

# ***Seidman Business Review***

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

**Vol. XXVI  
Winter 2020**



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***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](mailto:gvbizinfo@gvsu.edu)

**Editor:** Dr. Gerry Simons, Professor, Economics Department  
**Copy Editor:** Vonnice Herrera  
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## From the Editor...

In December 2019, the International Monetary Fund published an article titled “2019 in Review: The Global Economy Explained in 5 Charts.” The article painted a mostly discouraging picture – slowdowns in economic growth, falling durable goods spending, declines in international trade and industrial production, and attempts by central banks to stimulate their economies. The only bright spot showed improved consumer confidence globally and reductions in unemployment.



But what to make of such information? Analysts have been predicting a recession in the U.S. for some time now. Were those predictions unfounded, or was the Federal Reserve able to stave off a recession with interest rate cuts? Or did salvation come in the form of the Tax Cuts and Jobs Act instead? Is the slowdown in international trade due, in part, to protectionist policies or is that timing coincidental? How can economic growth be weak when unemployment is so low and the housing market is strong?

The point is, managing a business and understanding the economy are complicated endeavors. No single person knows everything and has all the answers. And that's where we, at the *Seidman Business Review*, come in. From handling global workforce teams to addressing sexual harassment; from evaluating the market for STEM jobs to improving employee financial wellness; – our team of experts in this edition helps analyze and break down problems and information for you.

As always, my hope is that you will find these articles interesting, informative, and useful. That is, after all, why we do what we do. I encourage you also 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; we're here to help.

A handwritten signature in dark ink, reading "G. Simons".

Gerry Simons, Professor of Economics

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In July, parts of Grand Rapids and Walker were ranked as the number one hottest housing markets in the nation by Realtor.com. In October, SmartAsset.com rated Jenison, Walker, Northview, and Wyoming as in the Top 10 of America's Healthiest Housing Markets. And in December, Redfin put the Alger Heights and Creston neighborhoods in their "most competitive markets" list. But with talk of a possible downturn in the economy, will the local housing market continue to boom?

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# Grand Rapids Economic Forecast 2020

Paul Isely, Ph.D, Associate Dean

- The Current Business Confidence Index for 2019 is 81.0%, essentially the same as last year.
- The Forecast Business Confidence Index for 2020 is 77.5%, a drop from the expectations seen the last few years.
- Employment is expected to grow by 0.3% to 0.7% in 2020, an expectation that is less than half the expectation for 2019.
- Overall nominal sales are expected to increase by 2.2%-2.8% for 2020, a slowdown from last 2019.
- Exports are expected to grow by 1.0% to 5% in 2020, increasing from 2019.
- All indicators signal the West Michigan economy will continue to slow heading into 2020, particularly employment growth.



Paul Isely

## Introduction

The survey for the greater Grand Rapids economy (Kent, Ottawa, Muskegon, and Allegan counties or KOMA) was conducted in November and December 2019. A survey was mailed to the CEOs and business leaders of nearly 1,150 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, 202 organizations responded,

resulting in a strong response rate of 17.6%. However, due to the possibility of a non-random response sample, the survey should be interpreted with caution. The survey was timed for the week after the elections to allow respondents time to digest some of the possible implications of the elections.

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). Since 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 23 years are shown in **Figure 1**.

Last year, respondents' expectations for 2019 were higher than their view of 2019 at the end of the year. This is a strong indicator that the economy started to decelerate. Organizations currently view their confidence now (end of 2019) and through 2020 is dropping for the second year in a row. The expectations of businesses are falling much faster than those in non-profit and government sectors. An expected confidence level of 77.5% overall is still good, but it shows that businesses believe 2020 will not be as good as 2018 or 2019 have been.

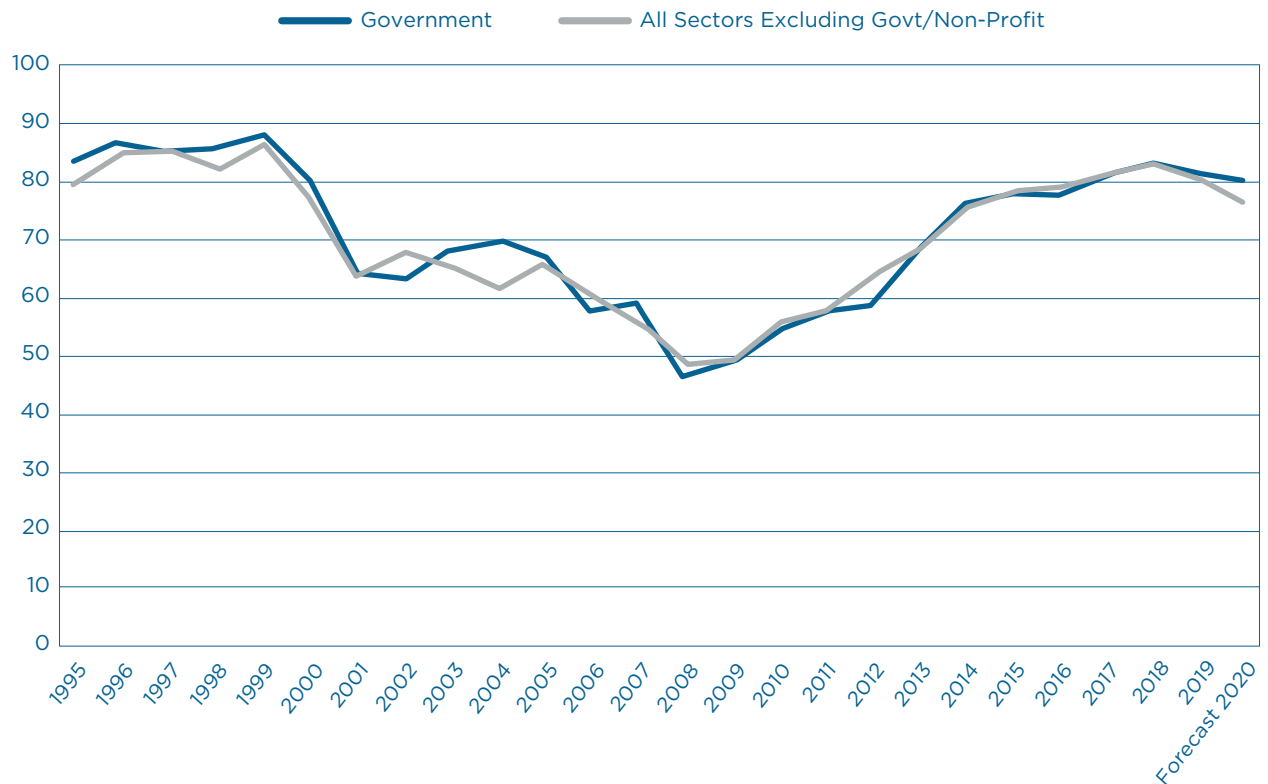
## Employment

For 2019, employment for KOMA was projected to grow at an average of 1.1 – 1.5%. 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 0.6% annualized rate through November. This is slightly lower than the estimate, but the final month is still to be added along with other data revisions.

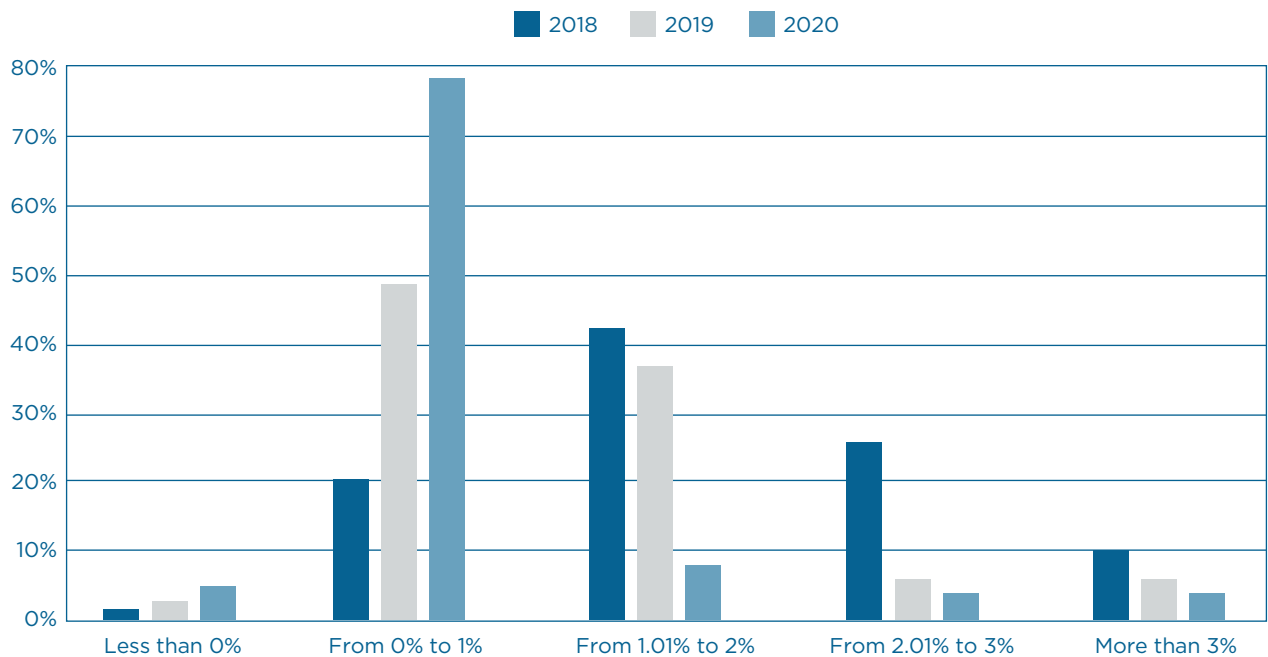
The average responses to the question: ***What percent change do you expect in employment for the four counties in 2020?*** are shown in **Figure 2**.

Average employment in the KOMA region during 2020 is expected to grow at 0.5%, about the same as 2019's actual growth. This is likely again to be optimistic, as the average disguises the drop in firms expecting growth above 1%, which went from 48% of respondents last year to only 16% of respondents this year. For 2020, firms' expectations are tightly bound between 0 and 1% with nearly 80% of respondents calling for growth in this range (up from almost 50% last year). In addition, the percentage of firms predicting negative employment growth, although still small, has doubled in the last two years. So the average expected employment increase has slowed, and number of firms that are looking to contract is beginning to grow.

**Figure 1: West Michigan Confidence Index Forecast 2020**



**Figure 2: Respondents' Anticipated Change in Employment for 2020 as Compared to Expectations in 2018 and 2019**

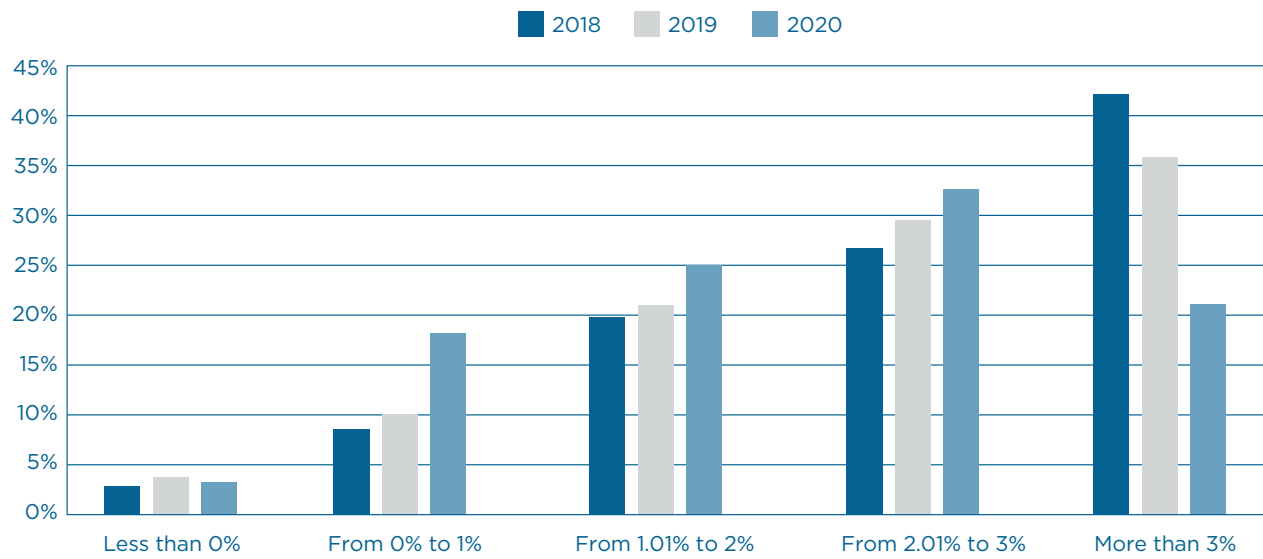


## Sales

For sales, the respondents answer the following question: **What percent change in sales do you project for the four counties in 2020?** During the late 1990s, sales grew at an annual rate of 5%. In 2018, the percentage of respondents expecting a growth rate above 3% peaked at 42% of

respondents. That percentage has fallen to 21% for 2020. This has dragged down the expected sales growth in 2020 to 2.5% from 3.3% two years ago. This is another indication that the current expansion has peaked. Average responses are shown in **Figure 3**.

**Figure 3: Respondents' Anticipated Change in Sales for 2020 as Compared to Expectations in 2018 and 2019**



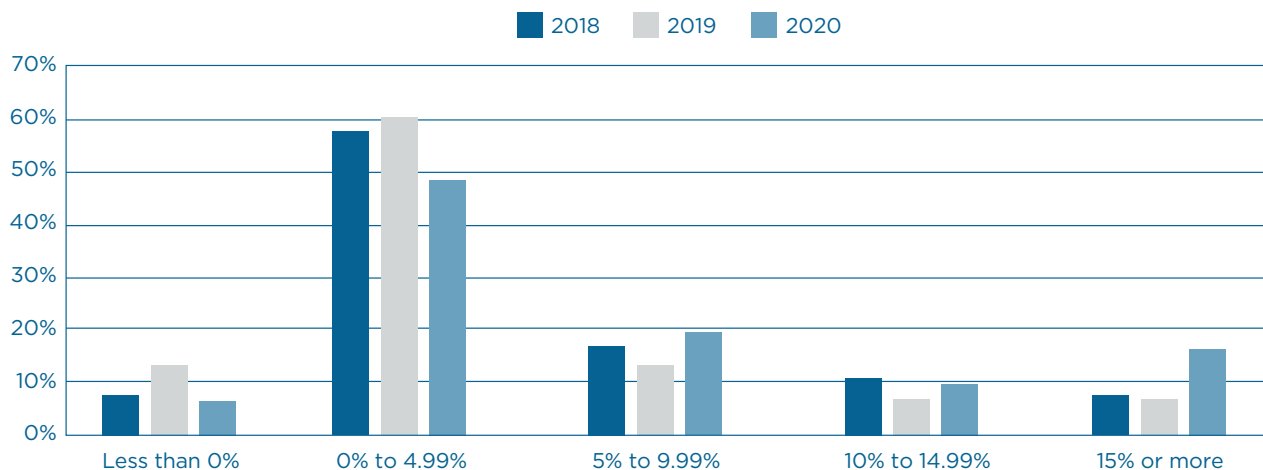
## Export Growth

Exports have traditionally been a bright spot in the West Michigan economy. However, over the last few years, export growth has been weak. The expectation for 2020 is a moderate improvement in exports compared to 2019. Expectations of 45% of the reporting firms is for more than 5% export growth compared to only 26% with that

expectation at the start of 2019. Average responses are shown in **Figure 4**.

The optimism in exports is being helped by some positive news about trade agreements occurring near the end of the year.

**Figure 4: Respondents' Anticipated Change in Exports for 2020 as Compared to Expectations in 2018 and 2019**



## General Outlook

Surveys (**Table 1**) from late in 2018 show an expectation for economic growth of around 1.9% for 2020. These surveys also show expectations for inflation at or below the Federal Reserve target of 2%. This shows both a continued slowdown in the economy which will ease inflation pressure, as shown in **Table 1**.

These surveys are consistent with the expectations of our survey respondents with weakening confidence (77.5%), flat employment growth (0.5%), weakening sales growth (2.5%), and strengthening export growth (3.5%).

The primary uncertainty for the year surrounds the presidential election as well as uncertain trade tensions. The uncertainty on trade has undercut some of the potential benefits of the tax cuts as businesses have been reluctant to invest in the face of the uncertainty mounting internationally. Firms are beginning

to understand how to navigate this uncertainty and are more optimistic going forward about trade. The uncertainty created by the Republicans and Democrats moving further apart also generates problems planning for the coming year, and these will not get resolved until the end of the year.

For West Michigan, the weakness in Manufacturing has become the biggest issue. Nationally, although the number of manufacturing workers has increased, the hours that they work has decreased. By some measures, this puts the manufacturing sector and the corresponding transportation sectors in a mild recession.

The data for West Michigan and the United States both show that 2020 will likely continue a measured slowdown. It is possible that the annual growth will be positive, but a recession occurs for part of the year.

**Table 1: Results from Surveys**

Survey	GDP Growth 2020	Inflation 2019
Philadelphia Federal Reserve Survey of Professional Forecasters (Nov)	1.8%	2.3% (core CPI)
Federal Open Market Projections (Sept)	2.0%	1.9% (PCE)
Wall Street Journal Economic Forecasting Survey (Dec)	1.8%	2.1% (CPI)

<https://www.philadelphiafed.org/research-and-data/>

<https://www.wsj.com/graphics/econsurvey/>

<https://www.federalreserve.gov/monetarypolicy/fomcproptabl20180926.htm>

## 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., Professor, Department of Economics**

**Paul Isely, Ph.D., Associate Dean**



Laudo M. Ogura



Paul Isely

Home prices continued to rise in the Grand Rapids region during 2019. Employment growth, although at a lower rate than in previous years, kept pushing demand higher. On the supply side, the inventory of homes for sale remained very low, thus also contributing to higher prices.

At the national level, average housing prices rose at a much lower 2.1% rate in the past 12 months compared to rates of 5% or above in the previous 7 years. There were slight declines in home sales and construction activity, but the recent drop in mortgage rates has helped avoiding a stronger slowdown (see **Table 1** for recent changes in housing market and economic indicators). Incidentally, the reduction in long-term interest rates was connected to fears of a coming recession in the U.S. economy, which could bring a more substantial decline in home sales and construction, and perhaps even a drop in home prices.

**Table 1 – Economic and Housing Market Conditions**

	2006	2018	2019	2018-2019 Change
20-city S&P/Case-Shiller housing price index (100 in 2006)	100	103.8 (Sept)	106.0 (Sept)	2.1%
U.S. Consumer Price Index - CPI (100 in 2006)	100	125.0 (Sept)	127.2 (Sept)	1.7%
U.S. Real Gross Domestic Product annual growth rate (%)	2.9	2.9	2.4 (3rd quarter)	-0.5
U.S. unemployment rate (%)	4.6	3.9	3.5 (Nov)	-0.4
U.S. 30-year fixed mortgage rate (%)	6.4	4.5	3.7 (Nov)	-0.8
U.S. home mortgage delinquency rate* (%)	1.8	3.5	2.6 (3rd quarter)	-0.9
U.S. NAR Existing Home Sales (annual rate, in millions)	6.48	5.43 (Sept)**	5.29 (Sept)**	-2.6%
U.S. new private housing starts (annual rate, in millions)	1.81	1.26 (Nov)**	1.26 (Nov)**	0.0%
U.S. homeownership rate (%)	68.8	64.4	64.5 (3rd quarter)**	0.1
Grand Rapids metro area unemployment rate (%)	6.2	3.0	3.0 (Oct)	0.0
Grand Rapids metro area employment (nonfarm, in thousands)	492.4	563.0 (Oct)**	569.1 (Oct)**	1.1%
GRAR home sales (annual, single-family, pending sales)	11,562	12,556	12,910 (Nov)**	2.8%
GRAR average home price (single-family, closed sales, in thousands)	\$163.9	\$225.3	\$240.3 (Nov) <sup>YTD</sup>	6.7%
GRAR home sales months of inventory	10.7	1.6	1.6 (Nov) <sup>YTD</sup>	0.0

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

\*\* Average in the 12-month period ending in that month.

<sup>YTD</sup> Average during the year to date.

Annual data represents the average or total for the year. Non-annual values are seasonally adjusted, except for mortgage rates.

The Grand Rapids metropolitan area includes Kent, Ottawa, Barry, and Montcalm counties.

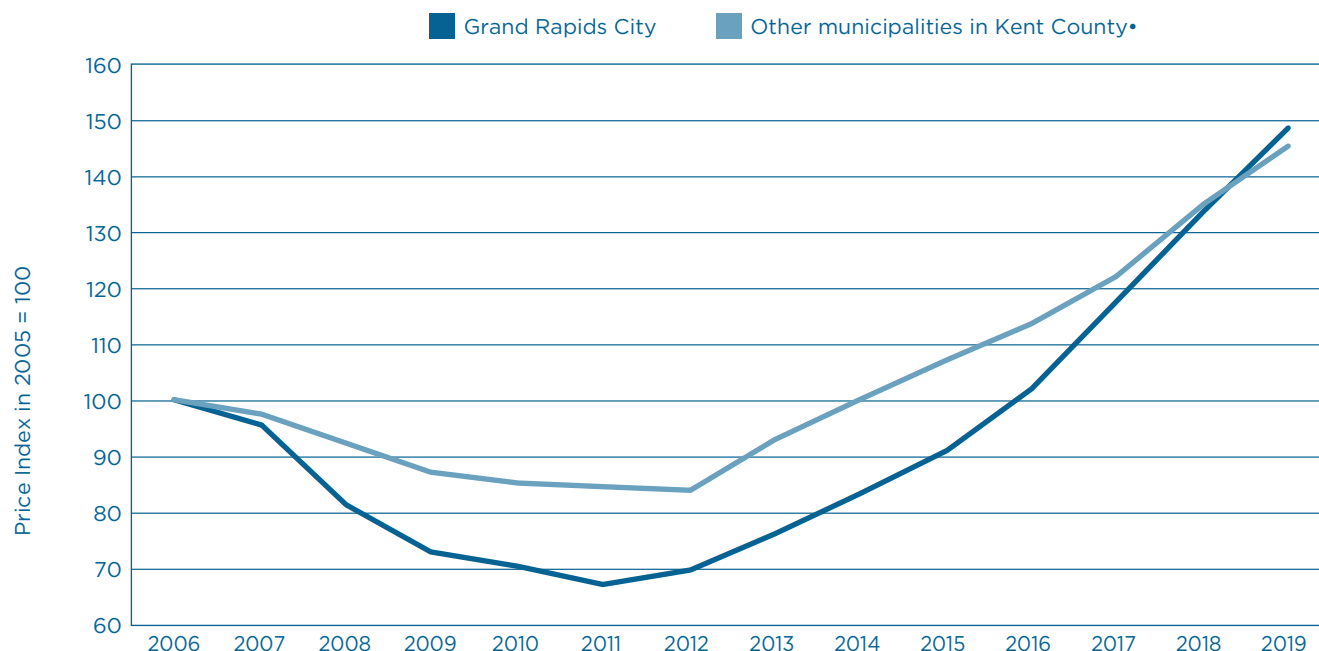
Sources: Data from Federal Reserve Bank of St. Louis (2019), National Association of Realtors - NAR (2007, 2019), and Greater Regional Alliance of Realtors - GRAR (2019).



In the Grand Rapids city, our estimate is that home prices increased by an average of 11% in 2019, based on data until September. In other municipalities in Kent County that had data available (East Grand Rapids, Grand Rapids Township, Cascade, Plainfield, Walker, and Grandville), home prices rose by about 7% on average. **Figure 1** shows our housing price indexes since 2006, which was the year when prices in Grand Rapids city had peaked in the 2000s. The data was restricted to reflect market conditions for typical non-distressed single-

family home sales (details, including the estimation method, are in the Technical Notes at the end of the article). For comparison, data from the local Greater Regional Alliance of Realtors – GRAR (2019) shows that the average price of single-family homes sold in its area of activity was 6.7% higher in 2019 (until November) than in 2018. The GRAR also reported a slightly higher number of home sales in the past 12 months (until November) compared to 2018 and a still very low inventory of homes for sales (see **Table 1** for GRAR data).

**Figure 1: Housing Price Index for the Grand Rapids Area\***



The 2019 index is based on data until September. See Technical Notes at the end of the article for details.

\* Data was available for the following municipalities: City of East Grand Rapids, Cascade Township, Grand Rapids Township, Plainfield Charter Township, Alpine Township, City of Walker, and City of Grandville.

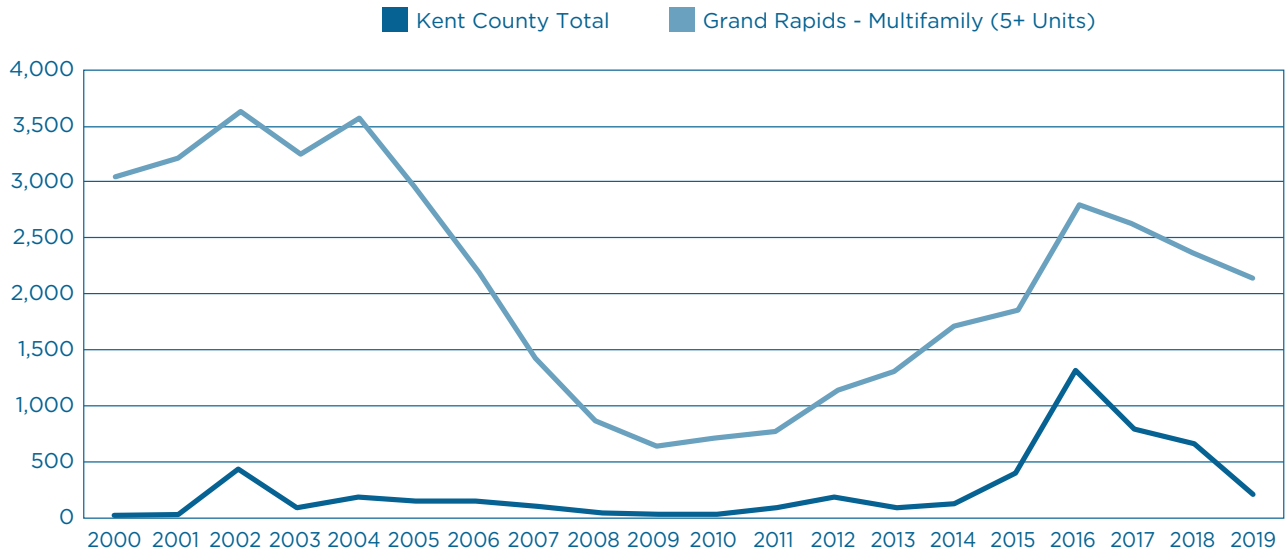
Source: Sales data retrieved from BS&A Software (2019).

In **Figure 1**, it should be noted that the “Other municipalities in Kent County” are suburban places that have higher median household income levels and housing prices than Grand Rapids city (U.S. Census Bureau, 2019b), so housing sales were less affected by the mortgage foreclosure crisis in 2008-2011 in those places. In fact, according to our indexes, home prices dropped by 23% on average during the crisis in the Grand Rapids city, but by only 16% in the “Other municipalities.” After the crisis, home prices grew faster in the Grand Rapids city and are now 49% higher than in 2006. In the “Other municipalities,” home prices are now 45% higher than in 2006. To put these numbers into perspective, the inflation rate since 2006 was 27%.

The rise in housing prices in recent years in the region was due to a combination of fast employment growth and low inventory of homes for sale. The number of non-farm employees in the metropolitan area increased by 15.6% since 2006, while homes for sale are still at a very low 1.6 months’ supply in 2019 (see **Table 1**). Homeowner vacancy rates have also been very low in recent years, at or below 1% since 2015 (U.S. Census Bureau, 2019c).

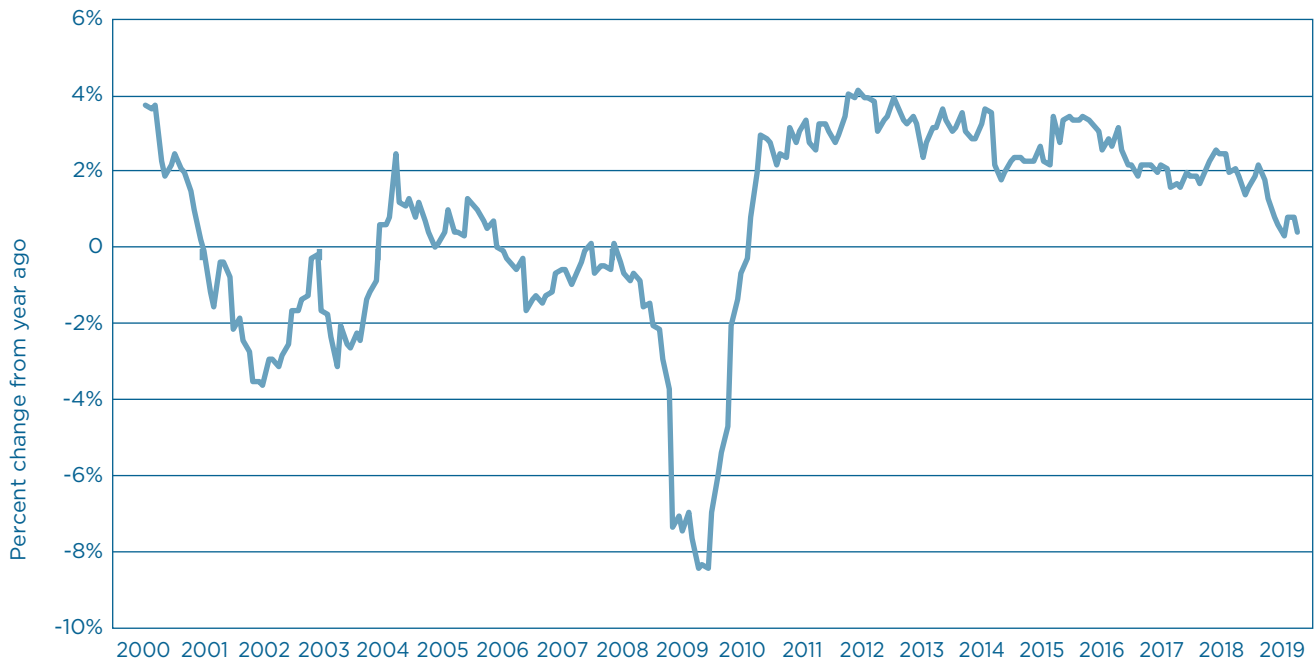
To accommodate a sustained annual population growth rate of 1%, which is the rate observed since 2010, Kent County would need about 2,500 new housing units per year, given that it had 257,370 units in 2018 (U.S. Census Bureau, 2019b). While construction activity has risen over the decade, it only matched the 2,500 level in 2016 (see **Figure 2**). It severely lagged behind population growth until that year and it is trending down since then. The slowdown in construction may be due to a fear of overbuilding in certain areas like downtown Grand Rapids, where multifamily building construction reached levels unseen in previous decades (**Figure 2**). Developers may have also become more cautious due to fears of a coming economic slowdown. Indeed, employment growth in the region has declined in the past six months from an annual rate of 2% to 0.5% (see **Figure 3**). A drop in employment growth has also been seen at the national level, but at a smaller degree. This reflects the slowdown in manufacturing and the fact that West Michigan has more exposure to manufacturing than the rest of the country.

**Figure 2: Building Permits in Kent County**



The 2019 values refer to permits issued in the 12 months ending in October.  
Source: U.S. Census Bureau (2019a).

**Figure 3: Employment Growth in the Grand Rapids Metropolitan Area**



The data shown is based on the seasonally adjusted number of monthly total non-farm employees.  
The Grand Rapids metropolitan area includes Kent, Ottawa, Barry, and Montcalm counties.  
Source: U.S. Bureau of Labor Statistics (data retrieved from Federal Reserve Bank of St. Louis, 2019).

### Affordability

These dynamics have begun to affect the affordability of housing in West Michigan. **Table 2** shows the change in housing prices in Grand Rapids. The west side of Grand Rapids is compared to the rest of the city as it has been a

traditional working-class neighborhood. In this case the west side is defined roughly using the roads Maynard in the West, Straight in the East, O'Brien in the South, and just north of Richmond in the North.

**Table 2: Housing Price Changes**

Year	HPI		Mean Sales Price	
	West Side	Other Grand Rapids City Neighborhoods	West Side	Other Grand Rapids City Neighborhoods
2006	100.0	100.0	\$125,360	\$117,874
2019	154.0	147.4	\$181,809.	\$171,523
Change	54.0%	47.4%	45.0%	45.5%

Source: Sales data retrieved from BS&A Software (2019).

The average sale price of both the west side and the rest of Grand Rapids has grown at the same rate, but the HPI has grown more quickly on the west side. This means that generally the houses being purchased on the west side are seeing the prices of the same house going up faster than the average sale price of houses.

This increase in housing prices has been outpacing wage growth. Across the Grand Rapids area, the average increase since 2006 has been 27%, but for lower income retail production workers the increase has only been 23% (**Table 3**).

**Table 3: Average Weekly Earnings in the Grand Rapids Metropolitan Area**

Year	Retail Production Employees	All Employees
2006	\$407.03	\$732.47
2019	\$501.41	\$928.40
Change	23.2%	26.7%

Source: U.S Bureau of Labor Statistics (2019).

This wage increase falls far short of the 45% rise in average sales prices for houses in Grand Rapids. For a full-time retail worker to purchase an average house on the west side of Grand Rapids, they would now have to spend around 43% of their monthly income at current interest rates, compared to 36% in 2006. This has made housing much less affordable for all individuals, but this is particularly true for workers.

### Conclusions

Employment growth and a short supply of homes for sale have kept home prices in the upward trend during 2019 in the Grand Rapids region. The decline in mortgage rates during the year also allowed buyers to bid higher, since their monthly payments decreased with the lower interest rates. For the near future, the low supply of homes for sales and moderate construction activity should keep home prices in the uptrend as long as the regional economy does not take a downturn.

### Technical Note

The housing price indexes shown in Figure 1 are estimated using the repeat-sales method, which compares prices of

the same houses as they are resold over time. We used data from January 2000 to September 2019, setting the indexes at 100 in 2006, so that they 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 2006. The use of repeat-sales is a way to control for variation in the quality of the different houses sold in each year. The method excludes houses that were not resold during the period of analysis and disregards the impact of improvements or deterioration of each house and/or neighborhood. Nonetheless, it is a widely used method to measure average price changes in a broad housing market. In order to better measure the changes in market conditions for typical homes, we excluded the following type of sales: cheap parcels sold for less than \$30,000 or that never reached a price of at least \$50,000; expensive parcels that were sold for more than \$1,000,000 during the period; transfers from or to government, nonprofit, or financial institutions, which reflect non-market transactions; parcels that had large variation in prices, usually the case when parcels were developed or redeveloped; and, last, housing units in multifamily buildings. ■

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# West Michigan Stock Returns

Gregg Dimkoff, Ph.D., Professor, Department of Finance



## West Michigan Stock Prices Soar in 2019

Investors certainly remember 2018's miserable stock market performance: The major stock indices dropped nearly 15% in the fourth quarter, bottoming out on Christmas Eve day. That's the bad news, however. The good news is that the bar was set low for 2019 to outperform 2018's performance. Had stocks done nothing more than just recover from those losses, 2019 would have been

a good year for investors. As we all know, and to the surprise of many, many investors who were prepared for a 2019 recession, stock markets shot up.

The West Michigan Stock Index rose 32.7% in 2019. That is a little less than the 35.2% rise in the NASDAQ Composite Index (it had decreased 21% in 2018's fourth quarter), but a little more than the S&P 500 Index's 28.9% increase. The Dow Jones Industrial Average Index rose 22.3%. The West Michigan Index consists of companies listed on both the NASDAQ and S&P 500 stock exchanges.

Table 1 below highlights 2019 annual returns.

**Table 1: 2019 Stock Market Returns<sup>1</sup>**

Stock Indexes	Returns
West Michigan Index	32.7%
NASDAQ Composite Index	35.2%
S&P 500 Index	28.9%
Dow Jones Industrial Average	22.3%

One company dropped out of the West Michigan Index in 2019: Community Shores Bank Corporation. It made the decision to delist as of January 2019. As a result, publicly available information about the bank is no longer available. The bank formed when several executives of FMB-First Michigan Bank's Muskegon headquarters left FMB following Huntington Bank's acquisition of FMB in 1997. After struggling to remain profitable for several years following the Great Recession, it finally returned to profitability in 2016. Its major stockholders agreed to delist to increase profits by eliminating the relatively high expenses associated with preparing and communicating shareholder reports.

Table 2 on next page ranks the fifteen companies comprising the Index by their 2019 returns.

The 2019 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. Companies are listed alphabetically.

## ChoiceOne Financial Services, Inc.

The Sparta-based bank holding company's stock rose 27.8% in 2019. It completed a merger with Lapeer, Michigan-based County Bank Corporation on October 1, nearly doubling the number of branches from 15 to 28. As with any merger, legal fees and other associated expenses significantly affected earnings in 2019. Nonetheless, investors are optimistic for 2020 as reflected in stock price gains. The bank expects the merger will add an additional 14% to 2020 earnings because of merger efficiencies.

The company declared a special cash dividend of \$0.60 per share on September 30. This was in addition to its usual quarterly dividend of \$0.20 per share. Because the special dividend was a one-and-done event, share price didn't leap upward upon the announcement. It didn't have to: from April through the end of 2019, ChoiceOne's stock price rose steadily.

## Gentex Corporation

Zeeland, Michigan-based Gentex is a supplier of digital vision, connected car, dimmable glass, and fire protection technologies. Certainly, 2018 was a good year for Gentex. In its most recent quarter, its earnings per share increased 5% compared with the prior year. Third quarter sales rose 4% even though the UAW's strike against General Motors reduced Gentex's sales by 2% as global production of light vehicles fell 3%. The company estimates that its sales will rise 3 - 8% in 2020 compared with 2019. That is good news for investors. The company's stock price reached an all-time high in early November, and remained at, or above, a record high through the end of the year.

## Herman Miller, Inc.

Herman Miller had another great year in 2019. Its price hit an all-time high during mid-2019, and continued to climb. Its second quarter (September, October, and November), earnings per share growth was 17%, a number just about any investor would find pleasing. Yet organic orders, that is, orders excluding contributions from mergers and acquisitions, decreased 4.2%. These two mixed results usually would temper investor euphoria, but it did not, at least initially. The day these results were announced - December 18 -- Herman Miller's stock price shot up 4.8% to nearly \$50. On the very next day, it fell by 6.8% to \$42.97, and eventually finished December at \$41.65. The sharp falloff was accompanied by no additional news about the company. Evidently it took a few days for fickle investors, and stock analysts, to reconsider what the price should be. Still, the company's nearly 38% return in 2019 made for a great year. Zeeland-based Herman Miller, founded in 1905, is a leading company in the office furniture systems industry.

<sup>1</sup> The West Michigan Index consists of 15 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 the NASDAQ Composite Index. The Dow Jones Industrial Average is price weighted, while the S&P 500 Index uses a somewhat complex method dividing the sum of the market values of each component stock by a proprietary index divisor.

**Table 2: West Michigan Company Returns**

	2019 Prices Closing	2019 Prices Opening	Price Change
Universal Forest Products, Inc.	\$47.70	\$25.96	83.7%
Gentex Corporation	\$28.98	\$20.21	43.4%
Whirlpool Corporation	\$147.53	\$106.87	38.0%
Steelcase Inc.	\$20.46	\$14.83	38.0%
Herman Miller, Inc.	\$41.65	\$30.25	37.7%
Stryker Corporation	\$209.94	\$156.75	33.9%
Perrigo Corporation PLC	\$51.66	\$38.75	33.3%
Mercantile Bank Corporation	\$36.47	\$28.26	29.1%
ChoiceOne Financial Services, Inc.	\$31.96	\$25.00	27.8%
Kellogg Company	\$69.16	\$57.01	21.3%
Macatawa Bank Corporation	\$11.13	\$9.62	15.7%
Meritage Hospitality Group Inc.	\$20.00	\$17.50	14.3%
Independent Bank Corporation	\$22.65	\$21.02	7.8%
Wolverine Worldwide, Inc.	\$33.74	\$31.89	5.8%
SpartanNash Company	\$14.24	\$17.18	-17.1%

**Independent Bank Corporation**

The stock price of the Grand Rapids-based bank with 67 branches peaked in early June at around \$27 per share, but three months later it was down to \$19.19, and then slowly rose during the rest of the year. What caused the price drop? A write-off in the value of mortgages. Whenever mortgage interest rates fall, as they did for most of 2019, borrowers refinance their mortgages. That reduces the average number of years banks receive interest payments, and reduces the bank's income. Independent Bank's earnings fell \$4.7 million during the first nine months of 2019 from these events, and that was a decrease of \$9.4 million compared with the year earlier. Still, by other performance measures, the Bank had a good year, which explains why its stock price rose later in the year.

**Kellogg Company**

Kellogg's stock price fluctuated in the mid- to high-fifties per share during the first half of 2019. Holding the price back were two significant events. The company ended its pension plan, and doing so generated \$132 million of liabilities. Also, it completed the divestiture of the Keebler cookie division and other product lines in late July, reducing reported operating profits by 37%. After management reaffirmed guidance for the rest of the year, Kellogg's stock price began rising, and rose through December. By year's end, its price was \$69.16.

**Macatawa Bank Corporation**

The bank's stock price fluctuated between \$9.30 and \$11 until December when its price closed above \$11 for the first time in 2019, likely the result of the stock market's general

euphoria in December and a very strong third quarter earnings report. Net income rose nearly 19%, revenue was up 7% while expenses fell 2%, and core deposits grew 13%. For the first nine months of 2019, earnings per share were \$0.70 compared with \$0.57 the comparable period in 2018. These are great results, and if they continue into 2020, the stock price will keep rising.

**Meritage Hospitality Group Inc.**

Grand Rapids-based Meritage is the nation's largest owner of Wendy's restaurants, as well as the owner of several other types of restaurants. In total, it owns 333 restaurants in 16 states, including ten new Wendy's restaurants acquired in 2019, plans to add 40 more restaurants by the end of 2024, and employs approximately 11,000 workers. For the most recent three quarters ending September 29, sales increased 5.7% while net income fell 2% because food and labor costs increased faster than revenue.

**Mercantile Bank Corporation**

Mercantile Bank, based in Grand Rapids, had 46 banking offices and \$3.7 billion of assets at the end of its third quarter. It also reported great financial results. Its net income increased by nearly 25% during the first nine months of 2019 compared with the same period in 2018. The bank's stock price was \$28.26 at the beginning of January, and varied up and down until December when it climbed to nearly \$37, its highest price in fourteen years. Like other West Michigan banks, barring an economic slowdown, investors can look forward to continued strong performance in 2020.

### **Perrigo Corporation PLC**

The company's stock price rose during most of 2019. Beginning at \$40.50, it rose to \$51.66 by year's end. Perrigo continued making progress in its goal to transform into a consumer-care products company from its historical focus on generic and OTC drugs. Three major developments defined Perrigo's performance in 2019. For starters, it announced in May it was acquiring Grand Rapids-based Ranir Global Holdings, LLC for \$750 million. Ranir is a major producer of private label oral care products. Second, the acquisition was a significant step in Perrigo's long-term transformation from its historical focus on generic drugs to a main focus on consumer-care products. And finally, its third quarter profit was the fourth consecutive quarter Perrigo met, or exceeded, adjusted earnings per share expectations. These three developments are a reason for Perrigo investors to celebrate. The developments are a major reversal from the earnings, tax, and executive management continuity issues that caused Perrigo's stock price to dive from \$90 per share to \$37 in 2018.

### **SpartanNash Company**

Grand Rapids-based SpartanNash distributes and sells grocery products. The company owns 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.

With a 17.1% drop in its stock price in 2019, it was the worst performer of the 15 companies comprising the West Michigan Stock Index. Its stock price peaked in mid-February at just over \$22.5 per share, bottomed out at \$9.41 in mid-August, and closed the year at \$14.24. A huge drop in February followed the company's fourth quarter earnings announcement on February 20. Earnings had decreased 18% on a 2.3% revenue drop. Spartan had incurred a huge non-cash loss attributed to a food distribution customer. Earnings recovered in the second quarter, but the bottom fell out again at the end of the third quarter (October 5) when the company announced a 23% decrease in earnings because of expenses associated with the end of its pension plan. 2020 should be a much better year now that these two unique losses are history.

### **Steelcase, Inc.**

Steelcase officials announced a year ago that the 2019 fiscal year ending February 28, 2019, was going to be the its best year in a decade. It was. Earnings were up sharply, as were order backlogs. Sure enough, this outstanding performance continued throughout 2019. Earnings of 45 cents per share were announced in mid-December, blowing away analysts' estimates of 35 cents. Share price skyrocketed 16.4% to \$22.21 per share on December 17, easily the highest price since a few months after its initial public offering in 1998.

### **Stryker Corporation**

Kalamazoo-based Stryker is a major medical technology company. Not only did its stock price tack on a nearly 34% gain in 2019, but its price has risen sharply, and without letup, for nearly eight years. It reached \$220 per share in August, but fell about \$20 per share upon the release of third quarter earnings. Some investors were disappointed that the company's dividend increase wasn't larger. Yet, adjusted earnings per share rose 13%, the high end of the company's guidance. The company's CEO had this to say during the third quarter conference call, "We just have terrific momentum across our business and across our geographies." The stock recovered to \$210 by year's end. It's interesting to note that Stryker's price/earnings ratio is less than one-half of its value a year ago. In other words, price hasn't kept up with the rapid increase in earnings, and that's a good sign for 2020.

### **Universal Forest Products, Inc.**

Rising nearly 84% in 2019, UFPI's stock was the top performing component of the Index. Third quarter sales were up 7%, but earnings rose 26%, a record high. Contributing to this great performance was an increase in the percentage of high-margin products relative to commodity sales from 62.1% to 67.6%. The company also announced it was about to change its name to UFP Industries, Inc. Universal Forest Products designs, manufactures, and markets wood and wood-alternative products. It is headquartered in Grand Rapids.

### **Whirlpool Corporation**

Whirlpool's stock price rose 38% in 2019 after falling about the same percentage in 2019. The company's performance in 2018 was characterized by missed projections and large losses. Just the reverse happened in 2019. The company expects to achieve the high end of its earnings projection, paid off a \$1 billion term loan, and increased its profit margins significantly. Executives are optimistic about 2020.

### **Wolverine Worldwide, Inc.**

WWW had a so-so 2019 prior to the third quarter. The company improved its revenue growth, both gross and operating margins, and adjusted earnings per share. In fact, third quarter adjusted earnings per share growth and gross margin were the highest of any quarter in the company's long history. The company is experiencing strong sales growth in its Merrell, Sperry, and Saucony shoe brands. Wolverine's stock price rose a modest 5.8% in 2019, but was only one of three stocks in the Index that didn't decrease in 2018. Rockford-based Wolverine Worldwide, Inc. designs, manufactures, sources, markets, licenses, and distributes footwear, apparel, and accessories.

The sharp increases in U.S. stock prices during 2019 added several trillion dollars to investors' wealth. That's great news for retirees, employees with stocks in their retirement plans, charities, businesses wishing to raise money for long-term needs, and other stock investors. Most analysts predict continued stock market gain into 2020, but in my decades of experience, humans cannot accurately predict the future. Years from now, however, it's likely investors will look back at 2019 and say, "Those were the good old days." ■

# West Michigan and the Global Economy

Gerry Simons, Ph.D., Professor, Department of Economics



In its October 2019 World Economic Outlook, the International Monetary Fund (IMF) forecast global economic growth for 2019 at 3%, the lowest since 2008-09, the time of the Great Recession. The IMF also projected that economic growth would continue to fall over the next few years for the “Group of Four” – the U.S., the 19-country Eurozone, China, and Japan – even though global growth during that time would increase, buoyed by

economic recoveries in emerging markets. The IMF estimates that this Group of Four has a combined GDP equivalent to approximately 62% of global GDP, so a slowing of growth for the group is a significant drag on the global economy.

In its November 2019 Economic Outlook, the Organization for Economic Co-operation and Development (OECD) made similar projections, stating that the outlook for the global economy is “unstable.”

**Table 1** shows 2018 growth in real GDP for the Group of Four, as well as OECD projections for 2019-2021 (growth in “real GDP” – GDP adjusted for inflation – is the most meaningful measure of overall growth in an economy). The 2021 projections should be interpreted cautiously, as a lot can change in that time. However, the modest growth projections for 2020 are a reasonable reflection of the economic weaknesses and trends seen over the past year. China’s economy is expected to grow by only around 6% for each of the next two years – a substantial decline since the double-digit growth in real GDP that it was experiencing only a decade ago. Projected growth in the U.S., Japan, and the Eurozone is effectively stagnant.

**Table 1. Annual % Change in Real GDP for “Group of Four”**

	2018	2019*	2020*	2021*
China	6.6	6.2	5.7	5.5
Eurozone	1.9	1.2	1.1	1.2
Japan	0.8	1.0	0.6	0.7
U.S.A.	2.9	2.3	2.0	2.0

\*Projections.

Source: OECD, Economic Outlook, November 2019.

**Table 2** shows recent and projected economic growth in the four largest economies in the Eurozone – Germany, France, Italy, and Spain. Collectively, these countries make up approximately 74% of the Eurozone’s economy, and the

OECD’s projections clearly indicate considerable weakness in all four economies. Germany is traditionally seen as the powerhouse for European economic growth, so the close-to-zero growth projection for 2020 is particularly worrisome.

**Table 2. Annual % Change in Real GDP for Four Largest Eurozone Economies**  
(relative share of Eurozone GDP in parentheses)

	2018	2019*	2020*	2021*
Germany (29%)	1.5	0.6	0.4	0.9
France (20%)	1.7	1.3	1.2	1.2
Italy (15%)	0.7	0.2	0.4	0.5
Spain (10%)	2.4	2.0	1.6	1.6

\*Projections.

Source: OECD, Economic Outlook, November 2019.

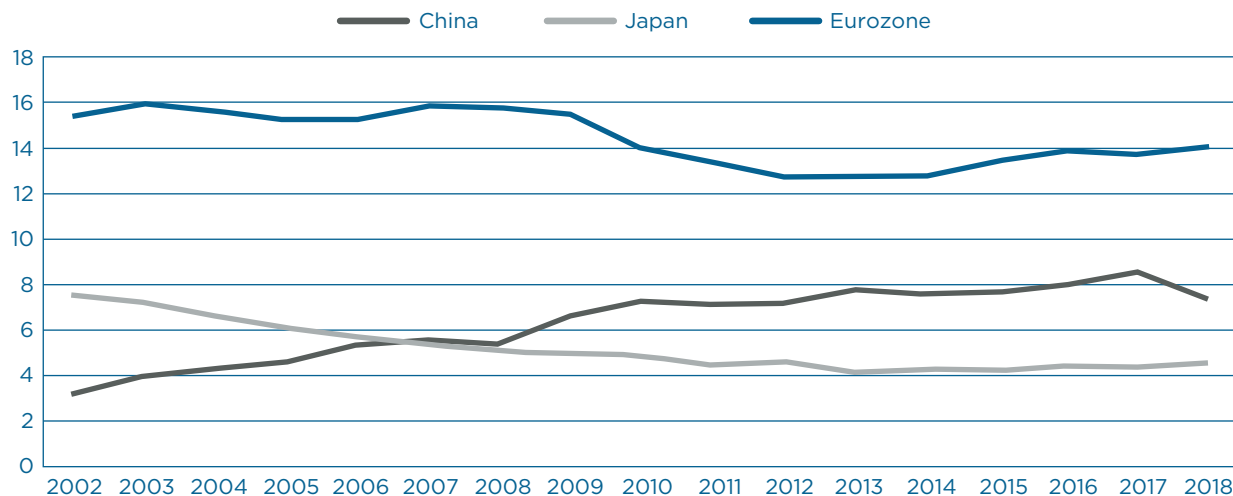


## How much of a concern are these projected slowdowns for West Michigan and the State of Michigan as a whole?

**Figure 1** shows exports from the U.S. to the Eurozone, China, and Japan as a percentage of total exports. Exports to these regions combined made up approximately 26% of

total exports in 2018 (the most recent year available) – with exports to China increasing in relative share since 2008. These percentage values represent a growth in dollar exports from a combined value of approximately \$180 billion in 2002 to \$428 billion in 2018.

**Figure 1: U.S. Exports to Selected Areas as a % of Total Exports, 2002-2018**

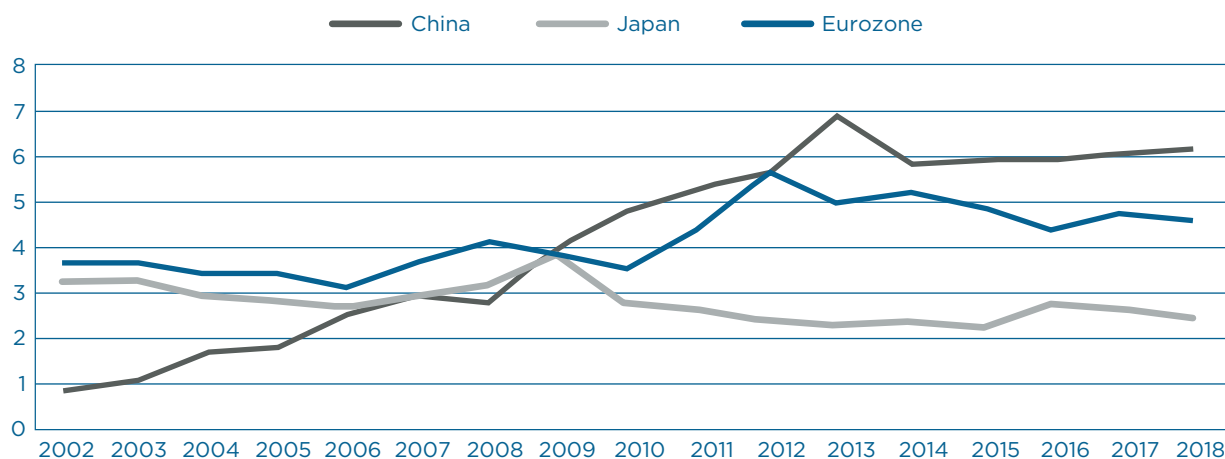


Source: International Trade Administration, and author's calculations

**Figure 2** shows Michigan's exports to the Eurozone, China, and Japan, as a percentage of the State's total exports. As with the nation as a whole, the relative share of State exports to China has grown since the Great Recession, though the growth has been more substantial for Michigan than the U.S. The share of Michigan's exports going to the Eurozone has also grown over the past decade, while the Eurozone's share of U.S. exports has declined slightly. These shares

represent a growth in dollar exports from a combined value of approximately \$2.7 billion (7.8% of total exports) in 2002 to \$7.7 billion (13.1% of total exports) in 2018. The disparity in the combined share for Michigan compared to the nation is due in large part to the disproportionate importance of exports to Canada. Exports to Canada accounted for approximately 18% of U.S. exports, but 41% of Michigan's exports.

**Figure 2: Michigan Exports to Selected Areas as a % of Total Exports, 2002-2018**



Source: International Trade Administration, and author's calculations

The importance of these regions for West Michigan is more difficult to ascertain, as government data on local exports to individual countries are not available. Some aggregate data are available though – the U.S. International Trade Administration (ITA) provides information on its database for exports from Metropolitan Statistical Areas (MSAs) to select regions (though not individual countries). Although the ITA does not give MSA exports to the Eurozone, it does give exports to the European Union as a whole. **Table 3** shows 2018 exports from the Grand Rapids-Wyoming and

Muskegon-Norton Shores MSAs to the E.U. and to our NAFTA partners (Canada and Mexico), and comparison values for Michigan as a whole. For both of these West Michigan MSAs, the share of exports to the E.U. is larger, and the share of exports to Canada and Mexico is smaller, than for the State. Although data on West Michigan exports to China and Japan are not provided by the ITA, the circumstantial evidence here is that China, Japan, and the Eurozone combined are more significant export markets for West Michigan than for the State.

**Table 1: Annual % Change in Real GDP for “Group of Four”**

	Exports to E.U.* as % of Total	Exports to Mexico and Canada as % of Total
Grand Rapids-Wyoming MSA	21%	51%
Muskegon-Norton Shores MSA	36%	43%
Michigan	13%	62%

(Data for Holland-Grand Haven MSA not available)  
\*Including U.K.  
Source: International Trade Administration, and author’s calculations

The information provided here is a clear indication that West Michigan is by no means immune to the forecasted anemic economic growth in China, Japan, and the Eurozone. The slowdowns in these economies is likely to result in decreases in exports to these markets, coinciding with probable drops

in demand from domestic consumers as the U.S. economy itself slows. West Michigan exporters might find some relief from improved growth in emerging economies, though that is unlikely to outweigh the export losses in the short term. ■

# A Growing Benefit Trend in the Workplace — Employee Financial Wellness

Jeff S. Rubleski, MBA CFP® - Director, Sales Strategy - Blue Cross Blue Shield of Michigan



With unemployment hovering below 3% in West Michigan and 3.7% nationally through August 2019<sup>1</sup>, employers of all sizes are looking for ways to retain and recruit staff in tight labor markets. To differentiate themselves in the competition for talent, employers are turning to proactive workplace employee financial wellness education and focused employee benefits education to help employees to better manage their personal finances

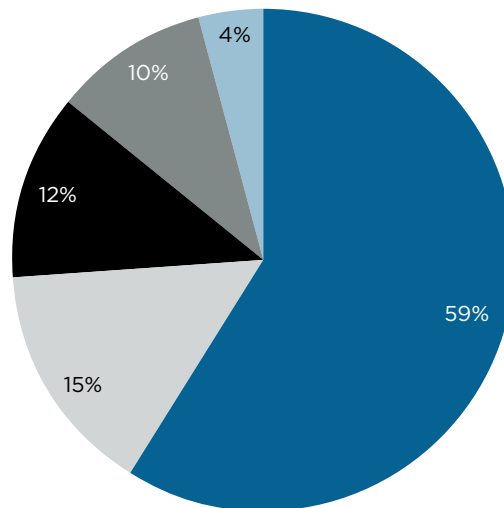
and to help employees to optimize existing benefits programs.

In its 8th annual Employee Financial Wellness Survey, the employee benefits consulting firm PwC asked employees what caused them the most stress. By a wide margin, employees listed financial and money challenges as the leading cause of stress. **Exhibit 1** shows the magnitude that financial challenges have on employee reported stress from the PwC survey, with 59% of total reported stress linked to financial and money challenges.<sup>2</sup>

*"Employees report financial and money challenges drive their stress fifty-nine percent more than other life stressors combined!"*

**Exhibit 1: Leading Causes of Employee Stress**

■ Financial or Money Challenges ■ My Job ■ Relationships ■ Health Concerns ■ Other



Source: Employee Financial Wellness Survey, PwC, 2019

<sup>1</sup> U.S. Bureau of Labor Statistics, September 2019

<sup>2</sup> Employee Financial Wellness Survey, PwC, 2019

Evaluating the signs of employee financial distress

At the workplace, employee financial distress manifests in a variety of ways and is a threat to the overall wellbeing of the employee. A CareerBuilder 2017, survey of 3,000 U.S. employees illustrated how close to the financial edge surveyed employees live by exposing the following:

- 78% of U.S. workers live paycheck to paycheck
- 6 in 10 Americans don't have enough savings to pay for a \$500 car repair or a \$1,000 emergency room bill
- 44% of Americans couldn't cover a \$400 unplanned expense with savings

**Exhibit 2** illustrates some of the common signs of distress in the workplace.

Exhibit 2: Common Signs of Employee Financial Distress

• Increased absenteeism	• Decreased productivity
• Wage garnishments	• Calls from creditors
• Overuse of 401(k) plan loans	• Inappropriate use of employer-sponsored benefits
• Excessive employee turnover	• Not having enough financial resources to retire on time

Consider linking financial wellness programs to existing benefits and wellness programs

Assess the current workplace benefits package and any general wellness-type programs you are offering to employees. From a benefit plan perspective, an area that is usually "opportunity rich" for financial education involves the 401(k) or similar retirement plan. When evaluating your retirement plan consider the following key questions to measure the performance of your plan:

- What percentage of eligible employees contribute enough to take advantage of the full employer matching contribution?
- What percentage of eligible employees have a current plan loan or have received a hardship withdrawal?
- Does your plan offer automatic enrollment of eligible plan participants and auto escalation of annual employee contributions to the retirement plan?
- Are employees selecting the best investment options for their age and risk tolerance?

Take a similar approach to other employer-sponsored benefit plans and you'll find areas of opportunity to proactively educate employees to better utilize the benefits available to them.

From a programming perspective, start with a personal finance survey of your workforce. Find out where your employees struggle. Common areas where additional help is needed will include budgeting, setting up an emergency fund, getting control of credit card debt, paying off student debt, understanding investment options in the 401(k) or retirement plan, knowing how to determine financial net worth, planning for big-ticket purchases like buying an automobile or a home and funding college education and retirement. Chances are the listed areas for help are likely to be of interest to broad segments of your employee population and can serve as the foundation for your financial education efforts.

The benefits of a financially savvy workforce

When employees understand the key drivers of financial wellbeing, (budgeting, managing debt, planning large purchases, having an emergency fund, etc.) they will be receptive to better utilizing company-sponsored benefits that are available to them. Be sure to measure current plan participation and use these metrics to establish a "baseline" from which you can evaluate the success of your future education efforts. Consider utilizing the resources of existing vendors to help in your financial education efforts. These vendors (health plan, retirement plan, ancillary benefit plan, EAP, and consultants) often have great resources and staff available to help in employee education efforts.

Building a financially savvy workforce is something that needs to be embedded in the core of your existing benefits and employee wellbeing programs. Successful worksite financial wellness programs need to be *ongoing, evolving and measured*. There needs to be a long-term commitment to enhancing the financial wellbeing of your workforce through thoughtful programming and education of your employees. By committing to the long-term viability of worksite employee wellness education, you will establish financial wellness as a core value for your employees, and the benefits of your efforts should set your business apart from your competitors and improve the lives of the employees in your organization. ■



# Is There Nothing to be Done? Sexual Harassment, Emotional Empathy, and the Role of Men

**Michael DeWilde., M.T.S., Koeze Business Ethics Initiative**

**Nguyen Pham, Master's Candidate in Clinical Psychology, Sam Houston State University**



Michael DeWilde



Nguyen Pham

As an ethics professor, I more than occasionally am asked if I think ethics can “really” be taught. One of the assumptions behind this question is that once a student gets to college, grad school, or the workplace, his/her moral compass is pretty well fixed and there’s probably nothing either I or anyone else can do to change whatever positions he/she holds. While understanding that being compelled to take a class aimed at the critical examination of one’s moral reasoning can result in some defensive behavior, nonetheless the position that “people don’t change” always strikes me as odd. It usually only takes a few questions (or a few examples from my own moral life) to surface topics where the inquisitor him or herself has changed his or her mind. There is a genesis to our moral perspectives and positions in both nature and nurture, and it is an admirable quality of human nature that we can employ both reason and emotion to change our minds about things.

I want to look at sexual misconduct, generally, and sexual harassment, specifically, to illustrate, since, along with money, sex gets more people into trouble at work than any other factors combined. Unwelcome remarks, inappropriate touching, and quid pro quo propositions—even in this #MeToo era—proliferate. The costs of that proliferation are enormous, both financially and in terms of individual health and the health of a business, which is why no business leader can afford to ignore it. Estimates range from between \$18,000 to over \$22,000 for every case that is brought to light and litigated in one way or the other, and the U.S. Equal Employment Opportunity Commission (EEOC), in FY 2017, took in \$46.3 million in monetary benefits for employees who brought sexual harassment charges (and keep in mind the EEOC litigates only a handful of the cases it investigates). While reporting of incidences has increased, nonetheless the consensus of studies seems to suggest that questionable behavior has increased as well.<sup>i</sup> So if I’m right, and people can change their thoughts and behaviors around ethical issues (the presumption is “change for the better such that over time less physical, emotional and financial harm is done”), why is it that sexual harassment has proven to be so intractable, so pervasive, and so resistant to

training, to threats, to pleas, to even the loss of career and reputation?

By way of answering, allow me to go back in time. When I first began teaching business ethics courses at Seidman, especially at the MBA level (2006), my approach to the issue of sexual harassment and misconduct was (a) we need to acknowledge it, and (b) students need to know the definitions, terms, relevant court cases, and prohibitions that surround it. It was a largely intellectual exercise, which is what ethics professors often defer to since we do not wish to be accused of foisting our views on unsuspecting students. Here’s the information and here are some reasoning tools—now you decide.

But, from the start, among the few women in those early classes, there was a perhaps surprising willingness—however tentative, however difficult—to tell the rest of us there was much more to this issue than statistics and court rulings. A 28 year-old engineer, one of two women in an early class, talked of how she had to develop a “thick skin” and “faux sense of humor” to deal with the daily barrage of remarks, often along the lines of “you’re too attractive to do this, you’re built for other things....” She spoke of what it took to get up every day to go to a job she loved in an environment she loathed. A would-be Finance major talked of how she finally, tearfully, switched to Accounting simply because “I really couldn’t imagine a life trying either to be one of the boys on one hand, or fending them off on the other.” I don’t have the space here to recount every story I and the others heard just from those working here in West Michigan—they would easily fill a book. But what did dawn on me, finally, was that most of the women in my classes and those I worked with in the businesses where I was consulting, were having a qualitatively different life experience at work than men. It was a far worse, more difficult, and more psychologically draining and damaging life in ways neither I nor the other men in the room had ever likely appreciated or fully understood. After a while, I started paying more attention to the expressions on the faces of the men in the room as the women talked. They ran to what was to become a predictable gamut: bewilderment, consternation, discomfort, disbelief, maybe some hint of embarrassment. Listening to their female peers recount various types and degrees of unwelcome attention, touching, and remarks over the course of their schooling or careers, many of the men were left looking as if they simply wanted this particular part of the class to be over with. *They’re not talking about me. Well, it’s a lot better for them than it used to be. Maybe they just need to be a little tougher and not so sensitive...* turned out to be not atypical thoughts I heard when debriefing with the men in class (this is not to discount those handful of men in any setting who take the stories they are hearing seriously; yet, in our experience, those willing and able to intervene is a percentage that mirrors what one finds in national studies—maybe 17% or so).<sup>ii</sup>

When debriefing with the women, whether they've told their stories or not, (the number here also reflects the national averages of 40-80% of women who recall having been sexually harassed)<sup>iii</sup> they shake their heads and say that, regrettably, the men in the room really have no idea. And, in having no idea, men allow sexual harassment in its many forms to persist in the workplace despite all of us living in a #MeToo world. Most men are not "bad guys" they say; rather, they are oblivious, willfully or otherwise. They don't see, and in not seeing, they don't really know.

So, where did that leave me? Should I continue with my lessons on harassment as before, pretending that they somehow addressed the very real emotional distress in the room, semester after semester? I looked at what had been done to address harassment, from videos to elevated legal threats to zero tolerance policies to various forms of sensitivity and bystander training. But as one Seidman MBA student put it, "short of changing human nature," we should expect "this sort of behavior between men and women to always be an issue" (here, I am not addressing same-sex harassment, which I recognize occurs). I disagreed. So I began using affective role plays in my classes, putting myself in the role of the "bad guy-harasser" and asking everyone in the class to think about how they would respond as I "harassed" a woman who had nominally volunteered. I thought this would be far more effective, maybe even the solution, as now we could all see and, perhaps more importantly, feel the terrible dimensions of the behavior in real time, regardless of the artifice. I fooled myself into thinking I was turning out generations of managers and leaders who would be a good deal more sensitive to the issue having "lived through what it's like."

I was wrong. The women already knew, and the men who did not identify with me in my role tuned out. The "Aha!" moment did not come until three years ago.

I was part of a panel on harassment at Consumers Energy. I was going to demonstrate my role-play technique and suggest it might be something they adopt to give their training a more "lived-in" feel. But this time, for whatever reason, I did not ask for a female volunteer. Instead, I simply pointed to one of the men and asked him to participate with me, play out the scenario I presented the way he thought he would "in real life," in front of the group. And then I "sexually harassed" him, pretty relentlessly and intensely with as much sincerity in this role-play as I could muster. It was in a safe and controlled setting, but I'm not sure he necessarily felt that way at the time. And it had the desired effect. The feedback we got from him, and many of the men who were in attendance was, "sheesh, is that what it feels like?" It began a conversation with their female peers most of them said they had never had.

This method involves intense emotional responses as well as cognitive ones, as in real time the subject does his best to feel and respond as authentically as possible. After the role-play is played out, a debrief of what was said and what was felt is held, the ultimate goal being that something about "what it feels like" was in fact learned, not through a disembodied test, but through direct experience.

With Nguyen's help as she researched the methods and effectiveness of "affective role-playing," I honed this approach over time and in different settings. Months later, I used this harassment role play with a class of undergraduates and again chose a man to be my subject. Again there was an intensity to my approach, and all around the room, students frowned. One woman shook her head, another looked away in discomfort. Other men fidgeted in their seats, and the student himself visibly tensed as the role-play escalated and "the advances" become more and more unwelcome. His fists balled at his sides and his knuckles turned white from the tension, despite the fact that this was all "make-believe." When I finally backed off and began a class debrief, an observation about changed behavior through empathy came forward that further cemented for us that it is men who should be the focus of these role-plays.

In the literature on how people change, developing "cognitive empathy" is preferred over "emotional empathy." Cognitive empathy refers to the ability to put yourself in another's shoes, to take her point of view. It is to know something about "what it's like to..." and respond appropriately. Emotional empathy, which refers to actually feeling the other's emotions as part of being with that person, is eschewed for a variety of reasons, not the least because it can lead to burnout, i.e., one simply can't go around feeling what others are feeling without suffering emotionally oneself. We—Nguyen and I—don't disagree with that under most circumstances, but as it pertains to sexual harassment and its persistence in businesses and institutions here in West Michigan and elsewhere, we are willing to argue there should be an exception made – the emotional and financial costs are too great not to. People can and do change, but until more men really do feel, through emotional empathy, what women who are subject to harassment are feeling, there may be little incentive to change. Harassment as a phenomenon is unlikely to decline until men insist it does, just as much as women do. Until men finally feel why it should. ■

i Canter, David, et. al. "Report on the AAU Campus Climate Survey on Sexual Assault and Misconduct." Westat. October 15, 2019. Print.

ii "2018 Study on Sexual Harassment and Assault." Stop Street Harassment, February 21, 2018, <http://www.stopstreetharassment.org/our-work/nationalstudy/2018-national-sexual-abuse-report/>.

iii "2018 Study on Sexual Harassment and Assault." Stop Street Harassment, February 21, 2018, <http://www.stopstreetharassment.org/our-work/nationalstudy/2018-national-sexual-abuse-report/>.

# Optimizing Your Global Virtual Workforce for Success

**Rebekah Arndt, Travel Industry Professional, MBA 2018**

**Carol Sánchez, D.B.A. Professor, Department of Management**



Rebekah Arndt



Carol M. Sánchez

Michigan is the sixth largest exporter among the fifty states, with nearly US\$60 billion worth of goods sold to customers in foreign countries each year. Some 15,000 Michigan businesses sell products overseas, affecting over a quarter of a million jobs nationally, and 6% of the Michigan workforce earns a paycheck, thanks to a foreign employer. Michiganders are enmeshed in the global economy, and many are members of global virtual workforces that collaborate across international borders. But how effective are these global virtual workforces? We spoke with associates of several West Michigan companies who do business across borders, and suggest ways to help global virtual workforces be successful.

## **Doing business internationally with a global virtual workforce**

Doing business outside the home country is an ambitious proposition. Michigan and U.S. companies that operate or sell products in foreign markets may experience a “liability of foreignness,” meaning that a lack of knowledge and experience of the foreign market may render them poorer results compared with local firms, and possibly a greater chance of failure (Zaheer, 1995). To help mitigate this effect, firms often recruit dedicated international associates in the foreign country to become members of global virtual teams: as an example, U.S.-based multinational companies have an average ratio of native to foreign workers of 3:1. Often made up of middle managers and technicians in several countries, the global virtual team spans national borders, spends little if any time physically together, and works interdependently on day-to-day tasks using mostly virtual, electronic platforms. Associates engage daily with other team members who may be oceans away, in different time zones, speak different languages, and represent different cultures, values, and beliefs.

Since global virtual workforces are becoming more common, managing them well is critical because of the logistic, linguistic, and cultural barriers that team members must overcome. We propose that there are three ways companies can help their global virtual teams reduce the company’s “liability of foreignness” and improve results:

select technology wisely, encourage cultural competence, and engage in inclusive language practices.

## **1. Select technology with the users in mind -- and do not rely on it 100%.**

The first way companies can help their global virtual teams is to choose technology wisely. Successful global virtual teams thrive when there is vibrant communication, interaction, trust, clarity of task, clarity of team goals, and when they build a global team-based body of knowledge (Govindarajan & Gupta, 2001). Collaborative technology is essential, and a company should select its communication platform with care -- not just from an optimal workflow perspective, but also for its user reliability, speed, and richness of content. Virtual workers gauge the trustworthiness of their employer by the quality and effectiveness of the technology they must use (Ford et al., 2017), and they rely on technology to gain one another’s trust, support and transparency among associates on the team. One of our conversations involved a global systems architect at a West Michigan insurance giant, who told us that the necessary features of an effective global technology platform include time stamps that automatically adjust to the user’s local time, a user profile section that indicates a person’s home base, and a team calendar that considers local holidays. “When my team understands one another’s geographical location and the implications that has on the work day, concerns around response time are reduced, and expectations become clear,” he explains.

However, the team should not rely on technology for all employee exchanges. Another manager emphasized the importance of travel, because physical time spent together forges stronger relationships. He noted that businesses that invest in travel for their associates close more deals. In fact, a report by the U.S. Travel Association estimates that in-person meetings generated 25% more business than forgoing them (Oxford Economics, 2009). Live, internal meetings among members of the global virtual team are also beneficial, because they build and sustain ongoing virtual collaboration and positively affect employee retention and job satisfaction ratings.

## **2. Help navigate cultural differences**

A second way companies can help global virtual teams be successful is to help them navigate cultural differences. Cultural differences emerge as global virtual team associates get to know and depend on one another. And while it is a welcome gesture to show interest in a foreign colleague’s unique holidays and traditions, it is more important to recognize that these represent deeply held beliefs and values that may not be evident. Cross-cultural miscommunication may occur over time when people holding different values engage regularly: at first, a person may have a vague realization that something about the other person seems different. It is an uncomfortable and sometimes painful feeling, but recognizing the difference

is key. At times like this, it might be useful for people to pause, take a step back, and use a technique called Positive Indifference, which is the ability “to engage with something that makes you uncomfortable, but stay positive, while diminishing resistance to it” (Neeley, 2017). Another West Michigan manager described such an experience that occurred when his Indian team visited the company’s U.S. headquarters. The team was made up of highly trained computer engineers who were accustomed to being waited on during their workday in India: for example, a lower level employee served them fresh water when their glasses ran low. It was surprising, then, that in the U.S., not only did they not receive water service (or any service), but their boss got his own water! In the U.S., where equality at work is valued more than rigid hierarchies, such overt displays of power and status are less accepted than they are in India (Hofstede et al, 2010). The Indian associates felt uncomfortable without this display of rank, and U.S. associates were equally uncomfortable knowing that it was someone’s job in the India office to fetch water. Engaging with one another to discuss, understand and accept the values and beliefs that underpin such differences has resulted in greater team harmony.

### 3. Engage in inclusive language practices.

A third way companies can help their global virtual teams is to adopt inclusive language practices. More than a quarter of the world’s population speaks English as a first or second language, and English is the most widely used language on the planet (Neeley, 2017). This makes it a valuable skill in international business: in Asia, there is intense pressure for employees to speak English in the workplace. Yet, even highly skilled not-native English speakers report they lack the ability to communicate fully when not speaking in their native tongue (Neeley, 2017). To assure full engagement among members of the global virtual workforce, organizations that adopt English as its lead language should encourage team members to ask frequent questions and seek regular clarification, and above all, have patience for speakers who have varied levels of English proficiency. Management should allow extra time for meetings, because they will take longer if not every participant is a native English speaker. They might defer complex input to written communication, thereby giving team members more time to be precise and detailed about their points of view. Native English speakers should speak slowly, simplify vocabulary, encourage their international colleagues to contribute, and not dominate conversations. Indeed, native speakers should avoid conversing and collaborating mainly among themselves, to the exclusion of non-native English speakers. By deliberately engaging with their global associates, native speakers give their foreign colleagues an opportunity to practice and improve their English – benefitting both groups (Neeley, 2017).

Some experts say that being monolingual in English is a liability, because fluency in English suggests that native speakers need not learn other languages. Yet these native speakers will, therefore, always be an outsider to cultures that speak other languages (Hofstede et al, 2010), and they will always learn information about the foreign market second-hand. Learning a new language may seem daunting, but beginner level fluency can be very helpful in international business, and can be learned with a vocabulary of just 1500 words (Neeley, 2017).

### A concluding thought

Strategies that promote robust communication, skillful navigation of cultural differences and clarity on language practice can help West Michigan companies that do business internationally create a virtuous cycle of motivation for continuous learning. Companies that encourage cultural learning and language inclusion among global virtual teams can benefit, because improved cross-cultural knowledge among associates begets curiosity, and helps global virtual teams deliver handsome results. Multiple national and regional perspectives are better than singular ones, because diversity of thought facilitates better, more creative and innovation solutions for the company. By adopting key strategies that bundle appropriate digital communication technology, cultural competence, and language practices, global virtual workforces can deliver team success, organizational growth, and help overcome any liability of foreignness the company may have. ■

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# STEM Jobs in West Michigan

Paul Sicilian, Ph.D., Professor, Department of Economics



This article uses statistics from the Occupational Employment Statistics (OES) database to discuss the role of STEM (Science, Technology, Engineering and Math) occupations in the West Michigan economy. The OES is a semi-annual survey of non-farm establishments in the United States conducted by the U.S. Bureau of Labor Statistics (BLS). The OES database provides local (metropolitan and non-metropolitan

localities), state, and national employment and wage estimates for over 800 occupations.

The BLS identifies 100 occupations as STEM occupations. These occupations are relatively high-paying. Nationally, the median annual pay in all STEM jobs is \$84,880 as compared to a median of \$37,020 for non-STEM occupations.<sup>1</sup> The pay gap between STEM and non-STEM jobs in the Grand Rapids-Wyoming MSA, while significant, is smaller than for the nation: \$69,320 for STEM occupations and \$34,930 for non-STEM occupations.

There is a wide range of occupations, identified as the STEM occupations by the BLS. Thus, focusing on the median earnings

for all STEM occupations hides large variation in pay across STEM occupations. **Figures 1** and **2** present median earnings for the 10 highest paying STEM occupations and 10 lowest-paying STEM occupations nationally. **Figures 3** and **4** present the same statistics for the Grand Rapids-Wyoming MSA.

Not surprisingly, STEM occupations have above average educational requirements. According to the BLS, about 99% of STEM occupations require education beyond high school and 76.5% require a Bachelor's degree or more. The Bachelor's degree is the most common minimum requirement. Moreover, the STEM occupations that are projected to grow the fastest over the next ten years require a Bachelor's degree or greater education. Only 27.7% of non-STEM occupations require a Bachelor's degree or more education while 14.8% require no formal educational credential. For non-STEM jobs a high school diploma is the most common educational requirement. About 79% of STEM jobs in the Grand Rapids-Wyoming MSA require a Bachelor's degree or more education, and about 13% require an Associate's degree.

On the other hand, non-STEM jobs require more on-the-job training. The BLS provides estimates of the "typical on-the-job training needed to attain competency in the occupation." They estimate that 88% of STEM occupations require no on-the-job training, whereas only 32% of non-STEM have no need for on-the-job training. **Table 1** presents the BLS-identified types of training and the percent of occupations requiring each type of training.

**Table 1: Percent of Occupations Requiring Training to Attain Competency**

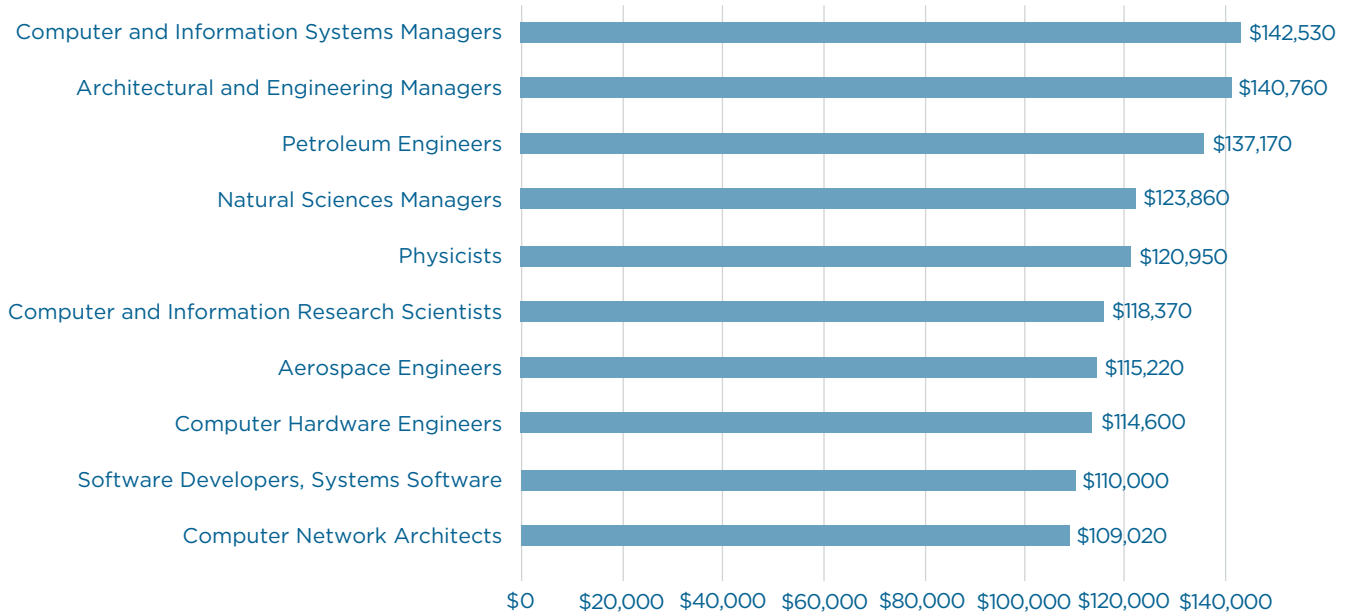
Type of Training	STEM	non-STEM
Apprenticeship	--	2.11
Internship/residency	3.06	3.09
Long-term on-the-job training	1.02	7.88
Moderate-term on-the-job training	8.16	31.08
Short-term on-the-job training	--	24.19
None	87.76	31.65

There is a relationship between pay in STEM jobs and the occupation's educational requirements. Most STEM jobs require education beyond high school. However, of the 10 lowest paying STEM occupations nationally, only one (Biological Technicians) requires a four-year college degree. Of the remaining, seven require an Associate's degree and two require no degree beyond high school. All ten of the highest paying STEM occupations require a Bachelor's degree

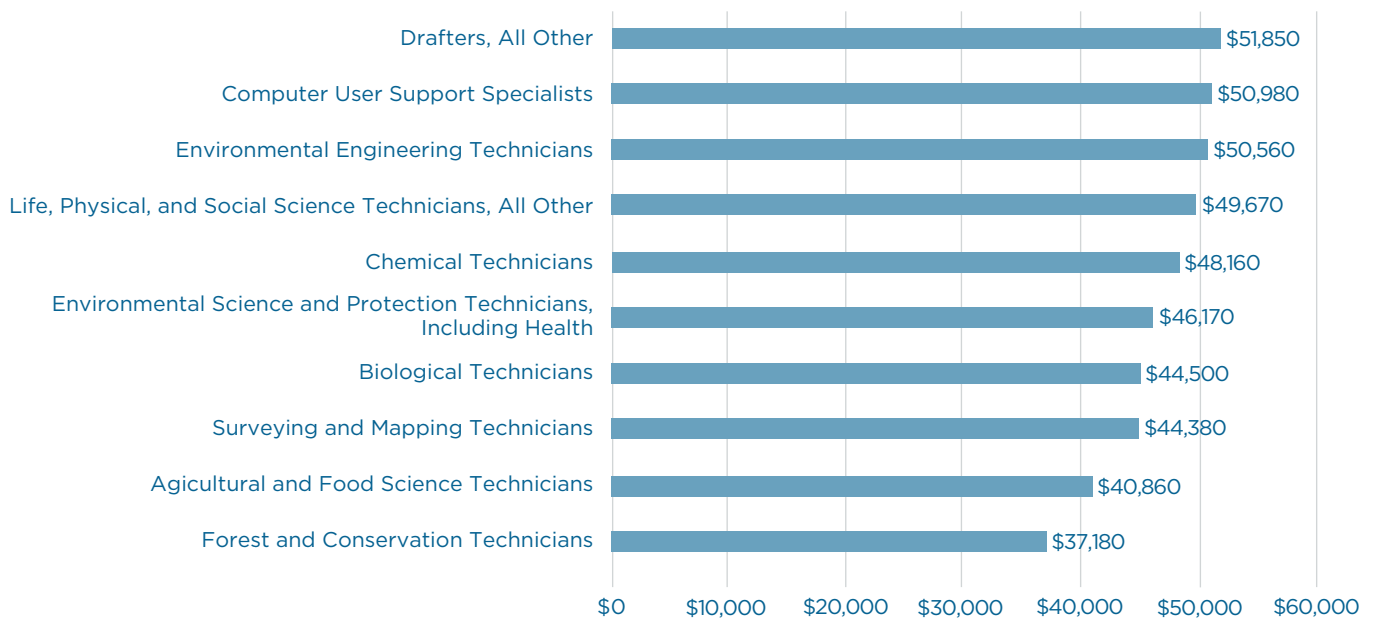
or more education. Two of the top-ten require education beyond the Bachelor's degree—Physicists (Doctoral or professional Degree) and Computer and Information Research Scientists (Master's degree). The same pattern holds for Grand Rapids-Wyoming. All ten of the highest paying STEM occupations require a Bachelor's degree, whereas only one of the ten lowest paying STEM occupations (Surveyors) needs education beyond the Associate's degree.

<sup>1</sup> For occupations for which hourly pay can be determined, annual pay is calculated as 2080 x (hourly pay). It is not possible to determine an estimate of hourly pay in all occupations—for example, teachers. For those occupations, the OES contains only annual pay estimates.

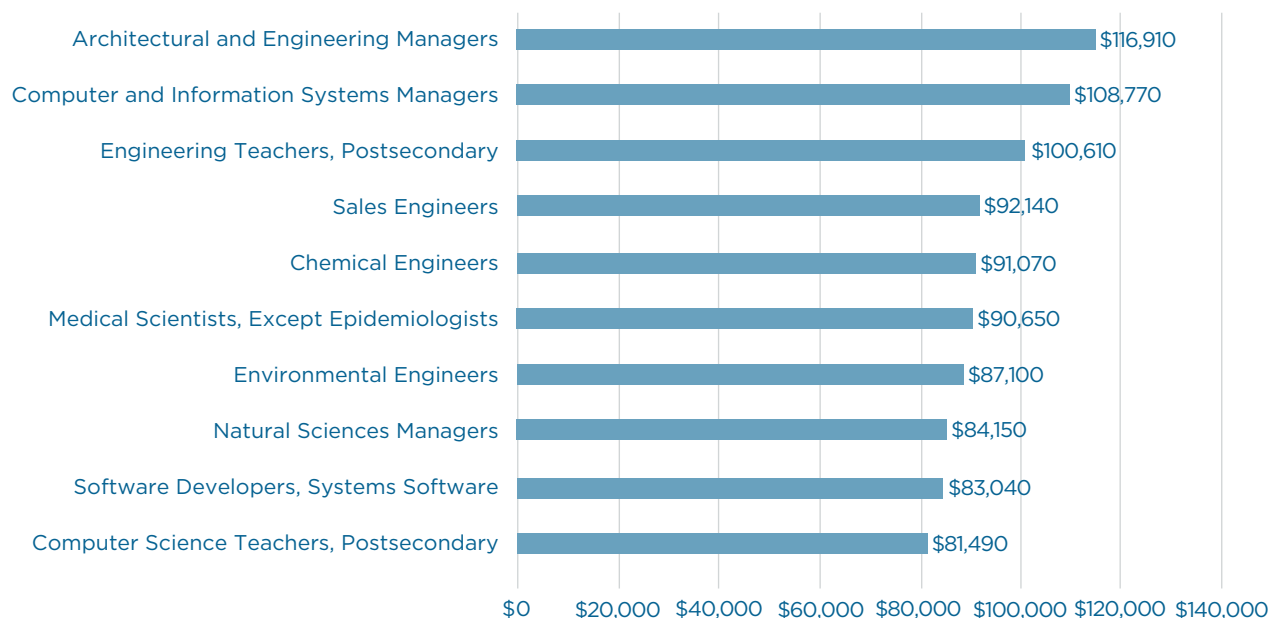
**Figure 1: National Median Pay**  
(10 Highest Paid STEM Occupations)



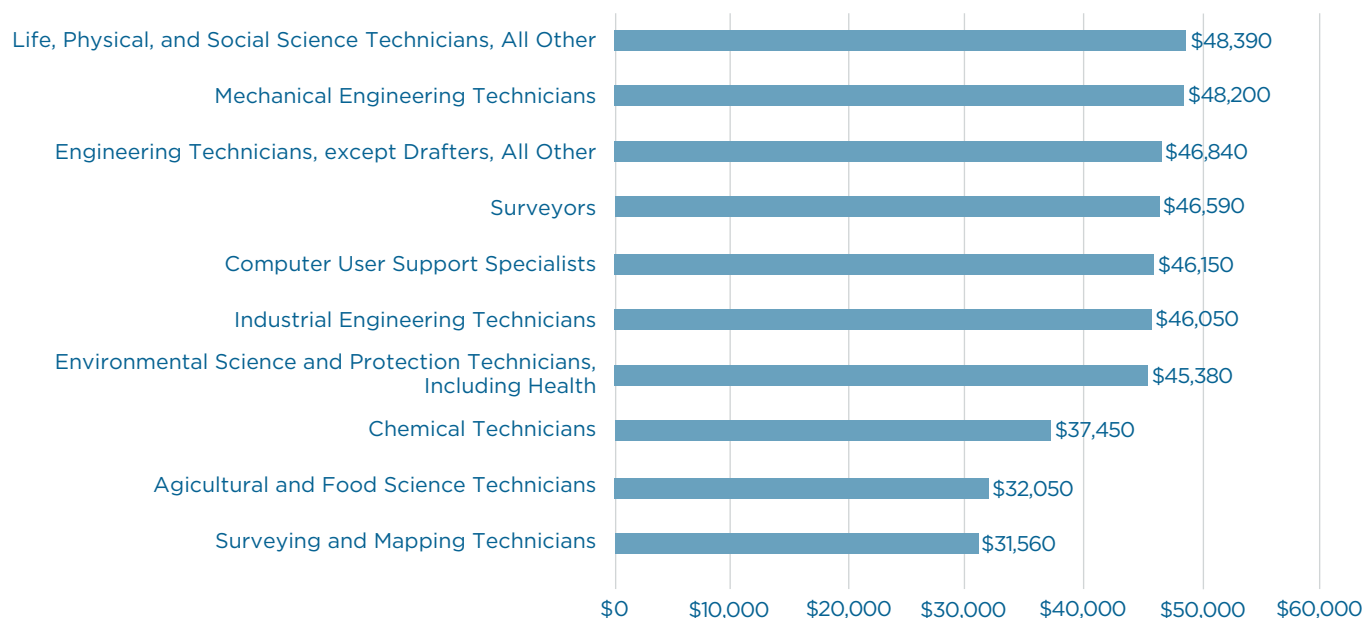
**Figure 2: National Median Pay**  
(10 Lowest-Paid STEM Occupations)



**Figure 3: Median Pay in Grand Rapids-Wyoming MSA**  
(10 Highest-Paid STEM Occupations)



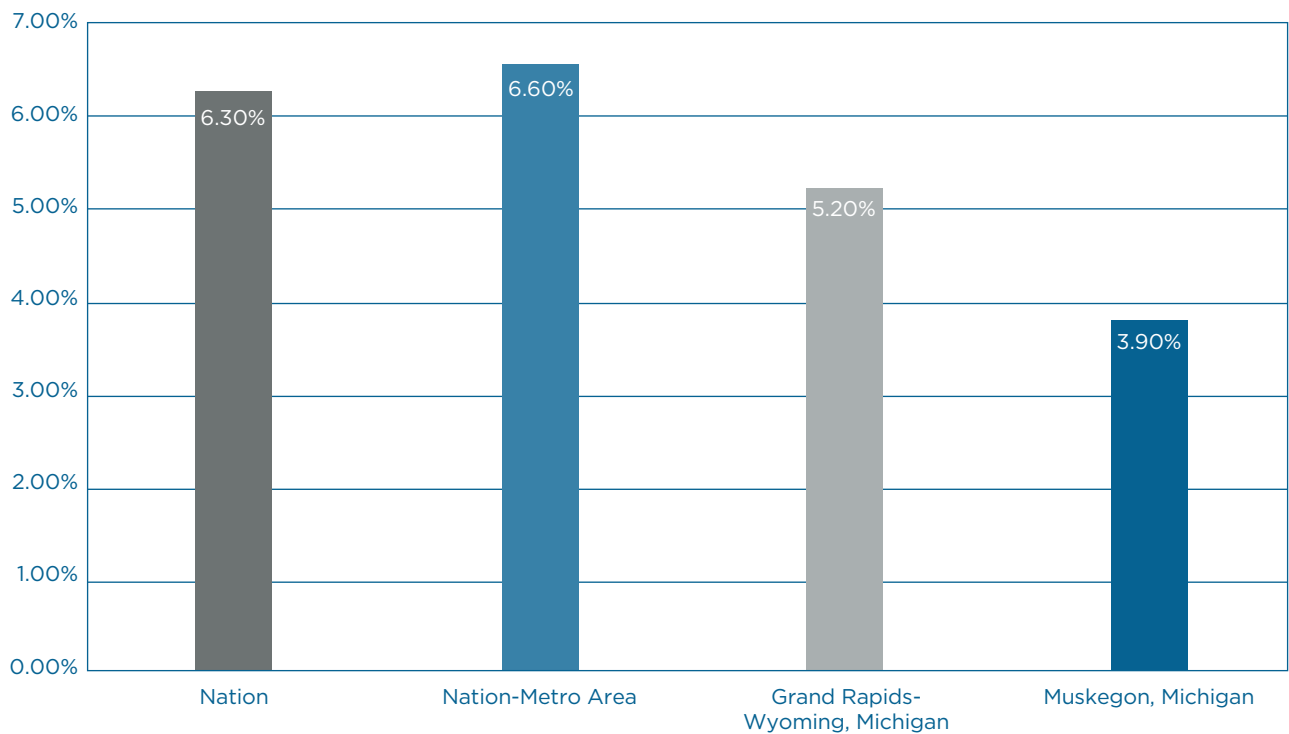
**Figure 4: Median Pay in Grand Rapids-Wyoming, MSA**  
(10 Lowest-Paid STEM Occupations)



While relatively high-paying, STEM occupations are not a large part of the labor market, comprising only 6.3% of total employment in the United States (6.6% in metropolitan areas). STEM occupations make up an even smaller fraction of occupations in West Michigan (**Figure X**). One should be careful interpreting this, however, as STEM jobs are concentrated in a few MSAs, distorting comparisons of local

STEM statistics to national averages. For example, STEM occupations make up 27.4% of all jobs in the California-Lexington Park, MD MSA and 21% of all jobs in the San Jose-Sunnyvale-Santa Clara, CA MSA. The top 50 MSAs for STEM occupations account for 70% of all STEM jobs nationally, while the top 50 MSAs for non-STEM jobs account for 58% of non-STEM jobs.

**Figure 5: STEM Jobs as Percent of Total Jobs**



Computer-related occupations are the most common STEM jobs. Software Developers (about 900,000 jobs), Computer User Support Specialists (631,000 jobs), Computer Systems Analysts (588,000 jobs) alone account for 23.5% of all STEM jobs. Engineering occupations also represent a large number of STEM jobs nationally. The number of jobs for Industrial, Mechanical and Civil Engineers totals about 889,000—those three occupations account for nearly 10% of all STEM jobs. STEM jobs are even more concentrated in engineering occupations in West Michigan. Mechanical Engineers and Industrial Engineers alone represent about 28% of the total number of STEM jobs in the Grand Rapids-Wyoming, MSA.

**Conclusion**

West Michigan can benefit from attracting both employers who offer jobs in STEM occupations and from attracting and retaining people with the required skills and education for these occupations. As this article demonstrates, STEM occupations are high-paying, and job growth in these occupations is projected to grow faster than employment overall. Many STEM occupations are in manufacturing—a significant portion of the West Michigan economy. Average educational attainment in West Michigan is similar to the nation overall and actually has a slightly higher percent of Bachelor's degree earnings than the nation overall. Arguably, then, the local economy is well-positioned to benefit from the growing importance of STEM occupations. ■

# Economic Impact of Kent County Parks

Christian Glupker, M.B.A., Instructor, Department of Economics



With an annual operating budget of \$6 million in 2019, Kent County Parks (KCP) seeks to provide residents with traditional park amenities as well as recreational opportunities not typically found in local city and township parks. To this end, KCP emphasizes large regional parks offering diverse natural areas to explore. Of the total 7,300 acres under management, 80% is concentrated in fourteen parks of 200 acres or more.

To further understand its role in the community, KCP engaged the Seidman Research Office of Grand Valley State University in 2018 to conduct an economic impact study of county parks and trails. This study focuses on the quantifiable effects of KCP. This report does not address any long-term economic, health, or social impacts. Nor does it address the economic

impact of repeat visitors who return to Kent County because of their positive experience at a park or trail.

The health benefit of parks has been well documented in studies by the Center for Disease Control. A recent Pennsylvania State University study found significant correlation between improvements in health and the length of stay in visits to parks. Parks also play an important social role in communities as they provide a gathering place for families and social groups. In 2017, more than 2,000 groups reserved shelters and picnic areas in KCP to reunite with family members, participate in corporate and community activities, and celebrate life events.

In calculating the economic impact of KCP, the Seidman Research Office collected data to determine visitor count, the frequency of visits, and how much each visitor spent. KCP does not charge admission to most parks, making an accurate visitor count difficult to attain. The survey team used systematic sampling at random entry/exit locations for a select number of parks to estimate park attendance (**Table 1**).

Table 1: Total Visitor Count

Locations	Local (Kent County)	Nonlocal	Visitors
Millennium Park	89,995	0	89,995
Kaufman Golf Course	41,685	0	41,685
5 Kent County Park Trails	289,053	54,538	343,592
35 Kent County Parks	772,702	145,793	918,495
Total Visitors:	1,193,436	200,331	1,393,767

The spending data were collected from Millennium Park trails and are used to determine direct spending for Kent County trail systems. To supplement these data, the transfer benefit method is used to estimate direct spending for all Kent County Parks. The transfer benefit method estimates economic value by transferring information from a completed

study in another comparable location (Huron River, Glupker 2016). Benefit transfer is often used when an original valuation study is not feasible, yet some measure of benefit is needed. **Table 2a** shows the average spending for Kent County trailer users and **Table 2b** shows average spending for Kent County park users.

Table 2a: Average Spending Per Person, Kent County Trail Users

Expenses:	Local Visitors (Kent County)	Nonlocal Visitors
Meals	89,995	0
Shopping	41,685	0
Transportation	289,053	54,538
Other	772,702	145,793
Totals	\$21.11	\$37.69

**Table 2b: Average Spending Per Person, Kent County Trail Users**

Expenses:	All visitors (transfer benefit)
Meals	\$5.07
Shopping	\$1.73
Transportation	\$1.32
Other	\$0.62
<b>Totals</b>	<b>\$8.74</b>

Initial spending by visitors is referred to as direct spending. The direct spending is calculated as the product of the visitor spending (**Table 2a** and **2b**) and total visitors (**Table 1**). KCP provided direct spending (revenue) for Kaufman Golf Course and Millennium Park beach.

Direct spending by both local and nonlocal visitors is estimated at \$14.1M, with approximately 21% of that coming from people outside of Kent County (new money). This direct spending by visitors leads to indirect and induced spending. The dollar amount and effect on employment from indirect and induced spending can be estimated using the Regional-Input-Output Modeling System (RIMS II) multipliers

developed by the U.S. Department of Commerce Bureau of Economic Analysis.

The concluding economic impact can be viewed from two perspectives: Nonlocal visitors and all visitors. Excluding local visitors and focusing only on 'new' spending, the total economic impact is \$14.7M, which supports 156 jobs. (**Table 3a**). If the focus is on all visitors to the parks and trails, the total economic impact is \$33M which supports 316 jobs (**Table 3b**). This figure should be used with caution, as it is unknown how much of the money would have been spent regardless of the parks or trails. That is, it is not known how much of this is 'new' money.

**Table 3a: Total Economic Impact of Nonlocal Visitors**

Visitors:	New Spending	Economic Activity	Jobs
Nonlocal visitors	\$2.9M	\$4.7M	40
Millennium Park and Kaufman Golf Course	\$1.4M	\$2.2M	26
KCP spending on parks	\$4.7M	\$7.8M	90
<b>Total Visitors:</b>	<b>\$9.0M</b>	<b>\$14.7M</b>	<b>156</b>

**Table 3b: Total Economic Impact of Visitors**

Visitors:	New Spending	Economic Activity	Jobs
All visitors	\$14.1M	\$23.0M	200
Millennium Park and Kaufman Golf Course	\$1.4M	\$2.2M	26
KCP spending on parks	\$4.7M	\$7.8M	90
<b>Total</b>	<b>\$20.2M</b>	<b>\$33.0M</b>	<b>316</b>

It should be noted that these are conservative impact figures. The survey was not designed to capture the impact of special events at Millennium Park or differentiate the spending between Millennium Park beach and Millennium Park trails.

In addition, the impact figures above do not include park rentals or campgrounds. Future studies should be designed to further investigate these aspects of the KCP. ■



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- Information Systems

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- Corporate Finance
- International Finance
- Stock Selection/ Portfolio Management

**Bishal BC, Ph.D.**

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- Personal Finance

**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,  
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### **EMBA Contact:**

Christine Albertini  
[albertic@gvsu.edu](mailto:albertic@gvsu.edu)

### **Professional MBA Contact:**

Koleta Moore  
[moorekol@gvsu.edu](mailto:moorekol@gvsu.edu)



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