Seidman Business Review

Seidman College of Business at Grand Valley State University, Grand Rapids, Michigan

Vol. XXIV
2018

IN THIS ISSUE:

SEIDMAN | GRAND VALLEY STATE UNIVERSITY

Seidman Business Centers Service and Research

...outreach to the Greater Grand Rapids Business Community

Center for Leadership & Corporate Education
616.331.7246 www.gvsu.edu/leaders
- Leadership development and training
- Leading high performance teams
- Customized offerings tailored to business

Family Owned Business Institute
616.331.7359 www.gvsu.edu/fobi
- Research
- Family business resource center
- Family business coursework

Koeze Business Ethics Initiative
616.331.7468 www.gvsu.edu/seidman/ethics
- Ethics Consulting – Values Clarification, Conflict, and Curriculum
- Research and Publication in Business Ethics
- Providing Notable Speakers and Facilitators in the Field of Ethics for the West Michigan Community

Michigan Small Business Development Center
616.331.7370 West Michigan Region
616.331.7480 Lead Center (services statewide)
www.sbdcmichigan.org/
- One-on-one Business Counseling
- In-person and Online Business Workshops
- Secondary Market Research
- Business and Strategic Plan Development
- Financial Management
- Accessing Capital
- Export Strategy
- Technology Commercialization
- Cyber Security Awareness

Richard M. and Helen DeVos
Center for Entrepreneurship & Innovation
616-331-7582 www.gvsu.edu/cei
- Micro Lending
- Competitions and Early Stage Funding
- Entrepreneurial Talent Development and Education
- Mentoring and Coaching

Van Andel Global Trade Center
616.331.6811 www.vagtc.org
- International Market Research & Business Resources
- Import/Export Compliance Assistance
- Import/Export Technical Training & Events
- Language Translation and Culture Assistance
- Worldwide Credit Reports

Seidman Business Review *is an annual publication of Grand Valley State University's Seidman College of Business, Grand Rapids, Michigan.*

e-mail: gvbizinfo@gvsu.edu

Editor: Dr. Gerry Simons, Professor, Economics Department
Copy Editors: Vonnie Herrera, Linda Schmidt
Design and production: Kruse Design L.L.C.

Educational Opportunities

offered by the Seidman College of Business

Bachelor of Business Administration (BBA)
- Accounting
- Business Economics—Emphasis in Real Estate
- Entrepreneurship
- Finance
- General Business
- General Management
- Human Resources Management
- International Business
- Management—Emphasis in MIS
- Operations Management
- Marketing—Emphases in Distribution and Logistics, and Sales
- Supply Chain Management

Bachelor of Arts (BA) or Bachelor of Science (BS) in Economics

Master of Business Administration (MBA)
- Executive MBA (EMBA)
- Professional MBA

Master of Science in Taxation (MST)

Master of Science in Accounting (MSA)

Certificate Program
- Taxation

Non-Credit Certificate Programs
- Certified Financial Planning (CFP)

Seidman | Grand Valley State University

AACSB ACCREDITED

From the Editor...

"Where are we?" and "Where are we going?" That's what my daughter, looking intently at our Rand McNally Road Atlas (remember those?!), would always ask when we took family trips. And that is what I, as an economist, often ask too. In this information age, we might think we know everything, but neither question is trivial, nor always easy to answer. However, the answers to these questions are vital to the success of every business and organization.

I am not claiming that the articles in this edition of the *Seidman Business Review* will provide you with *all* the answers, but they will help shed some light on topics that are relevant to all of us who live and work in West Michigan. Some of the articles look at where we are – What is the state of our local economy? What barriers are keeping women from leadership positions? How are regional stocks performing? Other articles address where we are going – What do West Michigan employers foresee for the coming year? Where is the local labor market headed? What are the prospects for area real estate?

Like me, I think that you will find these articles interesting and informative, with a variety of subject matter. As in the past, I strongly encourage you to review the list of Seidman Faculty Experts provided on the last page and to contact those whose expertise may be of value to you. My Seidman colleagues can help you better understand both where your business or organization currently is *and* where it is going.

Gerry Simons, Professor of Economics

Seidman Business Review
2018 Contents

Grand Rapids Economic Forecast 2018

Paul Isely, Ph.D., Associate Dean
Richa Bhurtel, Graduate Assistant
Gerry Simons, Ph.D., Economics Department
Wei Sun, Ph.D., Economics Department

- The Current Business Confidence Index for 2017 is 80.5%, a small improvement over last year.
- The Forecast Business Confidence Index for 2018 is 80.3%, almost identical to the expectations for 2017.
- Employment is expected to grow by 1.1% to 1.5% in 2018, almost half the rate seen in 2017.
- Overall nominal sales are expected to increase by 3.1%-3.5% for 2018, continuing last year's growth.
- Exports are expected to grow by 2.5% to 3.5% in 2018, an uptick after several years of weakness.
- All indicators signal the 2018 economy continuing to grow on par with 2017, except for employment, which is projected to slow during 2018.

Paul Isely

Richa Bhurtel

Gerry Simons

Wei Sun

Introduction

The survey for the greater Grand Rapids economy (Kent, Ottawa, Muskegon, and Allegan Counties) or KOMA was conducted in November and December 2017. A survey was mailed to the CEOs and business leaders of just over 1,129 organizations based on a representative sample. We tried to ensure that the sample reflected different sectors of the regional economy and the geographical diversity of the area. Eventually, 213 organizations responded, resulting in a strong response rate of 19%, three percentage points higher than last year. However, due to the possibility of a non-random response sample, the survey should be interpreted with caution. In addition, the survey was, like last year, delayed two weeks to allow respondents more time to digest some of the possible tax changes that were moving through Congress.

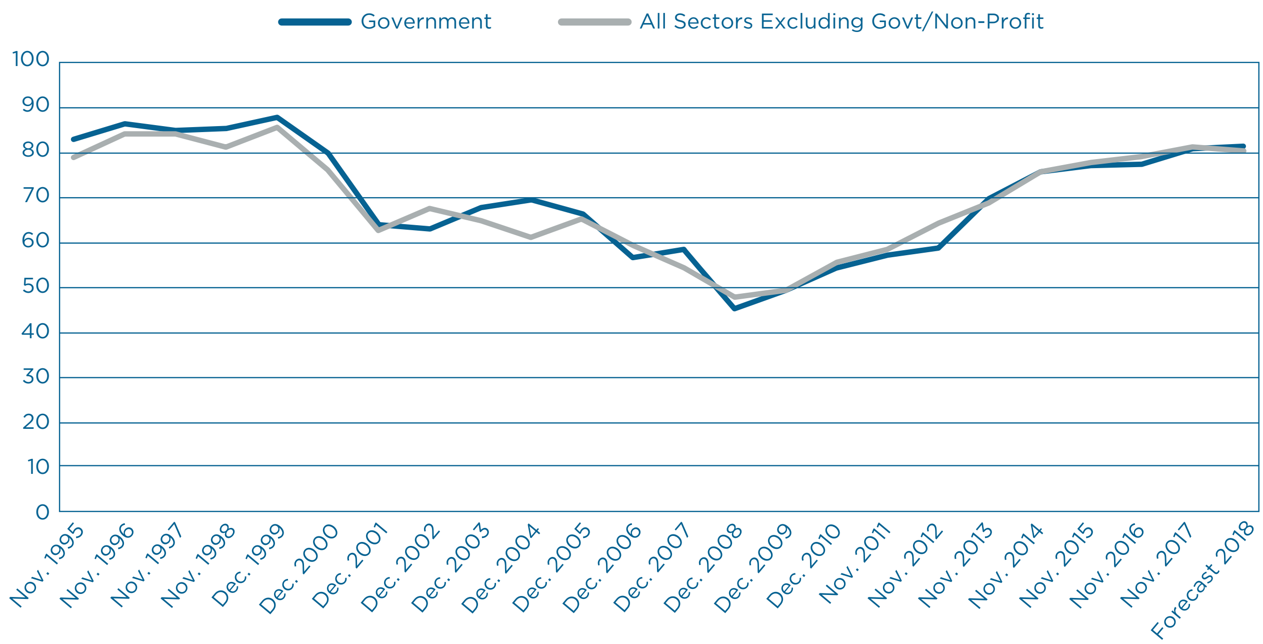
A few methodological considerations are in order. Although we discuss the survey results in terms of averages, the data are represented in a histogram format to show the entire distribution of responses. The employment, sales, and export numbers are more volatile as raw averages (when calculated without adjusting for outliers—responses beyond one standard deviation). Because the average of a small sample is significantly influenced by extreme numbers, we use the averages without the outliers to provide more reliable results. The histograms, however, depict all the available observations to show the broad picture.

Confidence Index

The confidence index has been tracked by researchers at the Seidman College of Business since 1995. A continuing goal of the survey is to historically track the overall business confidence of the Grand Rapids area. The confidence index respondents use a scale from zero percent (no confidence at all) to one hundred percent (complete confidence) in response to the question: ***How confident are you in the regional economy?*** The average responses for the private sector and the government/non-profit sector over the past 22 years are shown in Figure 1.

Last year, after three years of respondents underestimating the strength in the coming year, respondents' expectations for 2017 and their view of 2017 at the end of the year were nearly identical. This is an indicator that the economy has stopped accelerating. Organizations currently view their confidence now (end of 2017) and through 2018 to stay above 80. This continues the strong showing from 2016-2017 and is comparable to the surveys from the 1990s. Two consecutive years with confidence above 80 is good news for continued growth in West Michigan for 2018.

Figure 1: West Michigan Confidence Index Forecast 2018

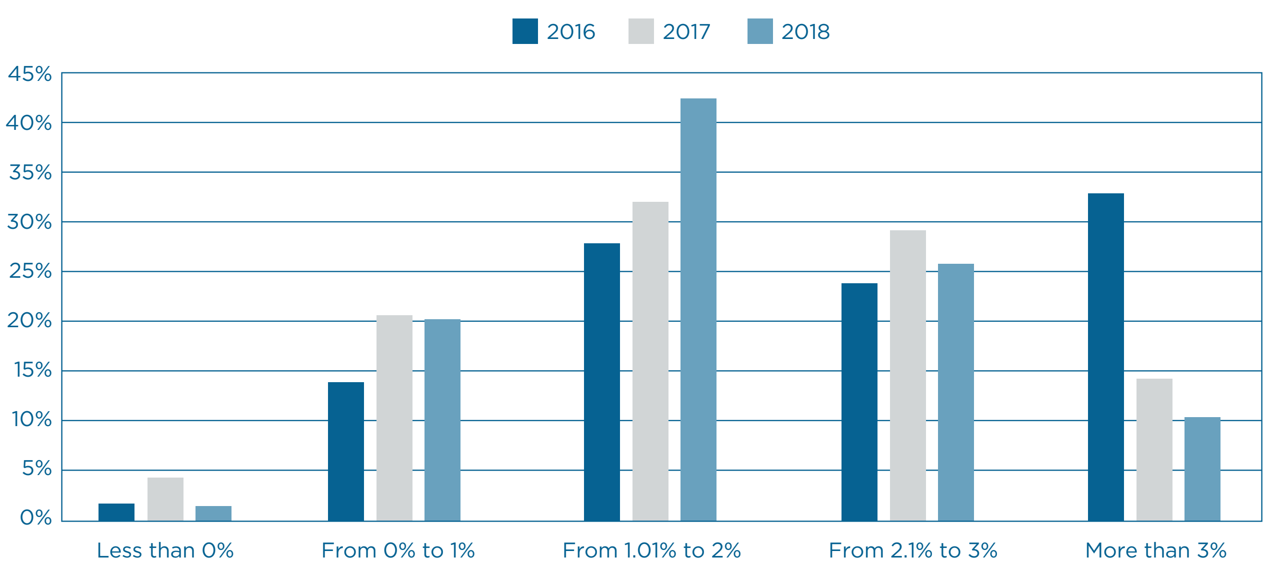


Employment

For 2017, employment for KOMA was projected to grow at an average of 2.0 – 2.2%. The numbers from the Current Employment Survey indicate that employment in the Grand Rapids and Muskegon Metropolitan Areas (which is made up of Barry, Kent, Montcalm, Muskegon, and Ottawa counties) has grown by approximately 2.0% from October 2016 to November 2016. This is consistent with the estimation seen in the confidence index last year.

The average responses to the question: ***What percent change do you expect in employment for the four counties in 2018?*** are shown in Figure 2.

Figure 2: Respondents' Anticipated Change in Employment for 2018 as Compared to Expectations in 2016 and 2017



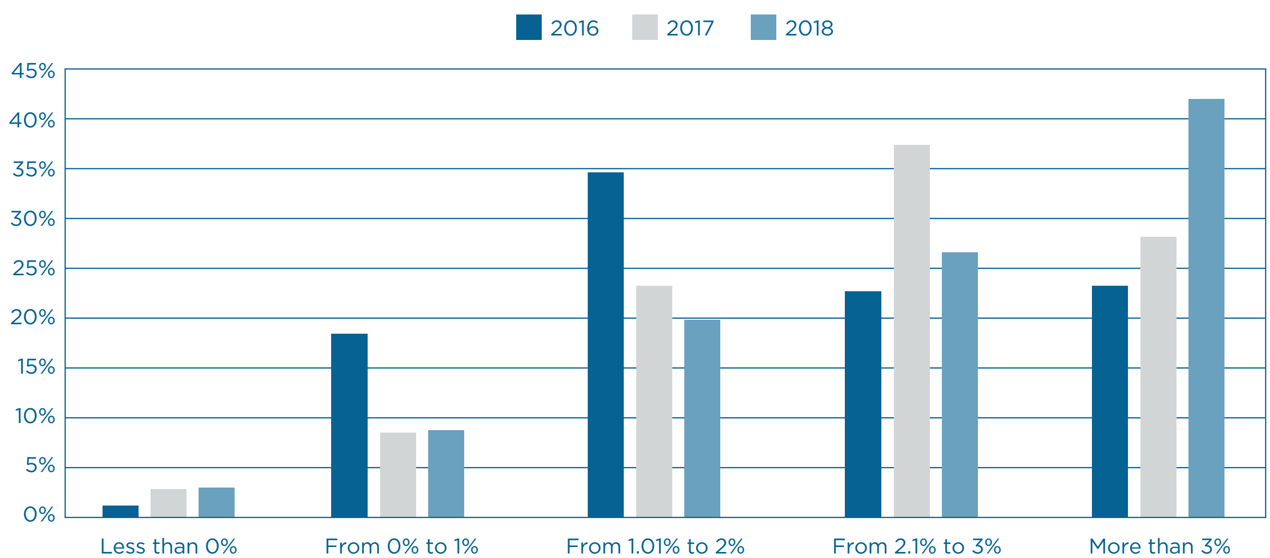
Job expectations for 2018 are considerably more muted compared to expectations a year ago. This is the second year in a row in which job growth is seen as slowing. This is primarily a drop in expectations of the most optimistic survey respondents, with those expecting more than 3% growth dropping again this year. The silver lining is that although firms expect slower growth, 42% of respondents see employment continuing to grow between 1% and 2% for the year. Average employment in the KOMA region is expected to grow at 1.3%, which is significantly below last year's expectations and last year's actual employment growth.

Although there is a slowdown in the expected growth in employment, the number of firms expecting to hire this year continues to increase and has reached 87% for 2018 up from 85% last year and 82% the year before. Consistent with the last few years, about 75% of those being hired are expected to be permanent workers.

Sales

For sales, the respondents answer the following question: ***What percent change in sales do you project for the four counties in 2018?*** During the late 1990s, sales grew at an annual rate of 5%. Last year 28% of respondents were expecting growth above 3%. For 2018, the percent of firms looking for sales growth above 3% has jumped to 42%. There has been a steady improvement over the last three years, with the most common response in 2016 being 1%-2%, the most common response in 2017 being 2%-3%, and for 2018 more than 3%. The growth in sales continues to outpace inflation, so this has been a real increase in output over the last four years. Average responses are shown in Figure 3.

Figure 3: Respondents' Anticipated Change in Sales for 2018 as Compared to Expectations in 2016 and 2017

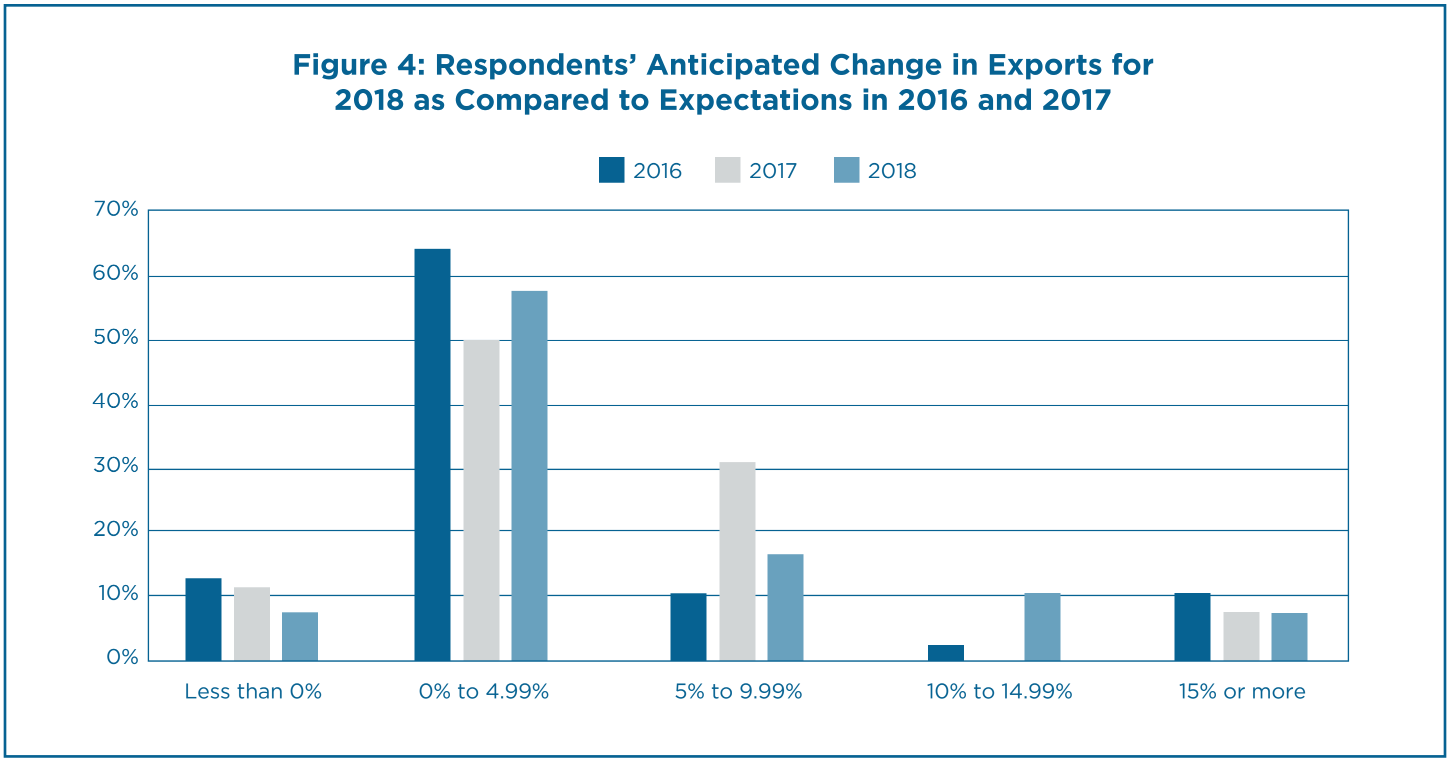


Export Growth

Exports have traditionally been a bright spot in the West Michigan economy. However, over the last few years export growth has weakened. Export growth this year is expected to increase slightly for the first time in three years, with expected growth increasing to 3.0% in 2018. This reflects the growing strength in the rest of the world and shows that firms in West Michigan are starting to be optimistic about exports again. Average responses are shown in Figure 4.

The reason for the optimism in exports is that global economic output increased by approximately 3.6% in 2017 and is expected to increase by about 3.7% in 2018. This growth reflects improvements in consumer confidence, strong growth in manufacturing, increased investment, and a growing volume of international trade. Growth in the European Union is likely to be muted in 2018, with overall output increasing by around 1.9%. Continuing weakness in the U.K. will result in growth of around 1.5%, and Japan's economy is also stagnating with expected growth in 2018 of only 0.7%.

The bulk of global output growth continues to come from the developing world, Asia in particular. Collectively, emerging economies in Asia are expected to grow by about 6.5% in 2018, with China at around 6.5% in 2018 and India at 7.4%.



General Outlook

Predictions from the Federal Reserve Bank and from major economic surveys in December 2017 indicate that expected growth in the national economy will average between 2.1% and 2.5% for 2018. This is essentially the same as last year, though the weight of the observations this year are at the higher end of this range. The economy will continue the slow growth seen recently. National employment will continue to improve in 2018. Full-time hiring will continue to increase, though not at the rate seen over the last year in West Michigan. In addition, tightness in labor markets is already leading to increases in wages in almost all sectors.

The economy continues to improve slowly at the regional level. Overall confidence is expected to remain above 80%. Employment will grow by approximately 1.3%. Nominal sales will increase by 3.3%. In spite of its volatility, exports have usually been a bright spot, and this engine of growth is expected to start a rebound following the recent slowdown and grow at 3.0%.

The uncertainties for the year include how the economy reacts to the tax changes enacted at the end of 2017 and potential changes in NAFTA. Right now, our expectation is that the tax changes will increase the growth rate above the baseline by around two tenths of a percentage point. However, many of the nuances of the tax bill are still to be understood at the time of writing this article in late December 2017, so the actual effects could vary. The direction on NAFTA is currently not well understood. However, West Michigan's reliance on a supply chain that spans the three member countries puts it at particular risk when changes to the agreement are made.

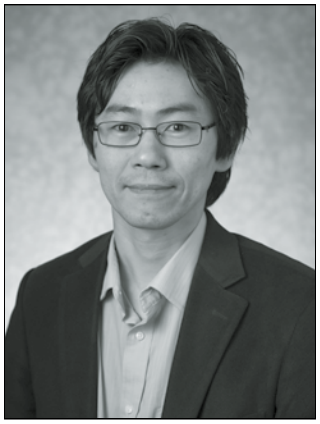
Finally, the U.S. economy likely crossed potential GDP sometime in the third quarter of 2017. Potential GDP is the maximum level of output that can be sustained for long periods of time. Historically when this happens, a recession follows in around two years. However, this will not affect 2018, so the U.S. and West Michigan economies will end 2018 better than at the start of the year but with the risk of a downturn looming.

Acknowledgments

This study could not be completed without the assistance of the SBDC West Michigan Region staff. We are very grateful to all the organizations that participated in the survey. ■

Housing Market in the Grand Rapids Area

Laudo M. Ogura, Ph.D., Associate Professor of Economics
Paul Isely, Ph.D., Professor of Economics



Laudo M. Ogura

Paul Isely

Housing prices continued to rise in the Grand Rapids area in 2017. Unemployment is still under 4% in Kent County, while employment in the metropolitan area keeps rising (see Table 1). At the national level, housing prices have also risen, helped by lower unemployment and lower mortgage delinquency rates. Mortgage rates are still below historical levels due to the sluggish global economic growth that keeps long term interest rates low. Construction activities are now at normal market condition levels, but not enough to match the high demand for housing in many regions.

In the Grand Rapids market, home prices have risen by about 15% in 2017. Figure 1 shows housing price indexes (HPI) for the Grand Rapids city and the remainder of Kent County. These indexes were calculated using arm's length sales only, which better reflect market conditions for non-distressed houses. The estimation uses the repeat-sales method, comparing sales prices of the same houses over time (details on the methodology are provided in the technical note at the end of this article). The large increase in home prices in Grand Rapids reflects the rise in employment in the region together with a low growth in the supply of homes for sale. In fact, during the first eleven months of 2017, the Grand Rapids Association of Realtors recorded 6.2% fewer closed sales than in the same period in 2016 in Kent County, with its inventory-to-sales ratio going down to an average of only 1.4 months' supply during 2017 (the average in 2016 was 1.8). Construction of new housing units has risen significantly in the region in the last two years (see Table 2), but it is still not enough to accommodate the rise in demand. Within Grand Rapids, even the areas with lower average incomes (ZIP code 49507) have seen a fast recovery in home prices in the last couple of years (see Figure 1, lower graph). Similar to the suburban areas of Kent County, the more affluent neighborhoods in Grand Rapids city (ZIP code 49506) have experienced a smaller decline in home prices during the crisis and a faster subsequent recovery, with prices now being around 30% higher than in 2005-2006.

Table 1 – Economic and Housing Market Conditions

	2005	2016	2017	2016-2017 Change
U.S. unemployment rate (%)	5.1	4.9	4.1 (November)	-0.8
Kent County unemployment rate (%)	5.8	3.4	3.3 (October)	-0.1
Grand Rapids-Wyoming area employment (in thousand)	496.0	544.1	559.6 (October)	+2.8%
30-year fixed mortgage rate (%)	5.9	3.7	3.9 (November)	+0.2
Home mortgage delinquency rate* (%)	1.6	5.1	4.1 (3rd quarter)	-1.0
S&P/Case-Shiller 20-city (Jan-2000 = 100)	190.3	189.5 (September)	201.2 (September)	+6.2%
Consumer Price Index - CPI (Jan-2000 = 100)	113.4	143.1 (November)	146.2 (November)	+2.2%
New private housing starts (annual rate, in millions)	2.07	1.18	1.17 (3rd quarter)	-1.0%
NAR Existing Home Sales (annual rate, in millions)	7.07	5.44	5.55 (November)**	+2.0%
Michigan homeownership rate (%)	76.4	72.8	73.3 (3rd quarter)	+0.5

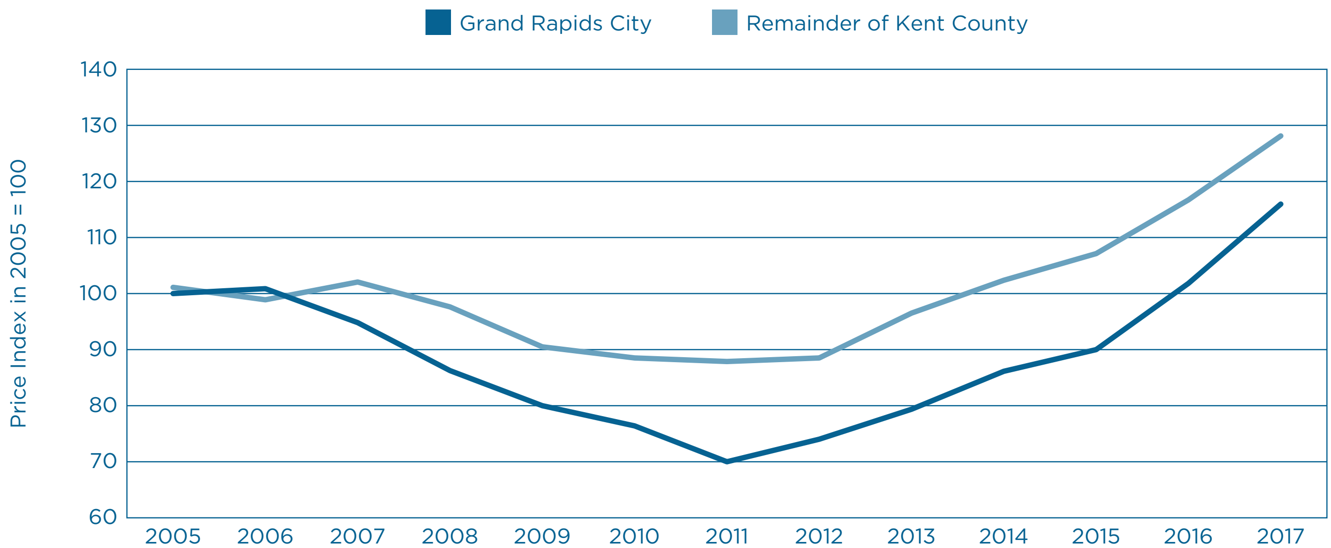
* Delinquency rate of single family residential mortgage in the top 100 banks.

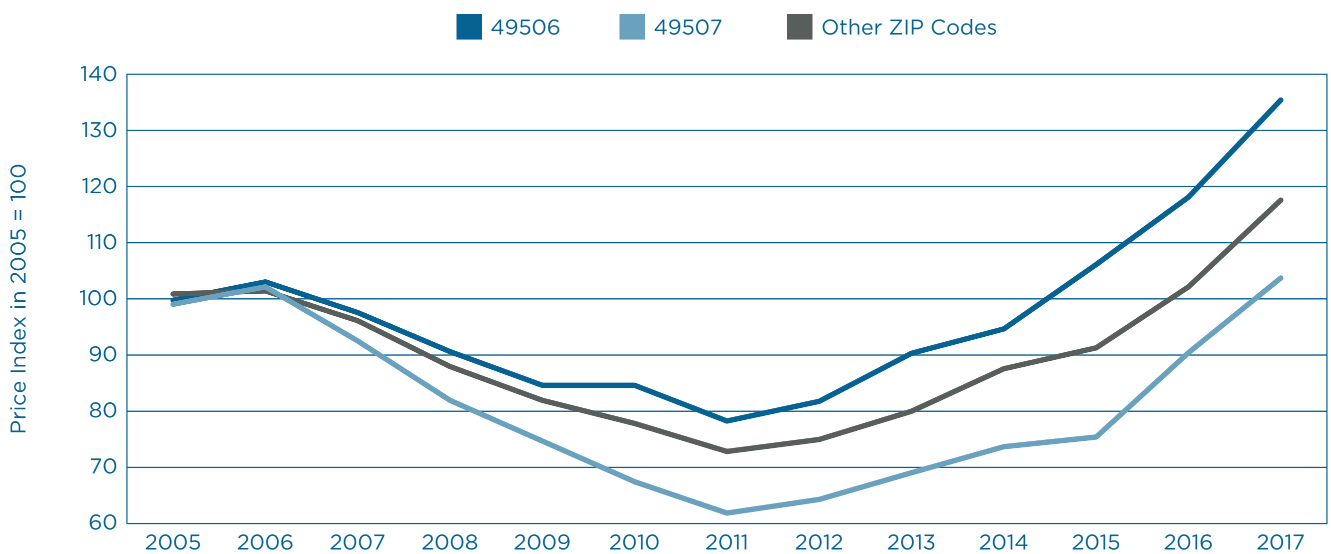
** Average annual rate based on data until November.

Annual data is the average or total for the year. Non-annual values are seasonally adjusted, except for Kent County unemployment rate and 30-year fixed mortgage rate.

Sources: Federal Reserve St. Louis (2017), NAR (2006), and US Census Bureau (2017).

Figure 1: Housing Price Index





See Technical note at the end of the article for details. Source: Indexes computed using data from Kent County, MI.

Table 2 – Building Permits and Household Income

	Building Permits				Median Household Income
Area	**2005**	**2015**	**2016**	**Jan.-Oct. 2017***	**2015**
Grand Rapids City	318	455	1,398	643	$40,355
Kent County	2,941	1,838	2,823	1,638	$53,063

* Preliminary data (subject to revisions) until October 2017. Median household income is from the American Community Survey 2011-2015.
Source: US Census Bureau.

In the rental market, the vacancy rate in the region is still low. Based on the U.S. Census Bureau estimates, the vacancy rate went up in 2016 from about 3% to 5%, but it may have decreased a little in 2017 based on preliminary data. Even a 5% rate is well below the 7% average observed in other large metropolitan areas. Hence, both the home sales and rental markets continue to be pressured by rising demand together with low supply of available homes.

Two events could put headwinds on the price increases seen over the last few years. First, the Federal Reserve moving towards normalizing the interest rate over the next year will likely cause an increase in the short term rates by less than one percentage point, while long term rates will increase less. Second, the primary negative effect of the new tax bill will be the larger standard deduction, which will limit how many people actually itemize, thereby limiting the potential tax benefits of buying over renting a house. For a $200,000 loan, a 0.75% point increase in APR would increase the monthly payment by around $100 and the tax change for an average family would decrease the tax benefits of this house by another $250 per month. Therefore, the monthly cost for this type of house would increase by $350 per month. However, a third of this increase would be covered by rising wages, while another significant portion may be covered by reduced income taxes.

Conclusions

Over the next year there will be both positive and negative influences on the prices seen for residential properties in the Grand Rapids area. The positive influences include continued strong employment, higher incomes, low levels of inventory, slow construction compared to demand, and movements by the growing millennial population towards home ownership. The negative influences include increasing mortgage rates and reduced tax incentives. The positive influences will likely outweigh the negative ones as demand looks to remain strong in the area, but price growth should slow down.

Technical Note

The repeat-sale housing price index shown in Figure 1 is computed by comparing sales prices of the same houses over time. It is set at 100 in 2005, so it can be interpreted as the amount of money needed to buy a house for every $100 that was needed to buy the same house in 2005. The use of repeat-sales is a way to control for variation in quality across houses. The estimation does not include prices of houses that were not resold during the period studied and disregards the impact of improvements or deterioration of houses and neighborhoods. Nonetheless, it is a widely accepted method to measure the average changes in prices in a broad housing market. Our indexes were computed using arms' length sales from 2000 to September 2017, with prices as low as $10,000 and as high as $1,000,000. This type of sales and range of prices better reflect the market for typical homes. ■

References

Federal Reserve Bank of St. Louis (2017). FRED Economic data [Data files]. Retrieved from http://research.stlouisfed.org/fred2.

Grand Rapids Association of Realtors (2017). Monthly Market Update - Comparative activity report October 2017. Retrieved from http://www.grar.com/news-and-stats.

National Association of Realtors (2006). Existing-Home Sales Down in December but 2005 Sets a Record. Retrieved from http://archive.realtor.org/article/existing-home-sales-down-december-2005-sets-record.

U.S. Census Bureau (2015). American Community Survey 2011-2015 [Data File]. Median Household Income. Retrieved from https://factfinder.census.gov.

U.S. Census Bureau (2017). Building permits survey [Data File]. Retrieved from https://socds.huduser.gov/permits/.

U.S. Census Bureau (2017). Housing Vacancies and Homeownership CPS/HVS [Data File]. Retrieved from https://www.census.gov/housing/hvs/data/rates.html.

West Michigan Snapshot

Gerry Simons, Ph.D., Department of Economics

The West Michigan economy has gone through a lot in the past decade. How is it performing now? In this article, I focus on the labor market and economic growth in the Grand Rapids area to shed some light on the regional economy.

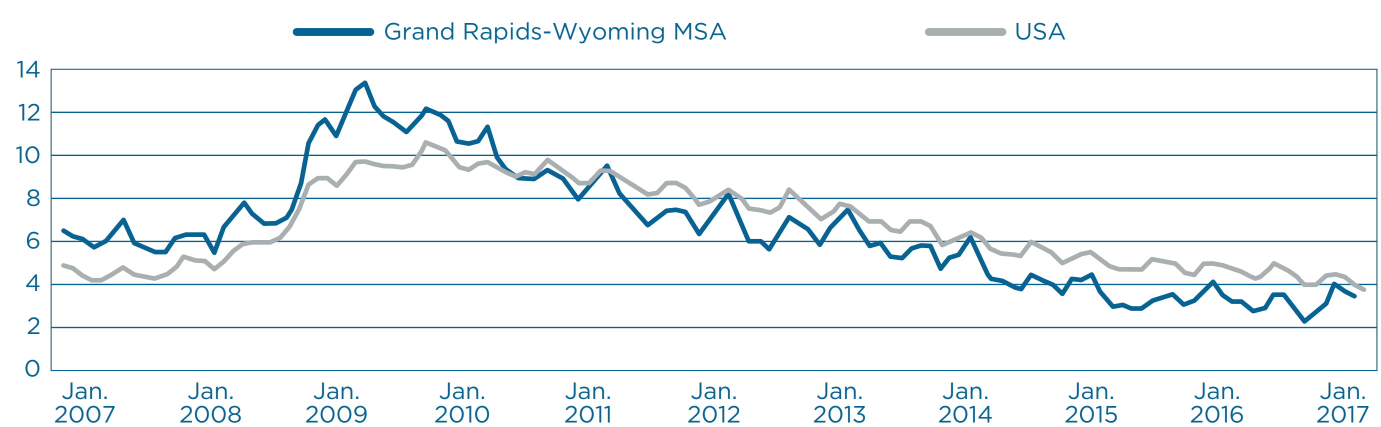
Figure 1 shows the unemployment rates for the U.S.A. and for West Michigan, as measured by the Grand Rapids-Wyoming Metropolitan Statistical Area (MSA), comprised of Barry, Kent, Montcalm, and Ottawa Counties. This chart clearly shows that unemployment in West Michigan has dropped more rapidly over the last six years than for the country as a whole, despite the more severe impact in the region of the Great Recession of 2008-2009. The unemployment rate in West Michigan hit a high of 13.9% in July 2009 compared to the 9.7% national rate at the time. By September 2017, the West Michigan unemployment rate had fallen to 3.6%, compared to 4.1% nationally.

The unemployment rate, though, can decrease for both "good" and "bad" reasons, as individuals are only counted as unemployed when they are actively looking for work. For example, a drop in the unemployment rate because more people are getting a job indicates an improving economy, while a drop in the rate because more people are giving up on finding a job, does not. Figure 2 shows the level of employment in West Michigan. By September 2017, employment was up almost 27% from July 2009 and by over 14% from the pre-recession level in July 2007. In comparison, the Census Bureau estimates that the total population of the MSA has grown by approximately 6% since 2010. Based on these data, West Michigan's low unemployment rate is indicative of a strong and growing regional economy.

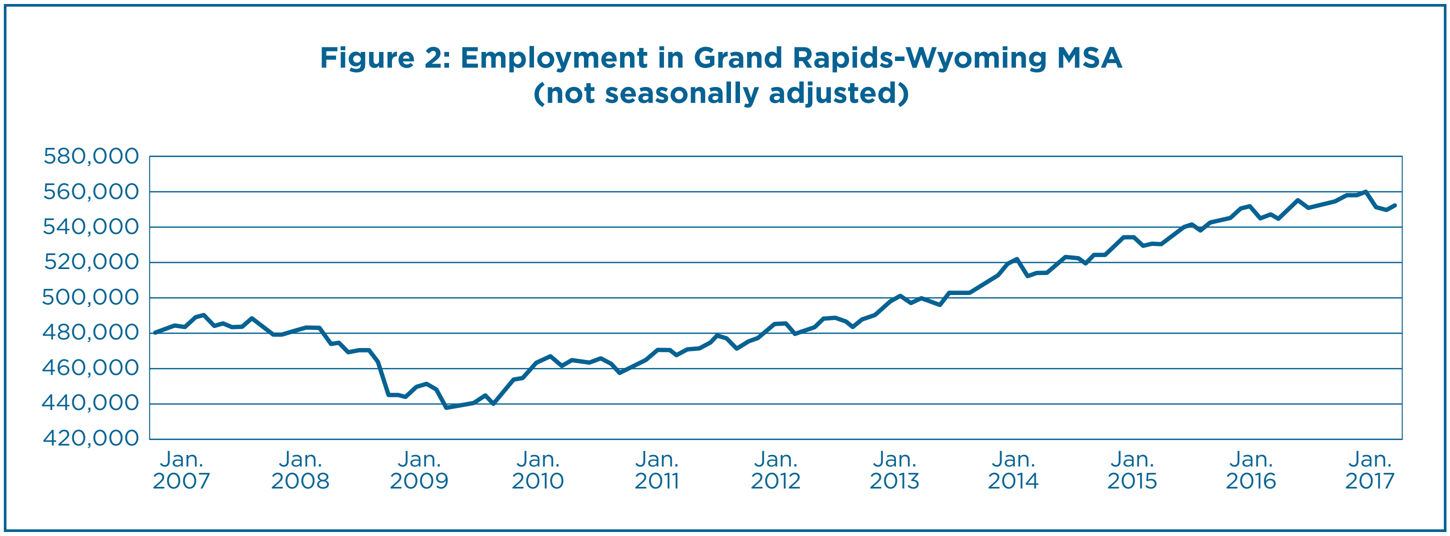
Another possibility when interpreting the unemployment rate is that there has been a move from full-time to part-time employment. By itself, such a change is not reflected in the unemployment rate – both part-time and full-time workers count equally as "employed." To see if this has been the case, we can look at the number of hours the employed have worked. Figure 3 shows the average weekly hours worked by all private sector employees in the Grand Rapids-Wyoming MSA. Again, there is the expected drop during the Great Recession, as a large number of workers saw their hours cut, with many moving from full-time to part-time employment. Weekly hours have recovered since then and have returned to the levels seen in early 2007. With 35.7 hours worked on average in August 2017, this indicates that the multi-year drop in the local unemployment rate is not due to a substantial shift to part-time work.

The data shown in Figures 1-3 indicate good news for the West Michigan economy, and this is also demonstrated by the Federal Reserve Bank's measurement of economic growth in the Grand Rapids-Wyoming MSA as reflected in its Economic Conditions Index, shown in Figure 4. This monthly index has been averaging 3.7% growth at an annual rate in 2017, compared to an average of 1.1% in 2007.

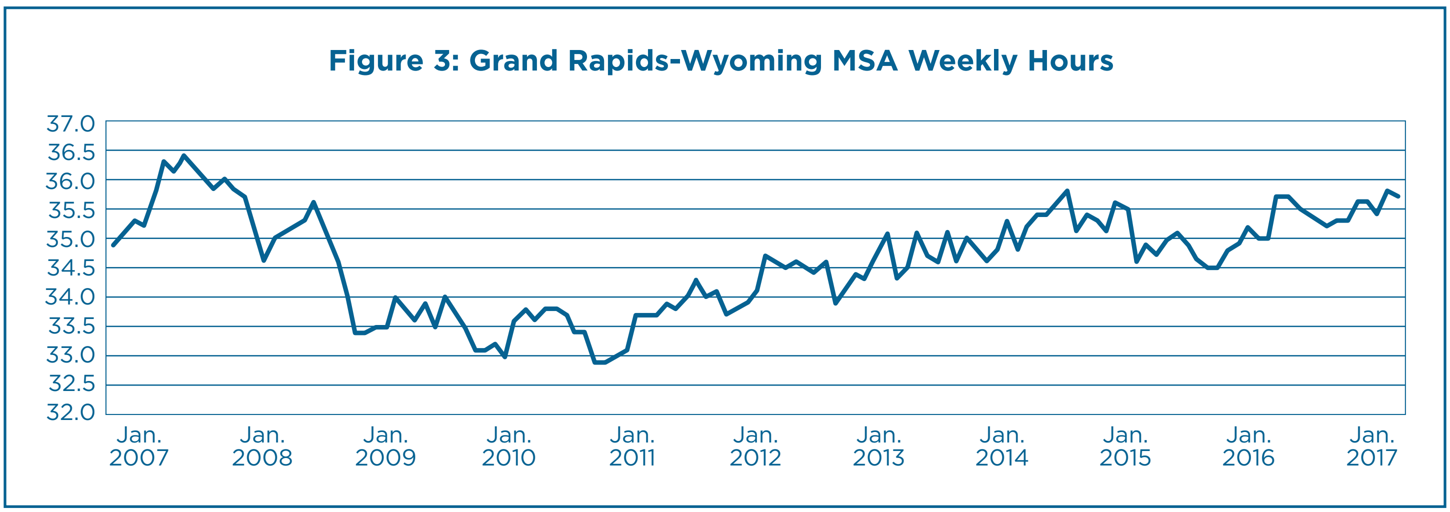
Figure 1: Grand Rapids-Wyoming MSA and National Unemployment Rates (not seasonally adjusted)



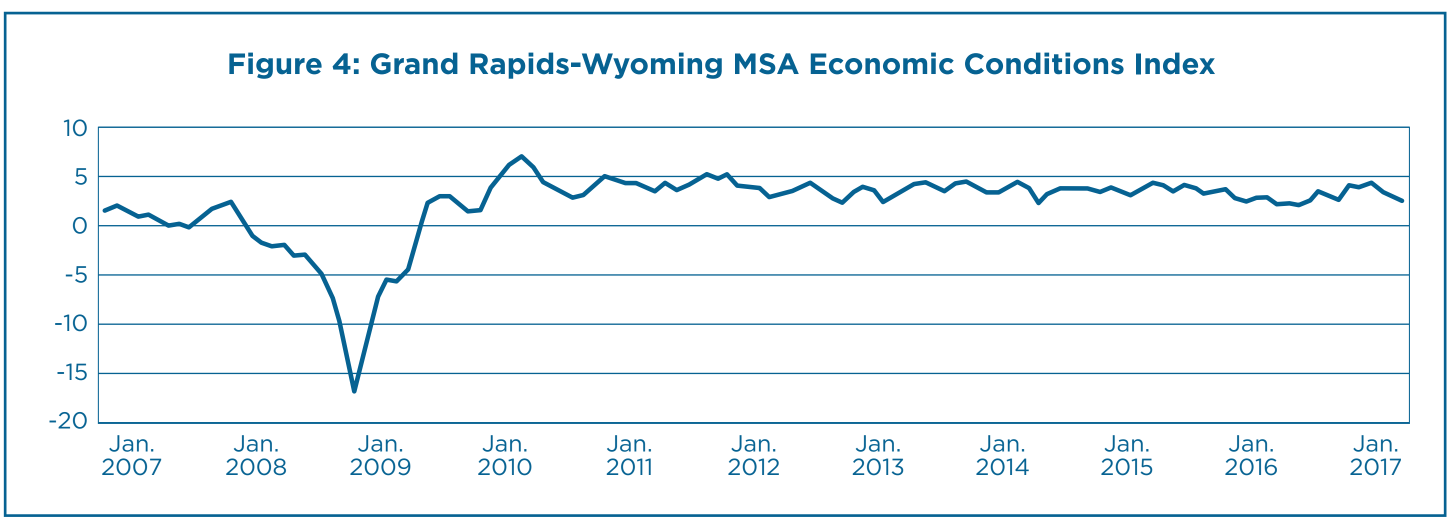
Source: Bureau of Labor Statistics



Source: Bureau of Labor Statistics

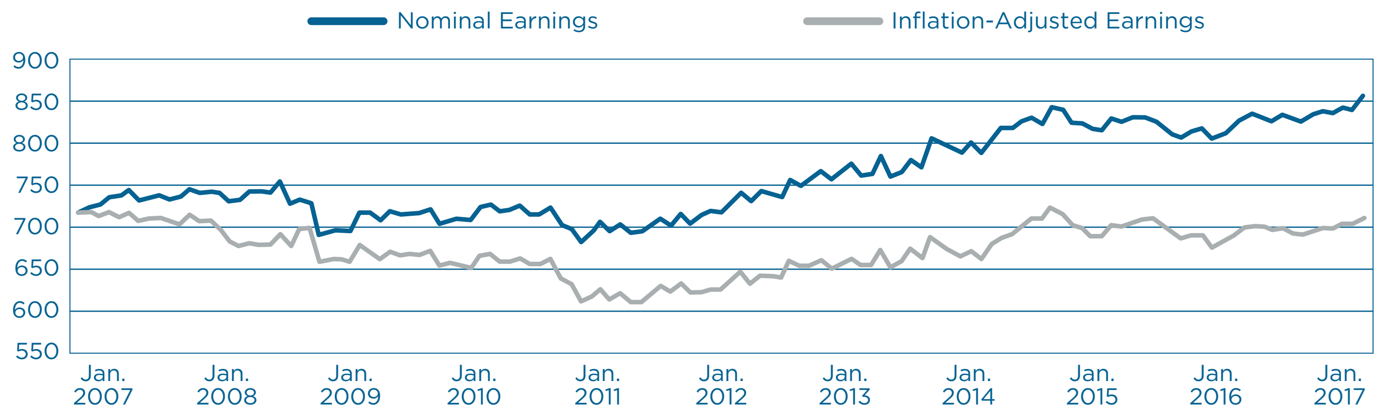


Source: Bureau of Labor Statistics



Source: Federal Reserve Bank of St. Louis

Figure 5: Grand Rapids-Wyoming MSA Average Weekly Earnings



Source: Bureau of Labor Statistics and author's calculations

However, there is a grey lining to this silver cloud. Figure 5 illustrates the average weekly earnings for private sector employees in the Grand Rapids-Wyoming MSA. The top line shows nominal earnings – how many dollars workers are earning – while the bottom line shows what those earnings amount to when adjusted for inflation. As expected, nominal earnings fell during the Great Recession, but otherwise increased over the past decade – starting at around $715 in January 2007, dipping to a low of $700 in January 2011, and then rising to $852 by September 2017. However, the change in the inflation-adjusted or "real" value of average weekly earnings is quite different – again starting with $715 in January 2007, then plummeting to $637 by January 2011, before rising to $707 by September 2017. Real average weekly earnings increased by about 11% from January 2011 to September 2017. But the 19% increase in nominal wages since January 2007 has all been eaten away by higher prices, so that the inflation-adjusted value of average weekly earnings was approximately 1% lower in September 2017 than it was in January 2007.

While the West Michigan economy is performing well, employment is strong, and economic growth is solid, employee earnings are barely keeping pace with inflation, with no real gains compared to a decade ago. With such low unemployment, continued strong growth in the region might push employers to increase the pace of nominal earnings raises resulting in real earnings growth. Any such increase in real earnings, though, is likely to be modest, as increased growth in the economy once again spurs inflation. ■

Supply Chain Finance - Should the Practice Be Adopted?

Roy McCammon, Ph.D., Part-Time Instructor, Department of Management

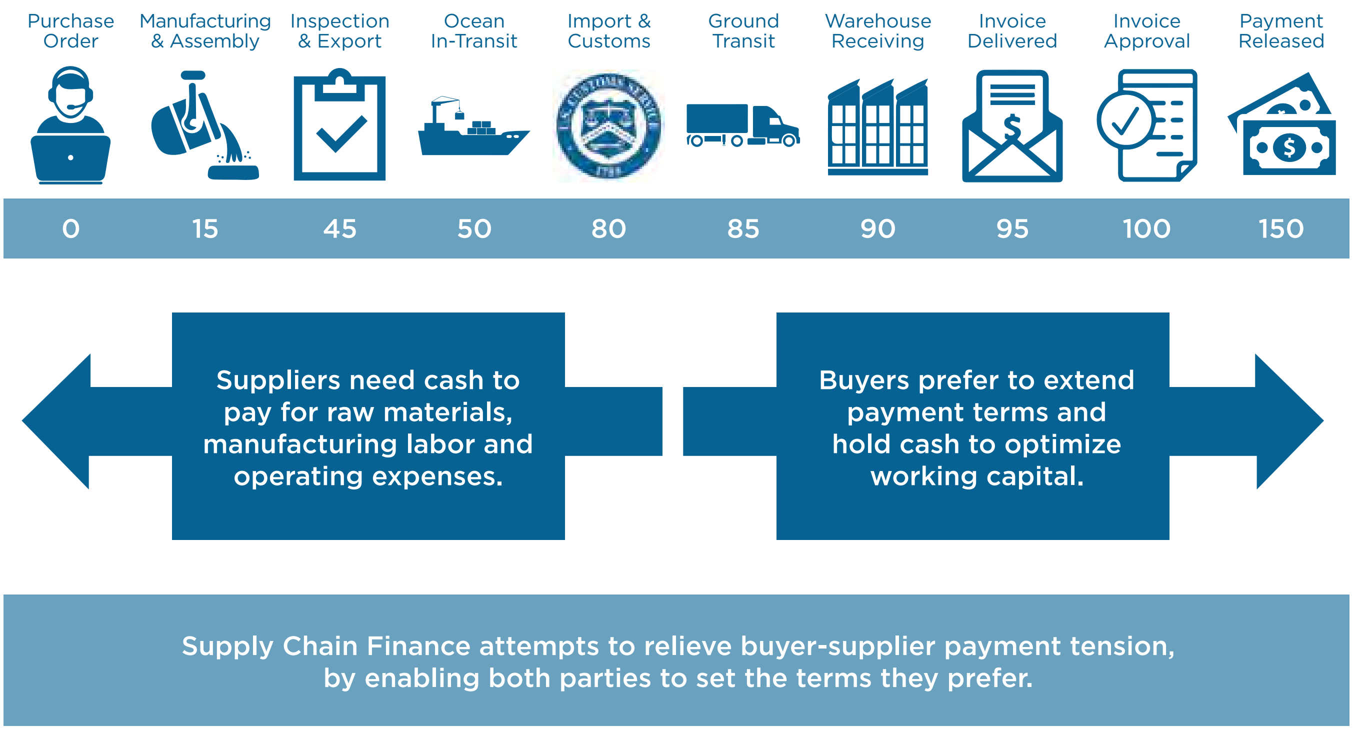
Introduction

Over the last two decades, supply chain management (SCM) practices have continued to enable firms to compete and respond to the ever-increasing competitive business environment. SCM involves coordinating and integrating the flow of materials, information, and finances as they move along in a series of processes between the supplier and buyer (Fairchild, 2005). To succeed in today's dynamic business environment, it is necessary for firms to develop strategic partnerships that promote collaboration, coordination, and the sharing of resources to create economies that can turn into a competitive advantage for both parties (Jones, Fawcett, Fawcett, & Wallin, 2010). According to a 2008 study conducted by McKinsey & Company, just two or three collaborative initiatives with strategic supply partners can deliver a return that is equal to 5-11% increase in profits (Benavides, Eskinazis, & Swan, 2012).

One of the main barriers inhibiting collaboration for supply chain partners is the length in payment terms that flow downstream in the supply chain. The financial flows run parallel with the physical flows, yet their pace has continually diminished over the last two decades. The growing disparity has been a source of frustration for many of the suppliers who have spent the last two decades continuously improving their internal efficiencies, only to have the rewards used to finance their customer's business (Fairchild, 2005). During the same time, innovative buyer organizations have adopted Supply Chain Finance (SCF) practices to restore harmony to the financial flows in their supply chains (Wuttke, Blome, & Henke, 2013).

The cash-to-cash cycle is a key concept that has encouraged organizations to strategically seek out new opportunities to improve their working capital positions. The traditional boundary lines that existed between buyers and suppliers were much more visible. However, in today's environment, supply chain members are blurring their border lines by the sharing of roles and responsibilities. Financial markets have always used a high-powered scope when viewing the financial performance of firms, rewarding the ones that maintain strong working capital positions and punishing the firms with weaker positions (Martin & Hofmann, 2017). The justification is simple: by having less money tied up in current assets or earmarked to settle their current liabilities, companies can increase their value by investing in innovations, acquisitions, and capital improvements. It can be surmised that the need for a firm to improve their own working capital position will supersede their desire to form strategic partnerships. To this end, the

Exhibit 1: Why is Cash important?



dyadic relationship between buyers and suppliers has become increasingly strained by the conflicting roles when it comes to their own financial operations.

Exhibit 1: Why is Cash important?

Supply Chain Finance is defined as the inter-company optimization of financing as well as the integration of financial processes between customer, suppliers, and financial service providers (FSP) in order to increase the value of all participating companies (Pfohl & Gomm, 2009). The benefits offered go well beyond just releasing the value that historically had been tied up in the supply chain. In 2009, both Deloitte and PricewaterhouseCoopers stated that SCF is a "win-win-win" for all three parties. Yet, despite having well over a decade of evidence in support of SCF, widespread adoption has yet to happen.

Gelsomino, Mangiaracina, Perego, & Tumino (2009) performed an exhaustive and methodical literature review on the 119 research articles directly related to supply chain finance, and the authors identified numerous types of financial services available to supply chain exchange members, but the most common form of SC financing is reverse factoring. Reverse factoring is when the buying organization enters into an agreement with one or more FSPs ensuring them payment of supplier invoices at an agreed-upon term; which then allows the FSP to immediately pay the invoiced amount to their suppliers, less a nominal fee based on the buying firms credit rating.

Exhibit 2: The SCF Process Map

The Case for SCF

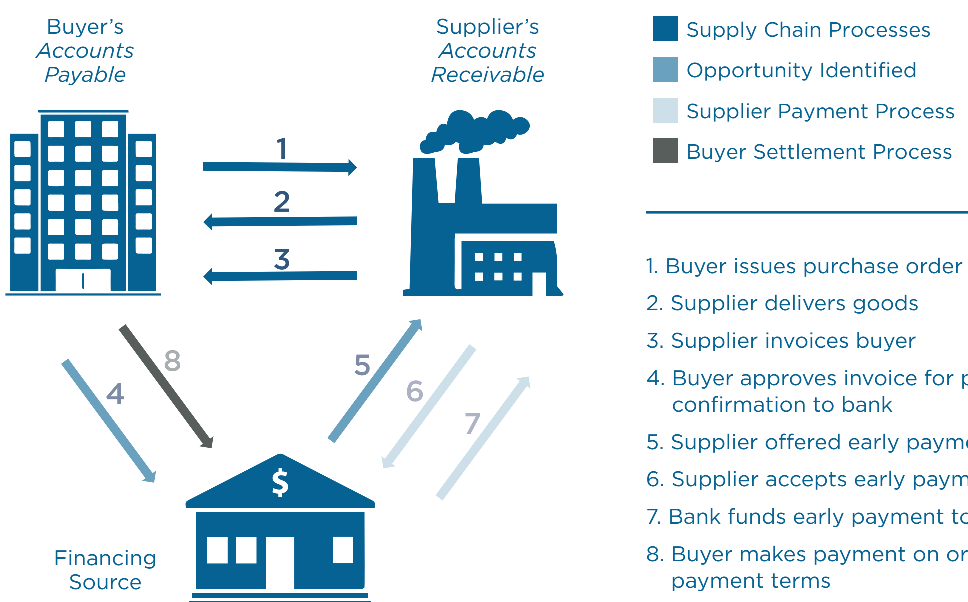
Seifert and Seifert (2013) studied 213 large buying organizations based out of 56 different countries encompassing all the major industries and out of the 213 firms surveyed, only 23 were practicing SCF. The authors interviewed executives from 23 organizations that were surveyed and found that on the average, firms that practiced SCF experienced a working capital reduction of 13% for the buying firm and reported a 14% reduction for the participating suppliers. By comparing the data from the 213 surveys, Seifert and Seifert also discovered that by "decreasing the cost of working capital by 30% led to a 16% increase in after tax returns on invested capital." It is important to note that a company that maintains a lower amount of working capital usually has better management practices and cash flow generation.

The results of Seifert and Seifert mirror those reported by Martin and Hofmann (2017) who surveyed 62 large firms that utilize reverse factoring for their SCF program. In summary of their analysis, Martin and Hofmann stated that, "SCF creates more value than the individual sum of the parts as firms are able to overcome internal and external trade-offs." SCF is a complement to buyers and suppliers' corporate finance activities as it enables companies to reduce their reliance on outside funding, while maximizing profitability. Huff and Rogers (2017) argue that there is a symbiotic effect existing within the combination of supply chain management and supply chain finance that makes the whole greater than the sum of its parts."

SPF Case Study – Procter & Gamble

The consideration of all the factors affecting the ability to satisfy the competing goals can be seen in the case study conducted by Esty, Mayfield, & Lane (2016) which illustrates Procter & Gamble's (P&G) implementation of supply chain finance to resolve the dyadic dilemma. Esty, et al., (2016) began the case by recognizing the impact that financial markets have on the overall strategy of businesses. Under pressure from senior management to renew their focus on shareholder return, cash flow metrics of their closest competitors were benchmarked. From the initiative, P&G found that their 45-day payment terms were not in line with the industry standard of 75-100 days. P&G recognized that their faster payment terms created a source

Exhibit 2: The SCF Process Map



1. Buyer issues purchase order
2. Supplier delivers goods
3. Supplier invoices buyer
4. Buyer approves invoice for payment and sends confirmation to bank
5. Supplier offered early payment discount
6. Supplier accepts early payment
7. Bank funds early payment to supplier
8. Buyer makes payment on original due date or extends payment terms

of goodwill with their suppliers which provided them with a competitive advantage. At the same time, they knew paying their suppliers more promptly was placing them at a financial disadvantage versus their closest competitors. By implementing a SCF program, P&G could minimize the effects and risks it would have on their suppliers by the company extending their terms to 75 days. The initial program called for the implementation of their top 1% of suppliers based on financials. Using a $1,000 invoice as an example, they explained to their suppliers that by utilizing their SCF program, they could receive payment in 15 days versus the now 75-day standard payment terms at a cost of $2.17 based off the low 1.30% APR interest rate provided by P&G's superior credit rating.

The early results from implementation of P&G's SCF program with their top 1% of suppliers prove that applying the practice leads to a "win-win-win." Citibank (the FSP) received their target interest rate and increased their customer base and developed new relationships and more opportunities to cross-sell their products and services. Citibank also benefited from providing P&G and their suppliers with faster and more efficient payment processing and standardized the financial flows which made settlements more consistent and predictable. P&G benefited by freeing up over $1 billion in cash without adding any liabilities to their balance sheet, all while minimizing supplier risk beyond the 30-day payment extension by allowing their suppliers better liquidity. The suppliers were able to free up cash by utilizing the low interest rate provided by P&G and the faster terms provided by the FSP, and they too, did not have to add any liabilities to their balance sheet.

P&G and their suppliers all reported a stronger, more collaborative relationship, with better working capital positions, and an increase in integration among the parties (Esty, Mayfield, & Lane, 2016). The results from Silvestro and Lustrato's (2014) study on SCF clearly show that FSPs can provide better support for both the buyers and suppliers by contributing to the enablers of supply chain integration. It has been shown that information integration can lead to trust, and trust leads to forming strategic partnerships which reduces the risk of uncertainty and threat of opportunism (Wuttke, Blome, & Henke, 2013). In Deloitte's 2017 annual report on survey responses from thousands of executives representing large global firms, supplier risk, lack of collaboration, and weak working capital positions were all cited as major concerns.

What's Holding up the Widespread Adoption of SCF?

Adopting SCF practices is not a small project and does require time to analyze and process the potential benefits for the buying firm and depends on cooperation between functional areas of a company that would be responsible for the planning, development, and execution. Kerle (2009) draws from a survey of more than 1,000 finance directors who represent many of the largest corporations in the world, when he summarized that two-thirds of global companies are hesitant to adopt SCF due to the unclarity of how much buyers and suppliers would benefit. While the research and academic support is abundant for SCF, the lack of information available to practitioners seems to be the biggest barrier inhibiting the adoption of SCF practices (Gelsomino et al., 2016). Another setback cited is the lack of incentive structures that would motivate an organization's procurement department to embrace SCF. In addition, the functional barriers and conflict that exist within organizations inhibit the collaboration needed for SCF's successful implementation (Gelsomino et al., 2016; Liebl, Hartmann, & Feisel, 2016).

West Michigan is home to several of the biggest international and domestic companies that represent many of the industries that are currently offering supply chain finance (Dematic, Seimens, Perrigo) in many European countries. The state of Michigan is also home to many of the best supply chain undergraduate and graduate programs in the country (Michigan State University, Western Michigan University, Grand Valley State University). Perhaps it's time that the academic and practitioner fields collaborate to promote a more financially sound management practice that provides the financial resources needed for the entire supply chain. ■

References

Deloitte (2009). Supply Chain Finance: Releasing Working Capital within the Supply Chain.

Deloitte (2017). Deloitte's global chief procurement officer survey 2017.

Deloitte (2017). 2017 Q1 Global CFO Signals.

Esty, B., Mayfield, S. E., & Lane, D. (2016). Supply Chain Finance at Procter & Gamble.

Fairchild, A. (2005). Intelligent matching: Integrating efficiencies in the financial supply chain. *Supply Chain Management, 10*(3), 244-248.

Fiala, P. (2005). Information sharing in supply chains. *Omega, 33*(5), 419-423.

Gelsomino, L. M., Mangiaracina, R., Perego, A., & Tumino, A. (2016). Supply chain finance: a literature review. *International Journal of Physical Distribution & Logistics Management, 46*(4), 348-366.

Huff, J., & Rogers, D. S. (2015). Funding the Organization through *Supply Chain Finance: A Longitudinal Investigation. Supply Chain Forum: International Journal, 16*(3), 4-17.

Jones, S. L., Fawcett, S. E., Fawcett, A. M., & Wallin, C. (2010). Benchmarking trust signals in supply chain alliances: Moving toward a robust measure of trust. *Benchmarking, 17*(5), 705-727.

Kerle, P. (2009). SUPPLY CHAIN FINANCE-A GROWING NEED. *Corporate Finance Review, 14*(2), 34-37.

Liebl, J., Hartmann, E., & Feisel, E. (2016). Reverse factoring in the supply chain: objectives, antecedents and implementation barriers. *International Journal of Physical Distribution & Logistics Management, 46*(4), 393-413.

Martin, J., & Hofmann, E. (2017). Involving financial service providers in supply chain finance practices: company needs and service requirements. *Journal of Applied Accounting Research, 18*(1).

Pfohl, H., & Gomm, M. (2009). Supply chain finance: Optimizing financial flows in supply chains. *Logistics Research, 1*(3-4), 149-161.

PriceWaterhouseCoopers (2009). Demystifying Supply Chain Finance.

Silvestro, R., & Lustrato, P. (2014). Integrating financial and physical supply chains: The role of banks in enabling supply chain integration. *International Journal of Operations & Production Management, 34*(3), 298-324.

Wuttke, D. A., Blome, C., Foerstl, K., & Henke, M. (2013). Managing the innovation adoption of supply chain finance—Empirical evidence from six European case studies. *Journal of Business Logistics, 34*(2), 148-166.

Retaining and Attracting Talent in West Michigan

Dan Wiljanen, Ph.D., Clinical Affiliate, Department of Management

What can business leaders do to retain and attract the human talent necessary to execute their plans? This article describes the future labor market in West Michigan and offers some suggestions on how to retain and attract talented employees. Strategies and tactics for improving employee engagement are also discussed.

According to two West Michigan sources, retaining and attracting talent when faced with a shrinking talent pool will be a key challenge for businesses in the years ahead. The Seidman College of Business conducts regular meetings with West Michigan Human Resource Management leaders representing a wide range of organizations. In a recent meeting, those leaders identified retaining and attracting talent as their primary concern. A second group focused on the issue are the members of Talent 2025.

Talent 2025

"Talent 2025 is described as a catalyst for an integrated talent development system for West Michigan. Composed of 100 CEO's from the region's 13 counties, the organization strives to be a driving force for an ongoing supply of world-class talent by convening leaders and organizations who will help shape a thriving economy." (Talent 2025, August 2017). The "West Michigan Talent Assessment and Outlook" report is "the result of an ongoing collaboration between employers, educators, economic and workforce development, the State of Michigan, and civic, community, and nonprofit organizations across the West Michigan region" (Talent 2025, August, 2017). The report made use of statistics from these eleven counties in West Michigan:

- Allegan
- Barry
- Ionia
- Kent
- Lake
- Mecosta
- Muskegon
- Newaygo
- Oceana
- Osceola
- Ottawa

The following comments were made in the report's executive summary:

> "The job outlook in West Michigan through 2022 continues to look promising, with over a fifth of jobs created in Michigan during the ten-year forecasting period expected to come from the region...Across all occupations, the region expects to see a ten year growth rate of 12.0 percent, and talent pipelines for these high demand occupations need to expand...
>
> Of the job families that Talent 2025 was able to gather data for with an acceptable level of confidence, many show large shortages in the supply of talent from local training institutions. Although the gaps can partially be filled through internal hires and recruitment of talent from outside the region, employers have cited a lack of talent as a current or future constraint to business growth." (Talent 2025)

The Talent 2025 report clearly shows a strong demand for talent through the year 2022 and a corresponding shortage of the talent to meet it. While the report offers some specific and helpful suggestions on how to retain and attract talent; some additional suggestions are offered here.

Suggestions for Retaining Talent

Employees typically go through a series of steps when thinking about and then actually leaving a company. The process begins when the employee experiences job dissatisfaction. Some potential causes of job dissatisfaction include:

- Lack of job security
- Poor working conditions
- Lack of work/life balance
- Poor supervision
- Lack of career advancement
- Unsatisfactory salary
- Poor pay
- Unsatisfying work

The employee begins to think about leaving and then looks for alternatives. If alternatives present themselves, the employee compares and weighs them. Once the employee develops the "intention" to quit, it is only a matter of time before the employee leaves the organization.

Some organizations routinely make use of employee opinion surveys to track job satisfaction and identify potential problems that may lead to employee turnover. Exit interviews are another good source of information. Leadership training is critical to equip managers and supervisors with the tools they need to create and sustain positive working conditions.

Suggestions for Attracting Talent

When recruiting potential employees, it's critical to identify the knowledge, skills, abilities, and other factors important for success in the job role. Once a profile is created, it can be used to screen and evaluate potential candidates. In addition, many organizations go a step further and evaluate candidates based on the "Big Five" personality traits. The traits are as follows:

- **Extraversion –** Businesses require people to interact effectively with others.
- **Openness to experience –** Businesses require people to grow, learn, and develop.
- **Agreeableness –** Businesses require people to work together to solve problems.
- **Conscientiousness –** Businesses require people to keep commitments.
- **Freedom from neuroticism –** Businesses require people to manage their emotions

Another factor that can be assessed during the interview process is the candidate's job and vocational motivation. It is important to gauge if the candidate is motivated by the work and vocation for which they are being hired. Assessing the candidate against the "Big Five" personality traits and motivational fit may help ensure the candidate fits the culture of the organization and has the potential of being a long-term employee. Hopefully, the proper selection process will reduce the likelihood of future unwanted employee turnover.

Suggestions for Attracting and Retaining Millennials

There has been a good amount written about millennials and their work motivation. Looking ahead to the need for talent in West Michigan, it may be helpful for organizations to consider how to market jobs and careers to this growing demographic. Xactly Corp (2017) identified a number of factors that appear to motivate millennials. A number of the motivational factors that are part of an organization's culture might be used when recruiting millennials. Some of the factors mentioned by Xactly Corp include: growth potential, recognition, flexibility in assignments and schedules, ability to make an impact, challenging projects, philanthropic activities, training, mentoring, personalized benefits, wellness incentives, and clearly defined job roles. Attracting millennial candidates to fill job openings can be improved by advertising the motivational factors within the organization's culture valued by millennials.

Using Employee Engagement to Retain and Attract Talent

Employee engagement is a key strategy some organizations are using to retain and attract talent. It is a process companies undertake to create an organizational culture that fosters employee participation and focuses on the factors that motivate employees to perform at high levels. In 1993, Robert Levering and Milton Moskowitz wrote the book, "The 100 Best Companies to Work for in America." Since the initial publication of the book, Fortune Magazine has published a yearly issue dedicated to "The 100 Best Places to Work for in America." Levering and Moskowitz have discussed the process of selecting the 100 best companies to work for in America. One of the key factors they focus on is what they called "employee engagement." They look for engaged employees. Engaged employees: say good things about their company; stay with the company for the long term; and, serve the company by putting in a great deal of effort to meet company goals.

According to Levering and Moskowitz, organizations can work to engage employees by focusing on and strengthening these seven dimensions:

- **Company Culture and Purpose –** Sense of purpose and organizational values.
- **Opportunity –** Growth and development.
- **Total Compensation –** Pay and benefits.
- **Job Tasks –** Impact, challenge and interest, authority and responsibility.
- **Relationships –** Coworkers, managers, and customers.
- **Leadership –** Credibility and Trust.
- **Quality of Work Life –** Physical environment and work/life balance.

If the leadership team decides to implement an employee engagement strategy to improve employee retention and attraction, there are a series of tactics that can be implemented;

1. Have the executive or management team do a self-assessment on the seven factors.

2. Develop a method or process to assess the employees experience and rate each of the factors.

3. Engage employees in offering suggestions on how the organization can improve upon the seven factors.

Involving employees in examining the culture and in recommending positive changes begins the process of employee engagement. Focusing on the seven factors provides the foundation that will positively affect employee retention and attraction. ■

References

Levering, R. & Moskowitz, M. (1993). *The 100 Best Companies to Work for in America.* Las Vegas, NV: Doubleday Business.

Talent 2025. (2017, August) *West Michigan Talent Assessment and Outlook* (Fourth Edition). Grand Rapids, MI.

Xactly Corporation (2017). Re: Motivating Millennials so they don't Quit. Retrieved from https://www.xactlycorp.com/ blog/motivating-millennials-it-takes-more-than-money/

Why Aren't There More Women Leaders? A Look Inside One West Michigan Organization

Carol M. Sánchez, Ph.D., Department of Management
Sonia Dalmia, Ph.D., Department of Economics

Carol M. Sánchez

Sonia Dalmia

Last summer, a now former Google software engineer wrote a memo about women in his organization. His memo, which went viral on social media, noted that women hold fewer technological and leadership positions at Google because of "genetic differences," such as "lower stress tolerance," different preferences, and abilities. He said that gender differences "may explain why we don't see equal representation of women in tech and leadership." Google's CEO, Sundar Pichai, responded swiftly, saying that "To suggest a group of our colleagues have traits that make them less biologically suited to that work is offensive and not OK. It is contrary to our basic values and our Code of Conduct" (McGregor, 2017). While wrong about many things, the engineer was right about one: there are very few women in leadership positions at Google and in most organizations.

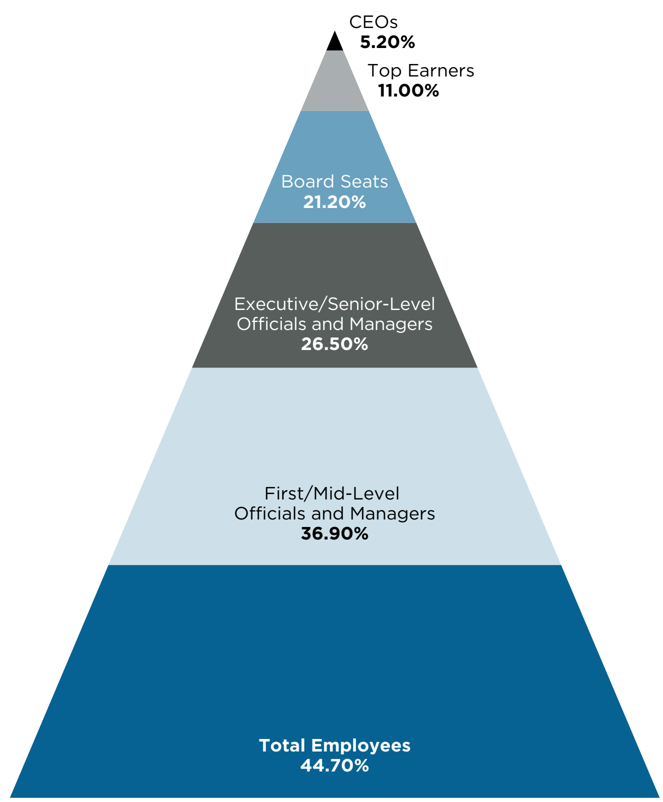
Women outperform men in schools and colleges in the U.S., earning the majority of bachelor's and master's degrees. Regardless of the measure employed -- grades, rigor of courses taken, number of degrees awarded, numbers admitted to medical, law and business schools -- women are gaining inroads towards dominating the academic landscape (Parker & Horowitz, 2015). Despite this critical mass of qualified women in the pipeline, women and women of color are underrepresented in executive positions and on corporate boards (see Figures 1 and 2). Women make up 47% of the U.S. labor force, yet they hold fewer than 20% of top leadership jobs in US organizations.

Among Michigan's top 100 companies, and despite Mary Barra's appointment as CEO of General Motors in 2013, the number of women leaders flat lined in recent years. Only 13% of women held executive positions in 2013, compared to 12% in 2007, and no women held executive officer positions in nearly half of Michigan's largest public companies. Women's share of board seats at Michigan companies has barely moved, from 9.6% in 2003 to 11.5% in 2015. The situation is worse for minority women, who represent 36% of all U.S. women, 18% of the entire U.S. populations, and 33% of the female work force. Only 12 of the top 100 Michigan companies have one minority woman in a director or executive role.

There are similar patterns in higher education. While some U.S. universities have hired more women and minorities in recent years, women still hold fewer than 25% of their leadership positions, which include presidents, vice presidents, full professorships, provosts, deans, chairs, and directors.

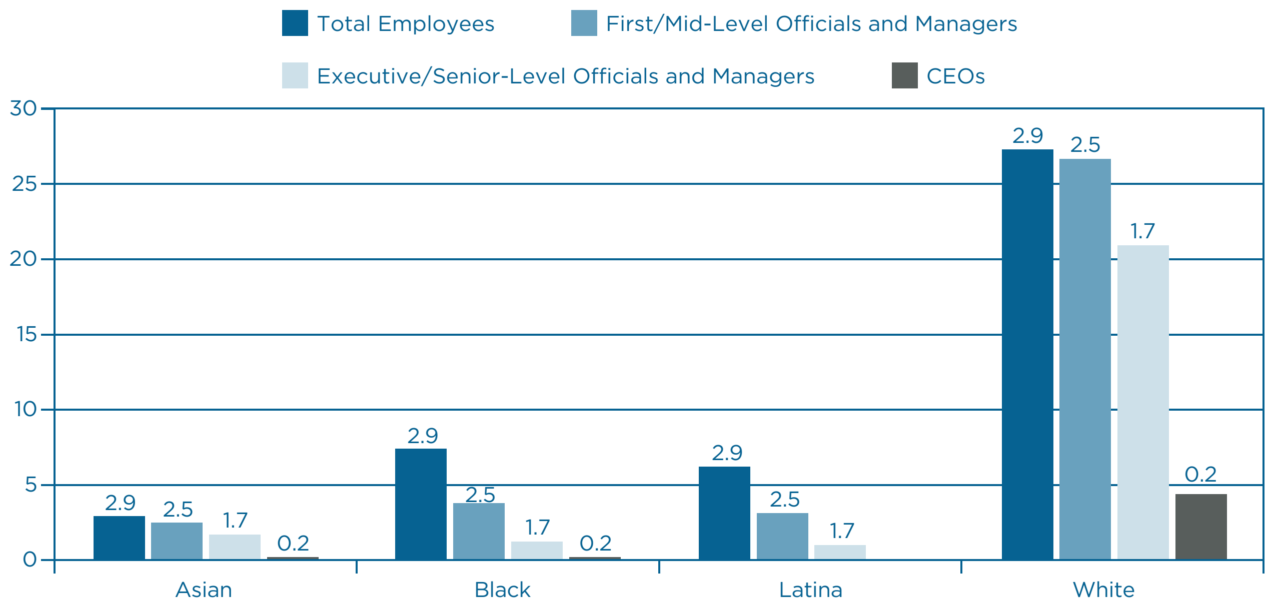
Why are there so few women in leadership positions? Factors often cited to explain this include a limited pool of diverse candidates, the inference that women "choose" not to pursue leadership positions (PWC, 2015), and recently, "genetic differences" such as lower stress tolerance (McGregor, 2017). But research refutes these explanations and finds that (1) many women are well qualified and interested in

Figure 1: Women in S&P 500 Companies



Sources:
Catalyst, *Women CEOs of the S&P 500* (2017).
EY Center for Board Matters, 2016 Top Earners in S&P 500 Companies, Unpublished data.
Catalyst, *2016 Catalyst Census: Women and Men Board Directors* (2017).
U.S. Equal Employment Opportunity Commission (EEOC), Unpublished 2015 S&P 500 EEO-1 data

Figure 2: Women In S&P 500 Companies By Race/Ethnicity



Sources:
Catalyst, unpublished data (2015)
U.S. Equal Employment Opportunity Commission (EEOC), "2013 EEO-1 Survey Data."

senior level positions but are not routinely recruited, and (2) more women than men are ambitious and desire power and influence. Women are highly qualified to be leaders and very interested in doing so, but barriers stand in their way. Women leaders say they have clear career goals and value family and work equally, but they experience discrimination in their organizations. And when women and minorities are hired as leaders, they often are put into lower-level positions. What's more, while women often outperform men on some measures, they earn less than men who have comparable jobs. It is not that there are no qualified women to fill public, nonprofit, and private sector leadership positions. There is an abundance of women and minority women who are well educated, experienced, talented, and eager to lead. Still, organizations frequently overlook them when leadership jobs open up.

Why are there so few women in leadership positions?

To better understand the lack of women in leadership, we surveyed men and women at a large, West Michigan university to examine gender differences in aspirations to leadership positions. Of a population of 2,500 people, 30% responded to an electronic survey on the subject. A little over half were faculty; a little less than half were staff. Although this report focuses on higher education, we believe our findings are meaningful and relevant to other organizations in West Michigan. We found that three barriers keep women from leadership positions: *gender stereotypes, social and institutional factors, and individual mindsets.*

Gender Stereotypes

First, the *gender stereotypes* that women face as they aspire to leadership are different from those that men face. For example, women who aspire to a leadership position are more likely than men to believe they will lose work flexibility, have less time for personal interests, and find that their job responsibilities will compete with family responsibilities. So, although many women aspire to be leaders, persistent gender stereotypes – e.g., the assumption that women take more time off for family commitment than men do and, thus, may be an inappropriate candidate for a demanding job – may discourage them from applying for a leadership position.

Social and Institutional Factors

Second, the *social and institutional factors* women face as they consider leadership are different from those that men face. Interestingly, compared to men, women who aspire to a leadership position are more likely to believe there are prospects for advancement into leadership, have sought leadership development opportunities inside and outside the institution, and think all employees have equal opportunities to advance. Nevertheless, women believed their experience would not be weighted as equally as that of other applicants, others would not perceive them as leaders, and they were less likely to apply the longer their tenure and experience with the institution.

Individual Barriers

Third, the *individual barriers* that women face to be leaders differ from those that men face. Compared to men, women who aspire for leadership positions are more likely to be satisfied overall with their current job and are less likely to be attracted to leadership for the influence it would give them or for the chance to make change. This suggests there are other reasons that drive women to aspire to leadership, perhaps because of duty or the desire to contribute, if not for power or influence.

With respect to race or ethnicity, we found no difference in the response of women to these three barriers women face as they consider leadership. This may be because more women (65%) than men (35%), and very few people who identified as minorities, responded to the survey.

The Bottom Line

Three factors -- *gender stereotypes, institutional factors, and individual barriers* -- may keep many women away from obtaining leadership positions. In addition to these barriers common to all women, we did find important differences. For instance, more women than men, more married women than married men, more women with children at home than men with children at home and, more African/African Americans, Asians, Hispanics especially African/African American, Asian, and Hispanic women aspire to leadership. Moreover, a larger number of African/African Americans and Asians, more African/African American, Hispanic, Asian, and other women, and fewer Caucasians stated they would apply for a leadership position.

There is no doubt that women, especially minority women, aspire to leadership and are willing to apply for leadership positions if there are opportunities. Women have actively sought leadership and career development experiences, and many have mentors. They are not necessarily interested in leadership because of the power or influence it would give them, and all things equal, they are quite satisfied with the jobs they have now. However, women have extraordinary talent and experience that would benefit organizations were they to become leaders, yet gender stereotypes, institutional barriers, and individual mindsets may stand in the way. Evidence from global companies indicates that firms with more women in leadership have stronger returns on equity, sales and invested capital, improved social responsibility, and smaller pay gaps (Tate & Yang, 2015).

What can West Michigan organizations do?

First, to fix the problem of too few women in leadership, there must be *greater acceptance of women in leadership* positions among employees of organizations, in part because it is fair, and evidence shows that it leads to positive firm-level performance and success (Eagly & Carli, 2007). Second, organizations must build *greater trust of women in leadership.* Working with others, including women colleagues and leaders, requires significant interdependence, respect and, trust in each another to reach organizational goals (Schoorman, Mayer, & Davis, 2007). Wise company leaders know this.

To build acceptance and trust of women in leadership, West Michigan organizations can address corporate culture, equity, and equality in various ways. First, managers can build trust by implementing policies and practices that encourage men, and women, to seek and support women as leaders. Organizational performance is likely to benefit in organizations where employees accept leadership equally, regardless of whether the leader is a man or a woman, and where competence, integrity, benevolence, and other characteristics of trust become part of employees' image of the firm (Dirks, 2000).

Second, top-notch training programs are available locally to help organizations recognize and overcome gender bias. Initiatives that identify gaps, bolster trust, and encourage engagement with others help combat gender and other prejudices. Team-building activities that focus on role clarification, interpersonal processes, and lowering people's vulnerability can begin to create a culture of equality. West Michigan firms that engage in such visible commitments to equity will better attract talented women leaders, instead of letting them go elsewhere to advance their careers in places with a more level playing field (Beeson & Valerio, 2012). ■

References

Beeson, J., & Valerio, A.M. (2012). The executive leadership imperative: A new perspective on how companies and executives can accelerate the development of women leaders. *Business Horizons,* 55(5): 417-425.

Dirks, K. T. (2000). Trust in leadership and team performance: Evidence from NCAA basketball. *Journal of Applied Psychology,* 85(6), 1004-1012.

Eagly, A.H., & Carli, L.L. (2007). Women and the labyrinth of leadership. *Harvard Business Review,* 85(9), 62.

McGregor, J. (2017). Google has fired the employee behind that controversial diversity manifesto. *The Washington Post,* July 8. https://www.washingtonpost.com/news/on-leadership/wp/2017/08/07/a-googlers-manifesto-is-the-hr-departments-worst-nightmare/?utm_term=.778347d55c69

Parker, K., & Horowitz, J.M. (2015). *Women and leadership: Public says women equally qualified but barriers exist.* Washington, DC: Pew Research Center. http://www.pewsocialtrends.org/2015/01/14/women-and-leadership/

PwC. (2015). Governing for the long term. *PwC's 2015 Annual Corporate Directors Survey.* https://www.pwc.com/us/en/corporate-governance/annual-corporate-directors-survey/assets/pwc-2015-annual-corporate-directors-survey.pdf

Schoorman, F. D., Mayer, R. C., & Davis, J. H. (2007). An integrative model of organizational trust: past, present, and future. *Academy Of Management Review,* 32(2), 344-354.

Tate, G. and Yang, L. (2015). Female leadership and gender equity. *Journal of Financial Economics,* 117 (1): 77-97.

West Michigan - Grand Rapids Economic and Commercial Real Estate Forecast

Jeff Hainer, Research Analyst
Colliers International, West Michigan

Industrial

The industrial market seems to continue to grow tighter, with continued absorption and positive but modest new construction over the last year. In 2018, we anticipate the theme of this property type will be off-market transactions and creativity by brokers, developers, landlords, and tenants.

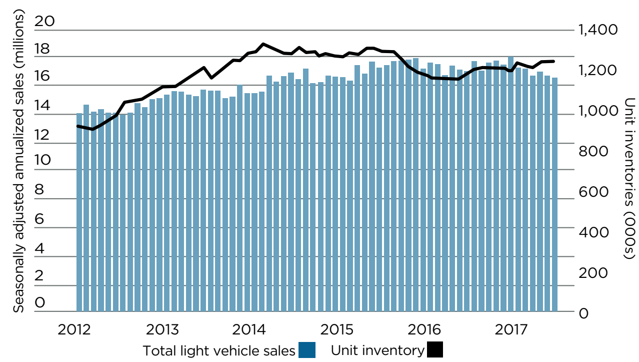
The West Michigan industrial market has a number of demand drivers, including furniture manufacturing and food processing; however, one driver we expect to have an impact on the region in 2018 is the automotive industry. With a number of OEMs (original equipment manufacturers) and Tier 1, 2, and 3 part suppliers in the region, any change in the automotive industry is sure to be felt. The paradigm shift in the auto industry is complex and there are a number of factors that influence the industry. Vehicles themselves are more intricate and advanced than ever, with on average more than 30,000 individual parts per vehicle. Technology within vehicles is rapidly increasing as well, so manufacturing for these components has become more sophisticated. We see that continuing into 2018, especially with Tesla, Ford, and Volkswagen aggressively pursuing market share in the up-and-coming electrical vehicle (EV) market.

In addition, it will be interesting to watch how autonomous vehicles progress in 2018. As this type of technology advances, fundamentals of how a car operates will change. This is likely a few years away, however, prudent auto parts manufacturers are thinking about these changes now. What this will mean for West Michigan's industrial market in 2018 and beyond is yet to be seen, but we expect new companies that specialize in autotomizing cars to enter the market.

The demand for vehicles will also play a role in real estate decisions in 2018. Many experts think total vehicles produced nationwide and automotive employment will plateau if not drop in 2018, but that will be coming down off near record highs. We forecast that 2017 would be the leveling off year, after a very strong 2016 in which more than 18 million vehicles were produced, however, manufacturers in the auto industry have largely had a great year. The national long-term average is just under 17 million vehicles produced, and gas prices have been favorable to production of some of the bigger and more expensive vehicles recently, so a modest correction is not something that should take too many by surprise.

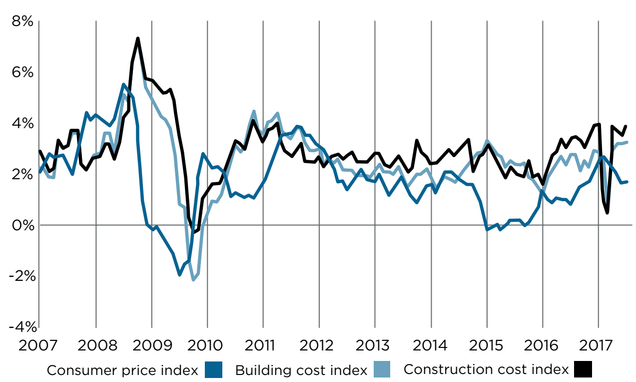
Access to skilled labor continues to be a constraining factor in not only the automotive industry, but also across most of West Michigan's manufacturing industry. Even while demand is present, production has been a challenge recently and it's also affecting real estate decisions. Many people growing up and newer to the labor force were told that the traditional college route was the best way to earn gainful employment. Now, companies in West Michigan are trying to shift that way of thinking. Skilled trades are more in-demand than ever and are garnering salaries above what many jobs that require a four-year degree can offer. Demand for skilled labor is so high that many companies are paying individuals to undergo training and apprenticeships. This will be a theme in 2018.

Figure 1: Light Vehicle Sales and Inventories



Source: Bureau of Economic Analysis (BEA)

Figure 2: Change In Construction Costs



Sources: Engineering News-Record; Bureau of Labor Statistics

Because of this, we still see construction costs being prohibitive to many. In 2017, we saw more than 2 million square feet of new space delivered to the market, however, with an overall industrial vacancy rate around 5 percent, the market is demanding more. Long lead times and high costs will still make companies consider becoming more efficient with space, tempering production goals or just building onto existing buildings rather than constructing new. Speculative building has taken place, such as 5300 Broadmoor Avenue SE, which started as a 50,000-square-foot Class A facility and was completely leased to two 25,000-square-foot tenants by the end of the year. The site has additional room to add onto, and we expect to see some movement at that site in 2018. Additionally, Robert Grooters Development Company has been working on their speculative development project near the Gerald R. Ford international Airport, dubbed "Area 52" and is actively building speculative warehouse space.

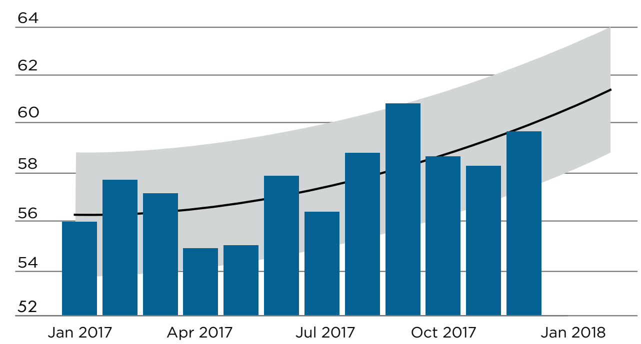
As we see a shift towards more efficient use of space, automation has been a solution many are turning to. Rather than invest in new real estate, some are investing in machines that can be more productive, for longer hours, in the same amount of square footage. Mark Ermatinger, Vice President of Sales at Zeeland-based Industrial Control Services Inc., a provider of automation equipment, expects upwards of a 300 percent increase in automation investment in 2018 from clients. We have seen technology and its effects on all industries grow exponentially, so we expect this to play a major role in the coming year.

Although we have a long lineage of manufacturing in West Michigan, as the industry becomes more advanced, we will need to continue to not only retain companies we have currently, but attract new, and innovative ones as well. That is precisely what is happening at Site 36 in Wyoming, former home to the General Motors Stamping Plant. Although the site was demolished and sat vacant for a number of years, the City of Wyoming, development partner Franklin Partners and Colliers brokers are actively looking for the next "advanced manufacturer" that will not only occupy real estate, but will also bring in new, high-paying jobs. In 2018, we expect to see some traction on this site as conversations with companies increase in intensity, and both the City of Wyoming and Grand Rapids' local economic development firm, The Right Place, continue to scout and create incentive packages that make a deal of that magnitude worthwhile.

Other themes that will shape 2018:

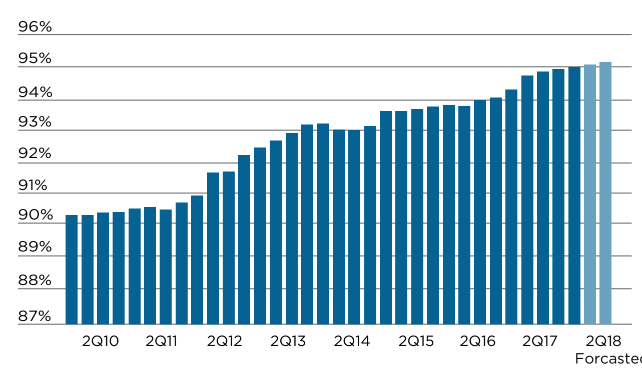
- The gap between in-place rents and market rents continues to grow. Companies that were able to lock in rates a decade ago, some with renewal options, are well-positioned relative to those looking for new leases right now. Rental rates have grown by more than 25 percent since the beginning of 2016 alone.
- With talent attraction at the forefront across all industries, we expect to see manufacturers become willing to pay a premium for space. Despite the trend mentioned above, a slight increase in real estate costs is a small price to pay in order to have the best talent available in a space that is suited well for efficient operations.
- The Michael A. Dunlap & Associates Furniture Index continues to point to modest growth. This has been a staple in our market for a long time, and we anticipate this will continue into the near future.
- Fulfillment centers to satisfy the "last mile" of e-commerce distribution operations will increase in prevalence.
- Investment in industrial space has been the favored sector for a long time. Opportunities continue to be scarce, as many buildings are owned by the operator. As the market continues to increase in value, we can expect not only more active buyers, but more willing sellers. While capitalization rates are being compressed across the board and investment yields are being cut thin, Grand Rapids offers some opportunities if you can find them.

Figure 3: Purchasing Manager Index



Source: Institute of Supply Management (ISM)

Figure 4: Grand Rapids Industrial Occupancy Rate



Source: Colliers International | West Michigan Research Department

Office

The attraction and retention of quality talent continues to be a motivating factor in real estate decisions by local employers. Providing spaces and amenities that appeal to employees has become as important as ever.

The Grand Rapids office market continues to show momentum heading into 2018 after yet another year of growth. In each quarter for the past seven years we have seen positive office space absorption and rental rates have steadily pushed upwards as the market continues to mature and expand.

Once known as a region in which people leave to find better jobs, Grand Rapids has seen a reversal in that trend, with many now migrating back home or deciding not to leave in the first place. While wages are still lagging in many comparable cities, opportunities for employment and quality of life are high, and cost of living is relatively low.

The office sector houses a large and growing part of the U.S. economy. Office job growth is strong, expanding by 2.2 percent on average in this recovery as compared with 1.6 percent total job growth. In a battle for talent, office space is now a key tool for tenants to attract and retain employees.

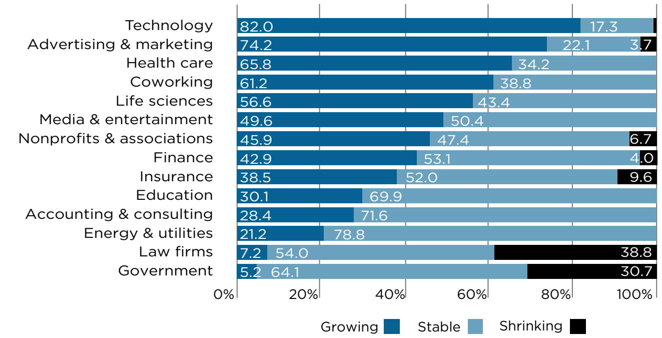
Moving into 2018, land acquisitions for new office development should increase, however construction costs and available labor will continue to be constraining factors this year. Despite these, new office construction continues downtown. Orion Construction is working on building a new home for law firm Warner Norcross & Judd and Chemical Bank at 150 Ottawa Avenue NW in the heart of the city, and Rockford Construction is set to deliver a mixed-use building at 234 Market Street SW, which will include approximately 30,000 square feet of ground floor office space.

The 171,000-square-foot Calder Plaza Building at 250 Monroe Avenue NW has undergone significant upgrades as well, which resulted in the commitment of Bank of America to consolidate a number of offices into the building. Additionally, 330,000-square-foot 111 Lyon Street NW is slated to undergo a similar transformation, and the currently-vacant 50 Monroe building will be split and converted into an AC Hotel and renovated office building. 50 Monroe was one of four local properties recently approved for Brownfield tax credits.

As these buildings downtown get redeveloped and filled, options for new companies will grow increasingly limited. The downtown office vacancy is approximately 5 percent, while suburban vacancy continues to lower, now around 14 percent.

Along with limited available office space, limited parking has been a much-discussed topic with tenants and landlords downtown. Recently, the City has become engaged, holding community feedback forums and working on alternative mobility and efficiency options. As new development occurs downtown, the city is hopeful that added parking components will help satisfy some of the demand. Some skeptics believe this will only address the new demand

Figure 5: Survey Of Expected 2018 Leasing Activity



ULI's Emerging Trends in Real Estate 2018

Most industries expect to see growth or at least stability in real estate leasing in 2018, with the technology sector not surprisingly leading the way.

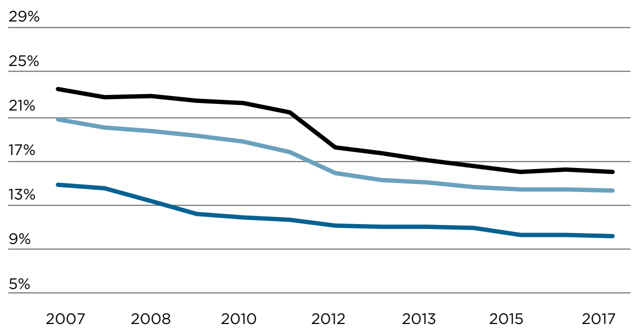
created by the associated development. The planned Studio C! entertainment/commercial mixed-use project downtown is in the center of this situation. The development is planned on land that is currently 300 city-owned surface spaces, and although the project calls for a 900-space ramp, there is question as to whether this will be a net gain or loss for day-time employee parking. The project has evolved recently, with updates to project partnerships as well as its planned use. Once slated to contain 187 apartment units, developers have amended plans to include hotel and office space instead.

Suburban office buildings are seeing a lot of attention, and will again in 2018, as space and parking downtown remain tight. 1925 Breton Road SE is undergoing renovation by ownership and has attracted a new government agency that will be moving out to the suburbs during 2018. In addition, a notable company that made a move from the downtown area to the suburbs recently is Advantage Sales and Marketing, who moved nearly 400 employees out of 56 Grandville Avenue SW downtown into the former Klingman's Furniture building on 28th Street SW.

The Atrium Building at 3351 Claystone Street SE underwent a major renovation in 2017, and saw SalesPad expand into a new 30,000-square-foot space after taking an ownership interest in the building. They moved out of approximately 17,000 square feet on the East Beltline. Additionally, First Companies announced the purchase of four acres to continue to expand their Heritage Pointe office campus on East Paris Avenue near Cascade Road. We expect to see the medical office market continue to expand and grow in 2018.

Employment trends continue to be positive. Unemployment reached a resistance point around 3 percent and has bounced back up slightly, however most economists consider 3 percent to be "full employment". Labor participation in Kent County is over 70 percent, compared to a national average of 62.8 percent. These numbers show that not only does our

Figure 6: Vacancy Rate



Source: Colliers International | West Michigan Research Department

region have among the lowest unemployment in the nation, but that we have among the highest amount of people trying to find work as well. Both signs of a very healthy economy.

We predicted the downtown market would feel pressure around $20 per square foot (Modified Gross) in 2017, however, we are seeing that being tested and expect 2018 to see many office spaces, especially downtown, break through that number.

Many tenants have decided to exercise renewal options rather than relocate due to recent increases in market rates. With the cost of construction still high and demand for modern spaces pent-up, we expect rental rates to remain firm in the near-term.

In 2018, we see the office market continuing to grow and attract business. Parking will continue to be a concern downtown, while the suburbs will look to take advantage of this trend. Drawing talent back to the region is also paramount in 2018. Companies will look to create work environments that help grow and retain the best talent.

Retail

The past year was predicated on some fundamental shifts in the way retailers do business. In 2018, the landscape will continue to evolve, with retailers continuing to find ways to make physical stores relevant in an increasingly digital era.

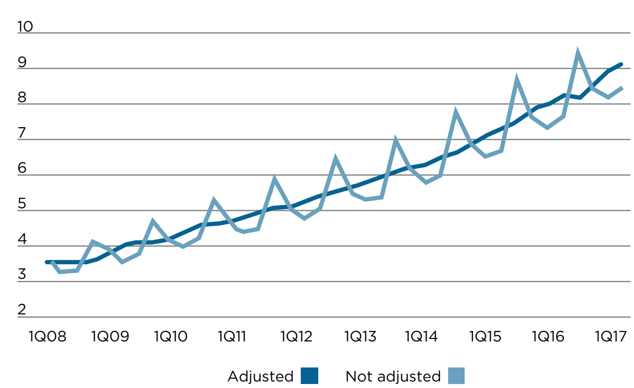
Over the past year, the West Michigan retail market has undergone some significant changes. We saw local retail notables such as MC Sports, Family Christian Bookstores, and Sears all close locations. However, with change comes new opportunity. How bricks-and-mortar stores are utilized has begun to change, and that shift will be a driving force in the 2018 real estate market. Many retailers are focusing on omni-channeling, which refers to increasing brand accessibility and awareness by attracting customers, using multiple distribution avenues, including both online and physical stores. This is a trend we saw take form in 2017 and one we see continuing into 2018.

Part of this shift has seen large big-box stores shrink their footprint or close all together. The approximately 313,000-square-foot Sears anchor store at Woodland Mall is now being turned into a new mall wing comprised of multiple smaller-footprint retailers. Part of this is due to over-building in the past. In fact, the United States averages 24.5 square feet of retail space per capita, compared to just 4.5 square feet per capita in Europe.

The successful de-malling of Centerpointe Mall in Grand Rapids and Westshore Mall in Holland has proven that accessibility and convenience is as valued as ever, and a trend to be continued. Retailers who are not ready to adapt to a shifting consumer paradigm are feeling pressure; however, the demise of physical retail has been largely over-dramatized. In 2018, we expect to see further shifts in the retail landscape, yet according to the International Council of Shopping Centers (ICSC), there are projected to be more retail establishments opened in the United States in 2018 than closed. A stark contrast to what is generally reported. Additionally, according to the U.S. Census Bureau, e-commerce only accounts for about 8.5 percent of total retail and food service sales, and about 11 percent if you include cars and auto parts; showing that while online sales continue to grow, they still only represent a fraction of all retail purchases.

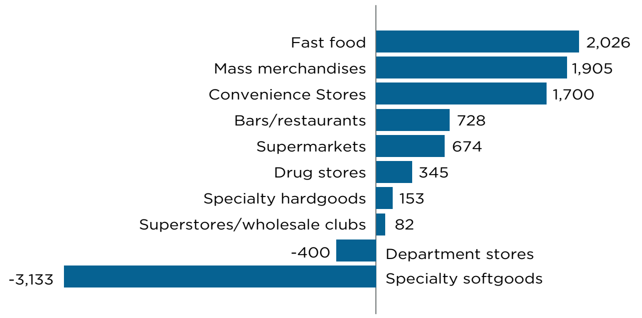
It is no secret that Grand Rapids has put itself on the map in recent years, with a hot housing market, low cost of living, and record low unemployment and vacancy rates across the board. As we expect to see many of these trends continue in 2018, we also anticipate the retail real estate market to continue to thrive as well. At the beginning of 2017, we had "cautious optimism" for the year ahead. In 2018, we have "optimism."

Figure 7: Estimated U.S. Retail E-Commerce Sales



Quarterly as a percentage of retail sales

Figure 8: Store Growth



Source: IHL Group

Location has always been a driving force in the retail world. Many retailers are willing to pay a premium for premier location. However, this usually manifests itself more apparently in large markets. Grand Rapids, however, is entering that realm, with desirable locations leasing at rental rates that our region has never seen before. In the popular retail corridors, we are seeing and anticipating rental rates to push towards $40 per square foot (triple net), while even tertiary locations see increased interest, although not at the same lease rates.

This past year, we saw the long-time vacant former-Roger's Department Store and Klingman's Furniture building on 28th Street Southwest re-imagined into the new home for Advantage Sales and Marketing, which moved out of downtown Grand Rapids. One major reason being parking. As numerous large retail tenants move out of big footprints, we are interested to see how these spaces are utilized going forward. Gyms, grocery stores, and call-centers are all options on the board.

A project that has garnered a lot of interest is the Bridge Street Market development on the corner of Bridge Street and Stocking Avenue on the city's northwest side. For a long time, those living in and around downtown have wondered when a neighborhood urban grocery store would be built. Rockford Construction has partnered with Meijer Corporation to bring a scaled-down grocery concept to the area, which should spur further momentum in the corridor. The development will include additional retail, office space, apartments and parking. The project will be delivered in phases, with parts of the project complete near the end of 2018 and a final product early in 2019.

Also undergoing significant change is downtown Ada. We saw a great deal of progress made in the village in 2017, and look to see that continue in 2018. Recently, Kingma's Market opened a second location and Vitale's Pizza built a new building and relocated just west up Fulton Street.
In addition to witnessing areas re-invent themselves, we also expect to see new retail corridors start to emerge in the coming year. One area to keep an eye on is the east M-6 freeway area. As data server provider Switch continues to build-out the former Steelcase Pyramid building, we expect activity to increase in the surrounding area. Multiple hotels and apartments are planned nearby, and as daytime population increases, retail will follow. Davenport University and Farmers Insurance also have a large presence in the area and will help drive retail demand as well.

The retail market is not without headwinds, however. To be sure, we are seeing change. In 2018, we expect to see further advancements in e-commerce and delivery automation, and retailers adjusting to new patterns in the way people shop.

The acquisition of Whole Foods by Amazon is a major move that will affect the way people shop in 2018, and we expect Amazon to both continue to evolve, as well as announce the location of the much-anticipated "HQ2".

Beyond shopping habits shifts, we have also seen a number of retailers struggle with over-leveraging themselves on balance sheets. Over the past decade, we have seen an abundance of leveraged buy-outs of retailers by private equity firms, creating a massive debt burden. At the same time, lenders are becoming more and more weary of helping to refinance loans for these companies, which could create some turmoil for some retailers in 2018.

All told, we expect the West Michigan retail market to remain positive this year. 2017 was unique, as demand remained high, yet we experienced some significant announcements and closings. In 2018, we predict national brands will continue to consider West Michigan and find creative ways to penetrate the market. Restaurants will see demand, and downtown retail will continue to evolve and mature.

Apartment

Is Grand Rapids' Apartment Market Reaching its Peak?

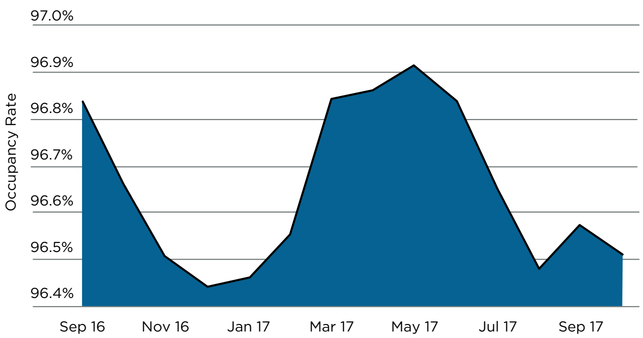
Those who live in Grand Rapids know that there has been an abundance of apartment development over the past few years. As of the fourth quarter of 2017, there were 1,025 units under construction, 776 prospective units (announced but no specific documents or government filings), and 642 units planned (documents already filed with the city or county).

Occupancy rates peaked in early 2017 at about 96.8 percent. We are currently reporting an occupancy rate of 96.5 percent. This is still extremely strong. This slight decrease is largely due to new supply on the market, not a decrease in demand.

Because of this activity, the question looming is when the market will become saturated? While we don't have a definitive answer to the question, we expect 2018 to continue to be a growth year.

Grand Rapids continues to accumulate accolades, most recently and notably ranking as the top large metropolitan area in the country for job growth, with 4.4 percent growth in 2016. Add that to being ranked 4th Best City to Start a Career by WalletHub and 2nd Best City to be a Millennial by Trulia, it is no wonder demand for apartments has been growing.

Figure 9: Occupancy Rate Trends



Source: Occupancy data derived from USPS records

Millennials continue to drive much of the demand, with approximately 78 percent of downtown Grand Rapids renters being between the ages of 22 and 39. In addition, we are seeing empty nest baby-boomers grow increasingly interested in trading in the responsibilities of homeownership for the opportunity to live in an apartment in or around our vibrant downtown.

Amenities

As competition for tenants continues to grow, landlords must find ways to differentiate their complexes and the units within. According to Apartment Guide research, renters are generally more interested in individual unit amenities, however complex amenities are important too.

Popular complex amenities:

- Washer/Dryer
- Workout Facility
- Air Conditioning
- Pet Friendly
- Furnished
- Laundry Facility
- Modern Finishes
- Covered Parking
- Balcony
- Wireless Internet Access

Rental Rates And Unit Mix

Average rental rates for Grand Rapids apartments continue to rise. The overall market average for all types currently is $1.33 per square foot, however there are numerous unit mixes that factor into that. $2.00 per square foot has been seen as a barrier in the past, however, many of the new construction apartment units are north of that. The Downtown submarket has a unit average of $1.92 per square foot, which is the highest submarket in the market. Developers are building a mix of unit types, however, the most popular tend to be the studio and 1-bedroom. Renters are using their apartments less and less and therefore don't require as much space. The trend is also towards flexibility, so we are seeing less renters who desire to have a roommate.

Parking continues to be of utmost importance. Despite the efforts/hopes that GR can become a more mobile community, many renters still prefer close parking. Price of parking does not seem to be as big of a problem as availability. This then becomes an amenity that attracts renters to certain communities.

The downtown parking system is at more than 95 percent capacity, and the average reserved parking space is $134 per month. Additionally, metered parking has seen an increase in price, with an average price range between $1.00 and $1.50 per hour depending on the location. So many renters are looking for a complex that either has it included, or at least can pay significantly less than if they were to have to find parking on their own.

One metric to keep an eye on is the 'length of stay', meaning the average amount of time renters are staying in their units. Often rental complexes have high turnover, so when deciding whether or not to build new, it is important to not only look at current demand, but to look at predicted demand in the next cycle, whenever that may be. Currently we are seeing about a 1.5-year length of stay cycle. As that number fluctuates, developments become more and less stable. ■

Siloed Management or Integrated Value Creation: How Do West Michigan Businesses Stack Up?

Daniel Pellathy, Ph.D., Department of Management

When functional silos narrowly focus on just their slice of the business – without considering the effects of their decisions on other areas of the supply chain – company performance suffers. That's not to say functional specialization is all bad: increased specialization throughout the 20th Century helped create a wide range of affordable consumer products. The problem is the times have changed, but the thinking has not. The dominant business model still rests on the assumption that companies perform best when each function or department simply does its job. Hire the best talent for each group and focus them on just those tasks assigned to their unit. The logic is simple – but entirely wrong for today's dynamic market environment. The "dark side" of specialization emerges when (1) activities and priorities in one area become disconnected from other parts of the company, and (2) functional areas lose visibility on how they contribute value to end customers. Over time, a strictly siloed approach creates the mindset that anything happening outside the business unit is a potential threat, managers lose the willingness and ability to work across functional boundaries, and any gains produced by specialization are quickly eroded by costly disconnects between functions and with customers.

Supply chain management emerged out of a recognition that in dynamic market environments company performance depends – not on greater specialization – but greater integration across functions (and firms) in the value creation process. Integration gives companies the flexibility to continually align internal operations with changes in the market environment through ongoing engagement across various parts of the supply chain. Research has shown that integrating across functional areas enables companies to cut costs, increase customer satisfaction, and be more responsive to changes in the competitive environment. These benefits have caught the attention of top management: a recent PwC survey found that 86% of CEOs identified working across functional boundaries as important. However, the concept of integration remains poorly defined. Managers use a wide range of terms – cooperation, working together, interaction, and information exchange – when talking about integration. This lack of definitional clarity leads to substantial confusion over

Figure 1: How Well Integrated Is Your Company Along The Following Dimensions

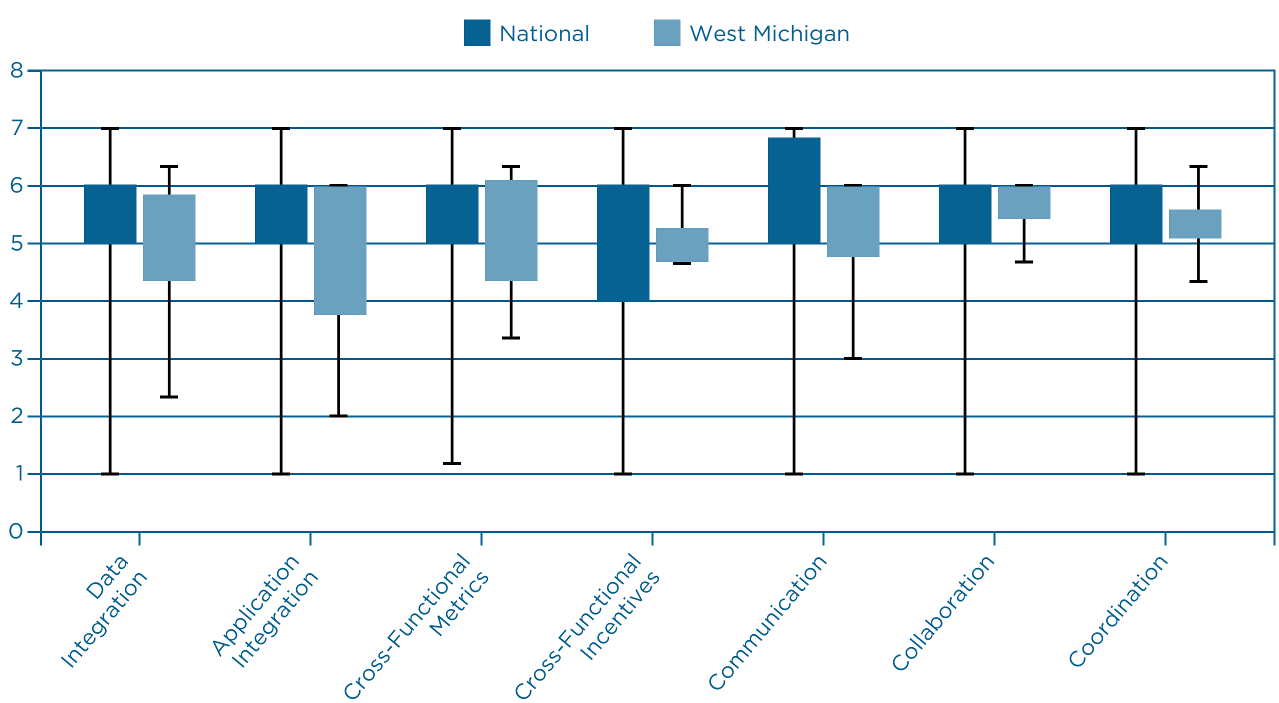
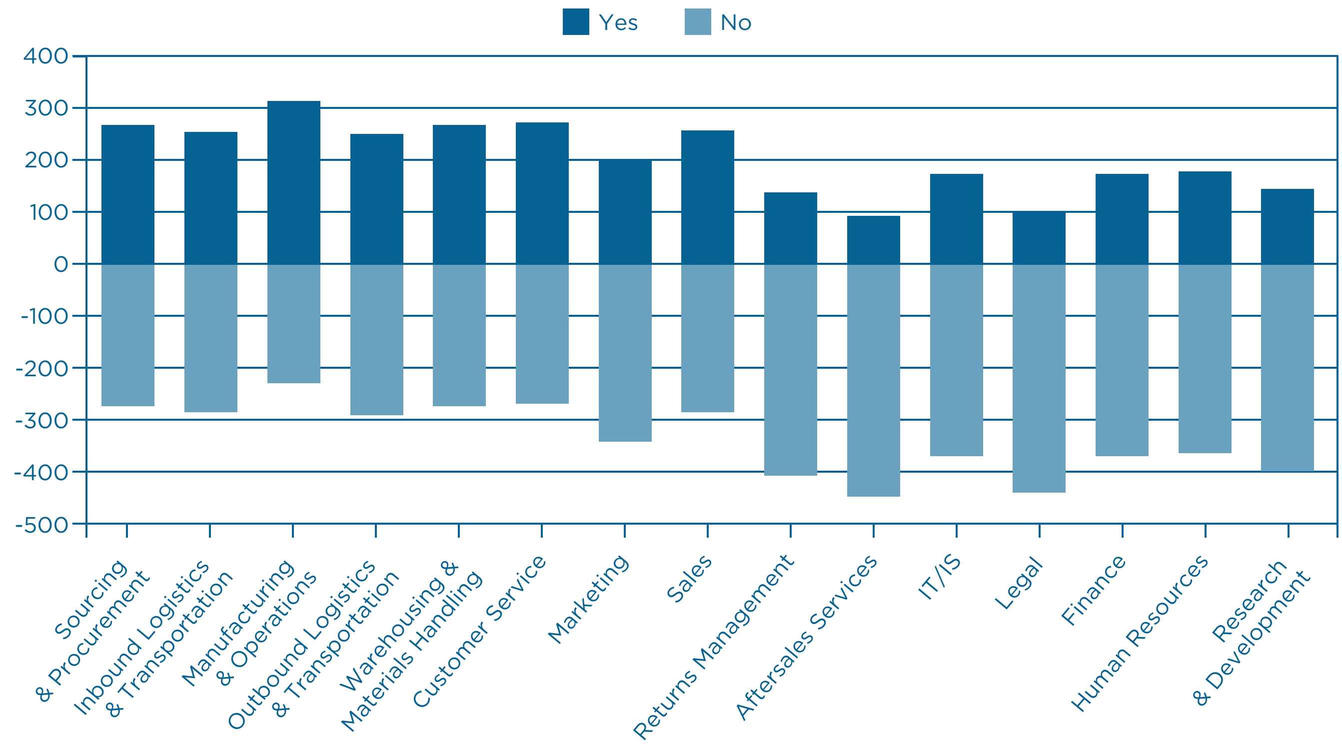


Figure 2: The Following Areas Are Represented In My Organization's Formal Supply Chain Group



what integration is and what companies need to be focused on in order to realize integration's performance benefits.

The research presented here was undertaken to help define integration and identify specific steps companies can take to improve integration in their own organization. First, the research team conducted an extensive survey of 539 U.S. companies. Then, as a follow-up to the national survey, the research team surveyed a panel of experts – individuals who are deeply engaged in the West Michigan business community and with the Seidman College of Business – to get their perspectives on the question of integration in West Michigan companies. A comparison of results is depicted in Figure 1.

Based on the national survey, the research team determined that integration has three component parts:

- Collaboration – Defining common goals and objectives
- Coordination – Managing activities across functional boundaries to optimize overall business processes
- Communication – Sharing information in ways that support collective action and decision-making

The national survey team also revealed several specific steps companies can take to enhance integration in their organization. These steps included:

- Creating a supply chain management department responsible for strategic management of activities across purchasing, operations, manufacturing, warehousing, and logistics
- Investing in databases that allow for consistent, company-wide data storage and retrieval
- Investing in software that provides real-time communication across supply chain applications and other internal planning and execution applications
- Developing cross-functional metrics that focus on the quality and continuous improvement of value creation processes
- Instituting cross-functional incentives that reward performance based on how well people meet cross-functional goals

The national sample suggested mixed results regarding the extent to which companies have achieved integration (measured in terms of collaboration, coordination, and communication). In particular, there was substantial variation in terms of how well companies communicate information across functional areas in support of collective decision-making and action. The national survey also revealed that although most companies have a formally defined supply chain management department, there was substantial variation in terms of which functional areas were included in that department. Figure 2 depicts the functional areas that tend to be included in formal supply chain departments. Finally, the national survey suggests room for improvement when it comes to incentivizing cross-functional goal performance.

Perspectives on West Michigan businesses from our panel of experts tracked fairly closely to national averages – with a few stand outs. Overall, the panel rated West Michigan companies as performing similar to national averages when it came to achieving integration through collaboration, coordination, and communication. However, the expert panel indicated a much wider range among West Michigan companies, suggesting that at least some companies in the area have more work to do in terms of getting on par with national averages. The biggest standout, however, was in investments made by West Michigan companies in the IT architecture and software that support data quality and real-time, company-wide communication. This gap in IT architecture and software was specifically commented on by experts in open remarks. As one expert put it, West Michigan businesses have done a good job putting together cross-functional teams but have lagged behind in data collaboration across supply chain partners. Another expert suggested that West Michigan companies must become more real-time through the development of data analytic tools such as dashboards.

Overall, this research confirms that aligning internal supply chain operations remains a critical challenge for companies. Across the board, participants expressed the need to knock down traditional functional silos to create integrated supply chain departments focused on overall company performance. But achieving integration require companies to be clear on what integration means and then to target specific areas of change in their organization. Most importantly, though, companies cannot become complacent. At its core, the transition from siloed management to integrated value creation is motivated by need for organizational flexibility in the face of dynamic markets. Integration itself must, therefore, be a process of continually aligning who, what, where, when, and how individuals representing the various parts of the supply chain engage to create value. ■

References

Swink, Morgan, and Tobias Schoenherr. “The Effects of Cross-Functional Integration on Profitability, Process Efficiency, and Asset Productivity.” *Journal of Business Logistics* 36.1 (2015): 69-87.

Eckert, V. H. “Collaboration for innovation: Why technology alone isn’t enough.” PwC.com (2016). https://www.pwc.com/gx/en/ceo-agenda/pwc-at-davos/ghosts/collaboration-for-innovation-why-technology-alone-isnt-enough.html (accessed October 30, 2017).

West Michigan Stock Returns

Gregg Dimkoff, Ph.D., Finance Department

A Great Year for West Michigan Stocks in 2017, but Less Impressive Compared with the Dow and NASDAQ Indexes
West Michigan-headquartered publicly traded companies enjoyed a great year in 2017, increasing a weighted average of 21.5%. That performance marks the eighth annual increase in the nine years since financial markets bottomed out in early 2009, the best year since 2013's nearly 41% return and a better 2017 return than the S&P 500 Index's 19.4%. Yet, both the Dow Jones Industrial Average and the NASDAQ Composite Index outperformed the local index as shown below in Table 1.

Stock prices of nine out of the fourteen companies comprising the Index either declined or rose by less than 9% as shown in Table 2, and yet the Index rose by 21.5%. That curious outcome occurred because each company's importance to the Index is weighted by its total market capitalization, that is, the market value of all outstanding shares. The more shares of a particular company, the more influence its price change has on the Index.

For example, Wolverine Worldwide and Stryker together account for 70% of the Index's total market capitalization. Since both of these companies had high returns – 44.8% and 28.5%, respectively – they account for a large proportion the Index's return, large enough to pull the weighted average up to 21.5%.

The 2017 performance of each of the companies in the Index is described below. Most of the discussion is based on year-to-date performances as reflected in quarterly earnings reports through the third quarter.

SpartanNash Corporation
To say that SpartanNash's stock price has been volatile recently is an understatement. It was the Index's top performer a year ago, rising nearly 83% in 2016. Yet, its price fell 32.7% in 2017, making it the worst performer. The company announced in early November that Hurricane Harvey's destruction hurt its supply chain, and worse, it was in the process of closing about 10% of its stores in 2017, incurring a one-time non-cash charge of $189 million. In response, it's stock fell nearly 25% over the next ten days. By year's end, however, its stock price had recovered. Evidently, investors brushed off the early November dismal news, and instead, focused on the fact that overall sales were up 5.9%, and the company's food distribution business was experiencing strong performance. Still, by year's end, the company's stock price was about a third less than it had been a year earlier.

The company owns 145 supermarkets across 45 states, Europe, and several countries. Supermarket banners include Family Fare Supermarkets, VG's Food and Pharmacy, Family Fresh Market, D&W Fresh Markets, and SunMart. The company also is the leading distributor of grocery products to military commissaries in the U.S. and also operates as a grocery distributor.

The Banks – ChoiceOne, Community Shores, Independent Bank, Macatawa Bank, and Mercantile Bank
As 2017 began, stock prices of the five banks headquartered in West Michigan were still enjoying the Trump effect – the expected economic boost from pro-business policies including less federal regulation, tax cuts, and huge increases in infrastructure spending. All of these actions likely would increase loan demand and raise interest rates, driving up bank profits. In other words, bank stock prices reflected considerable optimism.

Optimism waned as the year progressed, wiping out much of the Trump effect premium. Instead, as is always the case in the long-run, stock prices rise or fall reflecting earnings

Table 1: Stock Market Returns[1]

	2017	2016	2015	3-Year Cumulative
West Michigan Index	21.5%	18.6%	-6.5%	34.6%
NASDAQ Composite Index	28.2%	7.5%	5.7%	45.7%
S&P 500 Index	19.4%	9.5%	-0.7%	21.6%
Dow Jones Industrial Average	25.1%	13.4%	-2.2%	38.7%

[1] The West Michigan Index consists of 14 publicly traded companies headquartered in West Michigan. Each company's return is weighted by its market value -- the number of shares of common stock outstanding multiplied by the company's stock price. The index matches the weighting methodology used by both the S&P 500 Index and the NASDAQ Composite Index. The Dow Jones Industrial Average is price weighted.

changes. And then just before Christmas, President Trump signed into law the largest tax cut since 1981 – The Tax Cuts and Jobs Act of 2017. Banks stock prices immediately rose, but the impact on bank stock prices from lower taxes and higher loan demand will occur in 2018 and later as the economy strengthens.

ChoiceOne Financial Services, Inc.
For most of the year, Sparta-based ChoiceOne's stock price fluctuated tightly in the $22-$23 per share range. It briefly jumped to $24.50 during the week prior to Christmas, the week Congress passed the tax cut act and closed out the year with a 5% price gain.

Community Shores Bank Corporation
Community Shores Bank was the last publicly-traded West Michigan bank to recover from the Great Recession, but it has done so increasing its revenue and earning a profit over the past several quarters. Its stock price rose steadily throughout 2017 but jumped 9% during the last week of December, likely in response to passage of the Tax Cuts and Jobs Act.

Community Shores is a very small bank holding company. Headquartered in Muskegon, it consists of four branches -- two in Muskegon and one each in Norton Shores and Grand Haven. It also has a characteristic unique to other companies comprising the West Michigan Index – insiders own the majority of its stock. Insiders are bank officers and board members. They own almost two-thirds of the company's shares. Certainly those insiders are in it for the long-run. They could have sold when their bank was contending with bankruptcy during the years after the recession, but they didn't. In fact, only about one out of every 1,000 shares of bank stock are sold on an average day – a very, very low proportion.

Independent Bank Corporation
Independent Bank's stock price fluctuated in the $20-$23 range all year long, eking out a 1.8% gain for 2017. The company increased its cash dividend by 20% in late October.

Macatawa Bank Corporation
After its stock price rose 72% in 2016 due to optimism about the U.S. economy, it should come as no surprise that 2017 would not be as rosy, and in fact, it wasn't. The bank's stock price finished the year 4.8% lower. Although first quarter earnings were up 20%, earnings were flat compared with 2016 for both the second and third quarters of 2017.

Holland-based Macatawa Bank has 26 branches located in northern-Allegan, Kent, and Ottawa counties.

Mercantile Bank Corporation
Grand Rapids-based Mercantile Bank's 2017 performance was similar to Macatawa Bank's performance. Good news and investor optimism drove up stock prices in 2016, but 2017's optimism was more muted, and Mercantile's stock ended the

Table 2: West Michigan Company Returns

	2017 Prices Closing	2017 Prices Opening	Price Change
Meritage Hospitality Group Inc.	$20.00	$11.30	77.0%
Wolverine Worldwide, Inc.	$31.88	$22.02	44.8%
Community Shores Bank Corporation	$3.00	$2.30	30.4%
Stryker Corporation	$154.84	$120.52	28.5%
Herman Miller, Inc.	$40.05	$34.60	15.8%
Universal Forest Products, Inc.	$37.62	$34.61[2]	8.7%
Perrigo Corporation PLC	$87.16	$82.31	5.9%
Gentex Corporation	$20.95	$19.96	5.0%
ChoiceOne Financial Services, Inc.	$23.80	$22.62[3]	5.0%
Independent Bank Corporation	$22.35	$21.95	1.8%
Macatawa Bank Corporation	$10.00	$10.50	-4.8%
Mercantile Bank Corporation	$35.37	$37.78	-6.4%
Steelcase Inc.	$15.20	$17.90	-15.1%
SpartanNash Company	$26.68	$39.63	-32.7%

[2] Adjusted for a 3:1 stock split 11/15/2017
[3] Adjusted for a 5% stock dividend 5/8/2017

year 6.4% lower. Its price fluctuated around $33 for most of the year, but then began to rise, finishing the year above $35.

Mercantile Bank's focus and strength is commercial lending, and through the first nine months of the year, commercial loan growth was up almost 10%. In its third quarter report, the Bank reported that its pipeline of construction and other commercial loans was extensive. In that case, 2018 should be a much better year for its investors.

Gentex Corporation
Changes in Gentex Corporation's stock price closely mirror worldwide sales in the auto industry. Growth in worldwide sales leveled off in 2017, as did Gentex's earnings. That resulted in a modest 5.0% increase in the company's stock price, but it was a rocky road getting there. Its price fell from $22 to about $17 at the end of July as it became apparent that North American passenger car sales would be about 20% lower in the third quarter. Fortunately for Gentex, increased sales in other light vehicle markets offset much of the decrease. The company's stock price recovered to almost $21 by the end of the year.

Gentex executives estimate that 2018 sales of its products will increase in the range 6-10%. The company is optimistic about growing implementation of its rearview full display mirror which doubles the field of vision and eliminates field of view obstructions such as headrests and vehicle posts.

Zeeland, MI-based Gentex Corporation designs, develops, manufactures, and markets automatic-dimming rearview mirrors and electronics for the automotive industry; dimmable aircraft windows for the aviation industry; and commercial smoke alarms and signaling devices for the fire protection industry. The company is closer to being a high-tech company than any other company in the Index, and its cost for labor per dollar of sales is low. That's why the company's West Michigan business is unlikely to be outsourced to a country with low-cost labor.

Herman Miller, Inc. and Steelcase Inc.
Both Herman Miller and Steelcase compete in the same industry, mainly office furniture and related systems. Herman Miller is headquartered in Zeeland, while Steelcase is headquartered in Grand Rapids. The performance of the two companies in 2017 contrasts sharply.

Herman Miller's stock price increased 15.8% last year. In the most recent quarter ending in December, it reported that orders were up 10% while earnings per share increased 6%. The company attributes its strong performance in 2017 to a strong U.S. economy: About 75% of the company's sales are to U.S. companies. As it became apparent that the Tax Cuts and Jobs Act would be approved, Herman Miller's stock began rising, and by the end of December had increased from about $36 to $40. Executives had mentioned that a tax cut likely would stimulate the U.S. economy, and therefore, increase company sales.

In contrast to the experience of Herman Miller owners, Steelcase investors saw their stock fall 15.1% in 2017. Sales fell 2% in the third quarter, and earnings per share fell 35% from $0.33 to $0.22. On top of that, Steelcase reduced its earnings per share guidance for the fourth quarter to $0.14 -- $0.18, a significant reduction from its previous guidance.

Meritage Hospitality Group Inc.
Meritage operates about 250 quick-service and casual dining restaurants, most of which are Wendy's restaurants. The company outperformed all other companies in the Index last year, gaining 77%. It has been on an acquisition tear in recent years, and that was the case again in 2017. In a December 6 announcement, the company reported that it has just purchased 57 more Wendy's restaurants. Third quarter results were impressive. Sales rose 40%, net income was up 35%, and guidance for the fourth quarter was adjusted upward. A considerable part of Meritage's growth is due to acquisitions rather than cost cutting or higher sales per restaurant. Still, the growth is impressive, and its investors are happy.

Perrigo Company PLC
Perrigo survived a terrible year in 2016. Earnings were revised from a large profit to a large loss, its long-time CEO abruptly resigned and accepted a position with a competitor, and the company was sued by its largest stockholder. There is good news, however: Perrigo survived, and there is optimism about its future.

Along the way, investors endured a nightmare. The company's price peaked in April 2015 at $202 per share and then began to fall, bottoming out at $66.37 on August 9, 2017. That day would have been a good day to buy. During the nearly five months since then, the price rebounded to $87.16. Perrigo's stock gain for the year was a modest 5.9% but was up over 31% from its August 9 low.

At $1.29 per share, third quarter earnings per share were greater than the consensus estimate of $1.10. Perrigo shares shot up 13% on the news. Further, the company raised its guidance for 2017 annual earnings per share to the higher end of its previously reported $4.80 - $4.95 range. Perrigo's resurgence is great news for its workers, its owners, and West Michigan.

Stryker Corporation
Stryker's stock rose continuously throughout the year, finishing with a 28.5% gain which nearly matched its 2016 gain of 28.9%. Increases in sales, net income, and earnings per share grew at least 10% during the first nine months of the year. Because Stryker's P/E ratio is 33, a one penny increase in earnings per share translates into a 33 cent increase in price.

There is further reason for optimism. As this article went to press, a provision in the Tax Cuts and Jobs Act deleted for the next two years the 2.3% medical device tax that had been part of ObamaCare, and a significant part of Stryker's business consists of sales of medical devices such as knee and hip joint replacements. If all of the tax savings are passed on to customers as lower prices, there will be no direct benefit to Stryker, but if only part of the tax savings is retained, Stryker expenses will fall, and its profits will rise.

Universal Forest Products, Inc.
UFPI's stock price increased 8.7% in 2017, and that's on top of a 49.5% increase in 2016 and a 28.5% gain in 2015. It continues to be a well-run company in the right place at the right time. The Grand Rapids-based company designs, manufactures, and markets wood and wood-alternative products for home centers, other retailers, and commercial customers. That industry continues to grow rapidly as home and commercial construction is trying to catch up with the dearth of building during and after the Great Recession. The outlook for UFPI continues to look great going into 2018.

The company split its stock 3:1 on November 15, tripling the number of shares but decreasing share price to one-third of its prior value. The historical explanation for stock splits is to reduce the price to a more affordable level for individual investors. But individual investors hardly matter anymore. Shares of large corporations like UFPI are mostly owned by institutional investors (for example, mutual funds, life insurance companies, and pension funds) that trade huge blocks of shares, often millions of shares at a time. To them, the price per share is irrelevant. That's why we see more and more companies with share prices in the range of several hundred dollars, or even more than $1,000. Financial institutions own more than 85% of UFPI shares. Although many individuals like splits because they end up with more shares, the price is proportionately lower, so there is no advantage. To a finance person, UFPI's split is curious.

Wolverine Worldwide, Inc.
WWW's price rose 44.8% last year as investors continued to be optimistic about the company's progress toward its multi-year goal to become more efficient and rid itself of low margin business segments. Its 2017 gain is in addition to a 31.4% increase in 2016.

The company closed 215 of its 295 retail stores in 2017, sold its U.S. Department of Defense contract business, sold its Sebago brand, and sold its Stride Right brand license. As a result, its sales have dropped, but importantly, its inventory decreased by 26%, and the company expects operating profit margins to increase 12% in 2018. Higher margins and lower expenses from these changes should lead to higher earnings per share in 2018.

Rockford-based Wolverine World Wide, Inc. designs, manufactures, sources, markets, licenses, and distributes footwear, apparel, and accessories. ■

Seidman Faculty Experts

Asli Akbulut, Ph.D.
- Information Systems
- ERP/SAP Systems

Monica Allen, M.A.S.
- Workforce Diversity
- Leadership
- Business Ethics

Suzeanne Benet, Ph.D.
- Advertising to the Elderly
- Marketing Ethics
- Social Marketing

Bruce Bettinghaus, Ph.D.
- Accounting Ethics
- Corporate Governance
- Financial Reporting

Yatin Bhagwat, Ph.D.
- Corporate Finance
- International Finance
- Stock Selection/ Portfolio Management

Bishal BC, Ph.D.
- Financial Accounting
- Compensation
- Firm Disclosures

Laurence Blose, Ph.D.
- Market Efficiency
- Option & Futures Planning
- Valuation
- Gold Markets and Investments

George Chang, Ph.D.
- Asset Pricing/Investments
- Derivative Securities
- Applied (Bayesian) Financial Econometrics

Suzanne Crampton, Ph.D.
- Human Resource Management
- Organizational Behavior

Vivek Dalela, Ph.D.
- Relationship Marketing
- Sales
- Supply Chain Management

Sonia Dalmia, Ph.D.
- Applied Econometrics
- Economics of Gender
- Matching Models

Marinus DeBruine, Ph.D.
- Business Valuation
- Financial Reporting

Michael DeWilde, M.T.S.
- Business Ethics
- Leadership Development

Gregg Dimkoff, Ph.D.
- Personal Finance
- Business Finance
- Economics

Cheryl Dunn, Ph.D.
- Resources-Events-Agents Accounting
- Accounting Information Systems

Anton P. Fenik, Ph.D.
- Strategic Alliances
- Supply Chain Management
- Marketing Research

Robert Frey, J.D.
- Corporate Governance
- Business Ethics & Sustainability
- Global Strategy

Daniel Giedeman, Ph.D.
- Financial Systems
- Economic Forecasting
- Economic History

Stephen Goldberg, Ph.D.
- Accounting Ethics
- Corporate Governance
- International Accounting

Vijay Gondhalekar, Ph.D.
- Asset Pricing
- Behavioral Finance
- Mergers & Acquisitions

Ana Gonzalez, Ph.D.
- Family Business Governance
- Entrepreneurship in Family Business
- Succession in Family Business

Xiangling Hu, Ph.D.
- Operations Management
- Supply Chain Management
- Purchasing & Pricing

Paul Isely, Ph.D.
- West Michigan Economy
- Housing Markets
- Environmental/Resource Economics

Catherine Jones-Rikkers, J.D.
- Alternative Staffing
- Consumer Protection Law
- Workplace Diversity Issues

Parag Kosalge, Ph.D.
- Business Process
- ERP/SAP Systems
- Electronic Commerce

Ashok Kumar, Ph.D.
- Manufacturing & Service Strategy
- Quality Management & Six Sigma
- Supply Chain Management

Paul Lane, Ph.D.
- Innovation & Design Thinking
- Marketing Strategy
- Mentoring

Kevin Lehnert, Ph.D.
- Marketing Ethics
- Creativity

Nancy Levenburg, Ph.D.
- Small Business Management
- Family Business
- Private Club/Golf Resort Management

Sebastian Linde, Ph.D.
- Applied Econometrics
- Health Economics
- Industrial Organization

Joseph Little, Ph.D.
- Sports Marketing
- International Marketing

Aaron Lowen, Ph.D.
- Econometric Modeling
- Program Impact Analysis

Simha Magal, Ph.D.
- Integrated Business Process
- Enterprise Information Systems
- SAP Certified

Marie McKendall, Ph.D.
- Diversity Management
- Human Resource Functions
- Teambuilding

Jitendra Mishra, Ph.D.
- Human Resources Management
- Organization Behavior
- International Management

William Mothersell, Ph.D.
- Change Management
- Leadership Development
- Lean Production People Systems

Jaideep Motwani, Ph.D.
- Strategy & Leadership Development
- Lean, Process Improvement, Supply Chain Management & Service Excellence
- Performance Measurement

Paul Mudde, Ph.D.
- Mergers & Acquisitions
- Transition & Acquisition Strategies
- Business & Corporate Strategy

Leslie A. Muller, Ph.D.
- Health Economics
- Public Policy
- Economics of Retirement

Laudo Ogura, Ph.D.
- Urban & Real Estate Economics
- Local Government Policy

Daniel Pellathy, Ph.D.
- Supply Chain Management
- Purchasing Management
- Operations Management

Joerg Picard, Ph.D.
- Venture Capital & Private Equity
- High-Frequency Trading

Jennifer Pope, Ph.D.
- Nonprofit Marketing
- International Marketing
- Management Education & the CEE Region

Douglas Robideaux, D.B.A.
- Consumer Research
- Consumer Behavior
- Advertising & Marketing Communication

Carol Sánchez, D.B.A.
- Family-Owned Businesses
- International Business
- Strategic Management

Anne Sergeant, Ph.D.
- Data Management
- Managerial Accounting

Gerry Simons, Ph.D.
- Emerging Markets
- International Trade & Finance

Claudia Smith Kelly, Ph.D.
- Labor Economics
- Public Economics

Parvez Sopariwala, Ph.D.
- Accounting for Capacity Utilization
- Strategic Analysis of Income

Wei Sun, Ph.D.
- International Finance & Trade
- Emerging Markets
- Financial Economics

Maris Stella (Star) Swift, J.D.
- Labor & Employment Law
- Mediation & Arbitration
- E-HR

Timothy Syfert, Ph.D.
- Entrepreneurship & Small Business Management
- Strategic Planning
- Leadership

Anna Walz, Ph.D.
- Customer Relationship, Development & Management
- Service Retail Brand Relationships

Daniel Wiljanen, Ph.D.
- Strategic Human Resource Management
- Executive Development
- Corporate Learning and Development

Thomas Willey, D.B.A.
- Asset Valuation
- Personal Investing

To contact the faculty, call **616.331.7100** or visit **gvsu.edu/seidman**

Grand Valley State University
Seidman College of Business
50 Front Ave SW SCB 3007
Grand Rapids, MI 49504

CHANGE SERVICE REQUESTED

NON-PROFIT ORG
US POSTAGE
PAID
GRAND VALLEY
STATE UNIVERSITY

Please Recycle

http://gvsu.edu/business

Find us on Facebook
www.facebook.com/gvsu.seidman

COVER:
10% POST CONSUMER RECYCLED FIBER

Green-e® certified paper manufactured
using 100% certified renewable electricity