected in their stock market performance. A well-functioning stock market has to have companies that are fundamentally high-quality and high-growth. There might be volatility in the stock performance charts of a typical US company, but over time what is driving stock performance is really the underlying earnings growth – and high-quality earnings growth, especially after the Enron scandal. However if you look at Chinese companies, a lot of stock price growth is driven by restructuring,

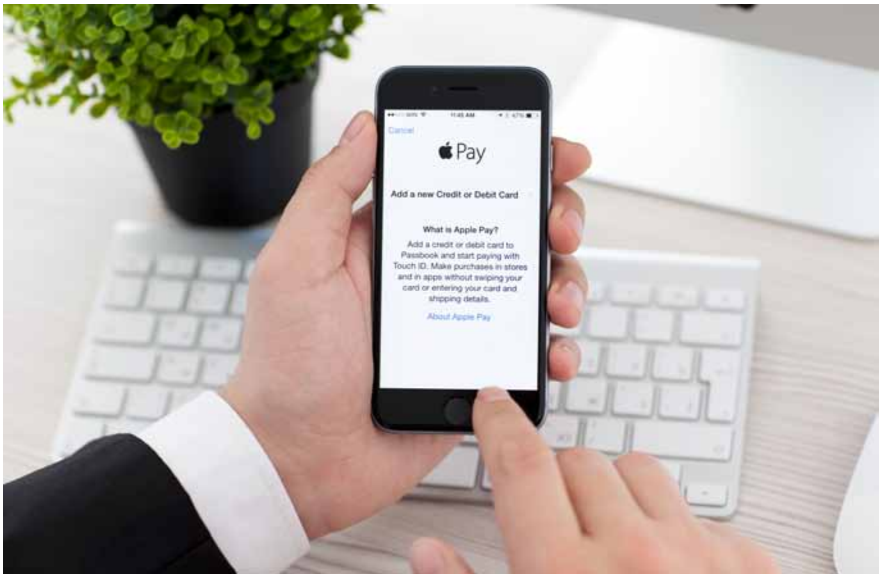
and consecutive restructuring. This is something that brings one-time gains; it's not that the fundamentals are becoming better.

***TheLINK:* E-commerce is also an area in which you have an interest. What's next for China's booming e-commerce industry?**

There has been a big boom in e-commerce and what we call the online-offline arena. But in the past half-year there has also been talk about whether the winter's coming; a lot of companies haven't been able to sustain their cash flows or financing and they've had to close their business. But there are good companies, and one of the ones I like a lot is Jing Dong (JD.com). They have been doing very well in terms of their strategic investment and commitment and have found a very unique way to compete against incumbents like Alibaba or Taobao. I think in the future whether it's e-commerce, online or offline, it has to be the efficiency and viability of the business models. Amazon can do very well because they are extremely efficient in their operations. If you go to Amazon's warehouses, you will see that the number of people is much fewer than in the typical Chinese e-commerce company warehouse. A lot of the work is done by the Kiva warehouse robots. Amazon is building huge warehouses in the US. These are about 10 or 20 stadiums in size. Once they reach scale they can use their own truck fleet, they're starting to buy or lease their own air cargo fleet as well, so it's all about efficiency, scale, scope. And that's something that every company, whether it's Chinese or American, has to think about. At the end of the day it's about how efficiently you can compete in the market. It's an efficiency driven business.

On the other hand, there can be multiple types of business models. Amazon is just one successful model but not necessarily the model everyone should use. If everyone does what Amazon does, then there's no differentiation. Even Amazon is now starting to look at whether they should have physical stores. That's because other than efficiency, low cost and low price, retail consumers want something else – they want the real shopping experience. Online shoppers cannot replicate the traditional shopping experience. So in that sense I think in the future there will be different kinds of business models co-existing for e-commerce.

> *"At the end of the day it's about how efficiently you can compete in the market."*



***TheLINK:* What are your thoughts on the fierce competition between China's various payment platforms and Apple Pay's recent entry into the market?**

The payment market, especially mobile payment, is one of the segments in which China is actually moving much, much faster than the US market. Americans would be surprised at how deep the penetration is for WeChat pay and Alipay in China's mobile payment business. In the US it's very hard for you to imagine that you can use your mobile to pay for almost anything in life – taxis, shopping, movie tickets, restaurants, the list is endless. In the US, people still carry dozens of cards in their wallet or purse and they swipe these cards almost everywhere. This is why companies like Square, for example, can do very well in the US because it helps consumers do business with small and medium sized merchants who couldn't otherwise afford payment terminals.

Remember also that in the US the concentration ratio of the retailers is way higher than in the Chinese market. So this is why, for example, if you look at Apple Pay and even Google's Android Pay, while they were very advanced technologies there's huge opposition from the large merchants. Companies like Walmart, Target and Starbucks would rather have their own payment systems.

Apple Pay is definitely not a first mover in China; it's a sort of late mover in the market. They have to work very hard to increase their penetration ratio of the payment terminals here. But almost all the grocery stores in China, especially in the big cities, are already occupied by the free bar scanners offered by Tencent and Ali. So there's a long way to go.

***TheLINK:* Are you one of those people who rely on your mobile phone to do all your transactions? What do you have in your pocket right now?**

I have my keys, wallet, and mobile. I need my wallet because I still have my CEIBS ID card to access the faculty building and CEIBS canteen card to pay for my lunch!

***TheLINK:* What book would I find on your bedside table right now?**

I'm reading *Poor Charlie's Almanac* (by investment guru Charlie Munger) because my approach to business and the stock market is very much value based. And I mean value not necessarily in the Warren Buffet way but in terms of value creation and the value captured by companies. I've found a lot of wisdom in the writings of Buffet and Munger for business, society and life. So I read them quite often.

I like reading, and especially now because of my research I read a lot about history and business history. I think one of the ways to study business is to learn about the history of companies, the history of the industry, and see how they evolve and how they grow and try to find commonalities behind different patterns. So in my class I also try to combine different kinds of history of the industry and company to show students that there might be some general ground rules that can be useful in forecasting or predicting how companies will react or act in the future.

I've been reading, for example, the business history of US companies in terms of their evolution – how they grow from small businesses, family owned businesses, into modern corporations. For me it's actually a very good way to learn how a modern industry develops, how it benefits from the universities, research institutes, scientists and also business leaders as well. It's a very enlightening process.