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Welcome to another edition of the Seidman Business Review (the “Review”). The Seidman College of Business acknowledges—and takes very seriously—its responsibility to this, the West Michigan Community. That is why we jumped to action early during the fourth quarter of 2008 to convene this business community’s and Seidman’s finance, banking, and economics experts to address the issue of the historic financial crisis that threatens this Community’s financial viability. We thank you for helping to make Seidman’s two events hugely successful: “The Historic Financial Crisis—A West Michigan Conversation” (September 30) and “CNBC’s [Bill] Seidman Evaluates the Nation’s Financial Crisis” (October 9th). We appreciate the opportunity to serve!

This edition of the Review includes West Michigan economic and commercial real estate forecasts for 2009, a supply-management purchasing index review, and a performance review of West Michigan’s regional stocks. It also includes articles addressing a number of very timely topics: from the credit crisis link to Grand Rapids housing prices, to alleviating poverty and creating jobs through social investment funds, to socially conscious innovation on the Lakeshore, to making the case for allowing siestas in the workplace. Oh—and you must not miss the preview of the upcoming “Economic Recovery Breakfast (February 11th),” entitled “The U.S. Economy—Where do we go from here?”

Our sense of responsibility to this Community impels us to provide this annual review of the West Michigan economy and our regional businesses, as well as the regionally relevant articles. As the recession hangs at our economy, the Seidman College continues to provide cutting-edge, compelling, and real-world commentary on existing and emerging business knowledge and innovations, in ways that are relevant to West Michigan businesses and other public and private organizations.

I trust you will find this edition of the Seidman Business Review as informative and compelling as ever. Together, we can weather the current economic storm…

H. James Williams
Dean, Seidman College of Business

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Grand Rapids Economic Forecast 2009

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• Business confidence index has dipped below 50% for the first time in 14 years
• Employment is expected to decline by 1% in 2009
• Overall nominal sales are expected to fall by 0.5% for 2009
• Exports continue to be a bright spot; expected growth is 5% during 2009
• The sharp decline in regional confidence, employment, and sales reflect the impact of a prolonged recession

Introduction

The survey for the greater Grand Rapids economy (Kent, Ottawa, Muskegon, and Allegan Counties) was conducted in November 2008. A survey was mailed to the CEOs of approximately one thousand organizations based on a representative sample. We tried to ensure that the sample represented different sectors of the regional economy and the geographical diversity of the area. Eventually, 249 organizations responded. Due to the small sample size, the survey should be interpreted with caution.

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 overly 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. Note that the total numbers in the histogram figures do not add up to exactly 249 because a few respondents did not provide their employment or sales data.

Please note that when values go down, the percentage numbers are shown in absolute value terms to avoid a double negative in the sentences.

Confidence Index

A major goal of our survey is to historically track the overall business confidence of the Grand Rapids metropolitan area by a confidence index. The confidence index respondents use a scale from zero percent (no confidence at all) to one hundred percent (complete confidence). The current results need to be interpreted in a larger historical context. During our surveys of the region for the last fourteen years, when the economy has been growing steadily at a robust rate, the confidence index has depicted a high level of confidence, generally around 80% for the private sector. In response to the question: How confident are you in the economy for 2009? here are the average responses for the private sector and the government/non-profit sector over the last 14 years (Figure 1).

Consider the private sector confidence index. Since the 2001 recession, the confidence index has been in the vicinity of the

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1 Harri Singh is Chair of the Economics Department. Nancy Boese is the Business Tools Specialist for The Michigan Small Business & Technology Development Center (MI-SBTDC). We were aided by invaluable research support from Rennie Ramlal graduate research assistant in the Economics Department.

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Figure 1

West Michigan Confidence Index 2009
sixties and the high fifties. However, the confidence index in November 2008 was 48.04%. For the first time in 14 years, the confidence index has slipped below the 50% benchmark. It is projected to be marginally lower at 47.68 for 2009. The government and nonprofit sectors have similar numbers (45.7% for 2008 and 47.56% projected for 2009). West Michigan had not recovered completely from the 2001 recession, and we are now in the midst of another prolonged recession. Factors that continue to depress expectations for 2008 and 2009 include the sub-prime housing market crisis, significant tightening of credit, and rising unemployment due to the prolonged recession. The dramatic corporate failures of large companies and banks throughout 2008 have bruised consumer and business confidence significantly. The problems of the big three auto manufacturers add further pessimism to the mix.

**Employment**
Due to the ongoing restructuring in the manufacturing sector, the regional labor market in West Michigan had been repairing at a very slow pace since the recession of 2001. The respondents answer the following question: *What percent change do you expect in employment for the four counties in 2009?* Last year employment was projected to be relatively flat. Now we are in the midst of another prolonged contraction. The projected change in employment for 2009 for the private sector is a decline of almost one percent (the average reduction is 0.94%). In the public and non-profit sector, the reduction is slightly smaller (0.54%).

Employment in the manufacturing sector continues to decline as more consolidation in the workforce takes place, particularly in auto and auto-related industries, and there has been recent weakness in the furniture industry due to the global slowdown. The direct and indirect economic impact of the drastic employment reductions among American automakers have been an on-going negative shock to the regional economy.

This will have a relatively less negative impact in the west compared to the east side. However, the consolidation and job losses in manufacturing will continue in West Michigan.

**Sales**
For sales, the respondents answer the following question: *What percent change in sales do you project for the four counties in 2009?* In times of robust economic growth, sales have grown at an annual rate of 5%. Sales projections made by respondents for last year were 1.45% without outliers. Next year, sales are expected to decline by .54%. The expectations of our respondents indicate that sales are likely to be relatively
At the national level, the economy is going through a severe depression for 2009. Note that our sales numbers are for the nominal sales of all goods/services produced in the West Michigan economy. Consequently this decline could be in prices and/or quantities.

**Export growth**

During good times the expected growth in exports has generally averaged higher than 5% in the late 1990s. Last year, exports were expected to grow at 4.36%. Given the fluctuation in exchange rates and a world-wide recession, it is not surprising that expectations for growth in exports are volatile. Overall, exports continue to show a robust growth pattern, averaging at 6.14% (Figure 4). Compared to the domestic outlook, export growth is a bright spot for the regional economy. However, since the expected growth of exports is based on a much smaller sample of only 43 respondents, it should be viewed with caution.

The expectations about achieving a robust regional growth rate of 5% in the near future do not appear to be good (Figure 5). 44% of the respondents do not expect good times to return until after 2010. Roughly the same number, 42%, expect the good times to return within two years, by December 2010. Only a small minority (13%) expect that the economy will turn around dramatically in 2009. This finding corresponds to the historically low business confidence for 2009 compared to previous years.

These results are consistent with Dr. Brian Long’s West Michigan Supply Management Survey of Purchasing Managers (N.A.P.M.) that shows a significant drop in production and employment in 2008.

What is the final word on the national and regional economy? At the national level, the economy is going through a severe recession. More than half a million jobs were lost in November of 2008. Unfortunately, significant further job losses seem inevitable. It is not clear when the bottom of this contraction will actually take place. The Federal Reserve Bank has been lowering interest rates to prevent a further slowdown in the economy. However, the impact of lower interest rates has been limited. This is because tight credit conditions for consumers and businesses continue in spite of substantial bailout plans and the provision of more capital. Banks have become more risk averse about lending and are in the process of shoring up their damaged balance sheets. The housing crisis that began this recession continues to be a significant drag on the economy.

An ambitious stimulus package of $700 billion dollars or more is likely in early 2009. This package could include a middle class tax cut and significant infrastructure spending. In spite of this projected stimulus package and lower interest rates, economic conditions are likely to get worse before they get better. Nationwide unemployment will continue to rise as large corporations downsize to improve their balance sheets and small businesses face tighter credit conditions. Unemployment is likely to crest above 10% in 2009. The economy will continue to contract for most of 2009 with a possible turn-around in the fall. There will be considerable variation in GDP growth rates each quarter. Overall, nationwide GDP may contract between 1% and 2% for the entire twelve months of 2009.

At the regional level, since the consolidation in the manufacturing sector is likely to continue, the outlook is also not optimistic. Employment will shrink by approximately 1% and nominal sales will go down marginally by approximately 0.5%. In spite of a world-wide slowdown, export growth has a potential upside. However, the average projected growth of 6.14% seems too optimistic. Exports may grow in the 4% to 5% range.

West Michigan will continue to find a foothold by diversifying away from manufacturing into specialized services such as health care, professional services, and education. In spite of difficult times, the state needs to ensure that it will create a highly-qualified work force for the future. State resources need to be leveraged to position West Michigan strategically in growth sectors of the future.

Besides health care and homeland security, state policies need to promote more renewable/alternative energy production options within the state. An upgrading of the infrastructure may also take place based on the national stimulus package. Ultimately, a large part of Michigan’s future will depend upon whether the big three auto manufacturers can restructure their costs sufficiently and build cars that are competitive with Japanese models.

**Acknowledgments**

We are very grateful to all the organizations that participated in the survey. ■
The Grand Rapids industrial market started slow and steady in the first quarter of 2008 but made up for lost time during the remainder of the year. The vacancy rate decreased from 9.4 percent during the first quarter of 2008 to 7.5 percent at year-end. The consolidation, relocation, and expansion of three companies in the Grand Rapids area, which absorbed nearly 2.5 million square feet, significantly impacted the overall vacancy rate during 2008. One of the companies consolidated their operations from multiple West Michigan locations, while the second company relocated operations from three locations outside of the market and the state indicating that Grand Rapids continues to be a viable destination for out of state industrial users to locate. The third, a locally based company, has been taking large blocks of space off the market for the last few years, and continued this trend in the fourth quarter of 2008. Although we expect continued interest from out of market companies looking at Grand Rapids, the amount of space taken off the market in 2009 will almost certainly be much less than it was in 2008.

As forecasted, new speculative construction was almost nonexistent during 2008. This was primarily due to higher construction costs, lower than needed demand, depressed lease rates, and more recently, increasingly stringent financing requirements. Redevelopment of older manufacturing sites continues to offer more economically feasible alternatives when compared to new construction, and consequently, new construction in 2009 will be limited to owner-built properties and expansions, as it has been for the last several years.

The Grand Rapids industrial leasing market had steady rental rates, static concessions, and favorable options for short and long-term leases. Tenants are still favoring short-term leases and managing to secure lease rates that are more typically in-line with long-term leases. Uncertainty about the economy and the tighter credit markets have and will continue to keep leasing activity balanced well into 2009 as users wary or unable to purchase will continue to lease space until they feel more optimistic about the future and are able to secure financing for a purchase.

Although leasing was typically the more viable option for users in 2008, the industrial market did have multiple user sales of every size, including three over 400,000 square feet. Interestingly, even with the uncertainty in the market, approximately one million more square feet was purchased by users in 2008 than in 2007. As anticipated, the Grand Rapids industrial market saw a marked decrease in all types of leased, cap rate investment sales, especially compared to the banner year of 2007. In 2009, although sellers and buyers will have adjusted expectations relative to pricing and financing.
from those they previously held, we expect leased, cap rate type investment activity to only slightly increase from 2008 levels.

Grand Rapids Office

With dramatic fluctuations in capital markets, the stock market and state tax law, it is difficult to anticipate what the coming year will bring for the Grand Rapids office market. But it is with cautious optimism that we are forecasting a slight, positive absorption for 2009.

The skyline of the Medical Mile continues to be filled with cranes as medical construction moves forward. The Lemmen-Holton Cancer Pavilion was the first building on Medical Hill to come online in June of 2008 and has already garnered recognition for its LEED certification from the United States Green Building Council. Construction on the 240,000 square-foot expansion of the Van Andel Institute is well underway and scheduled for a 2009 completion date.

The Helen DeVos Children’s Hospital consisting of 440,000 square feet, broke ground early 2008 and is expected to be completed in 2010. Also underway is the construction of the new location of the Michigan State Medical School that is scheduled for occupancy in the year 2010.

The downtown market maintained steady occupancy rates in 2008. Tenants continued to follow the national trend of short-term leases or lease extensions in their existing spaces. Interestingly there are very few options available for large Class A users looking to lease space in the central business district (CBD), which under normal market conditions would prompt the development of a new Class A tower. Tenants repositioning themselves within the CBD in 2008 have kept occupancy rates constant, and Grubb & Ellis expects the same trend to continue into 2009.

The suburban markets saw some activity of medical users relocating downtown, which has made available second generation medical office space. As a result, new speculative construction has become almost non-existent. Landlords are able to sign short-term deals at great rental rates without renewal options, which allow landlords to be well positioned for anticipated future increases in rental rates. Absorption in the suburban markets is expected to be much of the same as it has in the past three year.

Grand Rapids Retail

Although the retail sector is feeling the pinch like other sectors, West Michigan’s diverse economy and the substantial number of new construction projects for medical use have proven to be somewhat stabilizing forces. As a general rule, stores are showing a decline in retail sales compared to last year, which is causing most retailers to be more cautious about expanding and a smaller group is concerned about survival. New construction has slowed, but currently planned developments continue to draw the interest of several national tenants. The second half of 2008 brought the anticipated slowdown in consumer spending, which resulted in slower, more cautious growth from large retailers and limited expansion for most small retailers and quick service restaurants. As a result, vacancy rates increased slightly. 2009 will be the year of uncertainty in the West Michigan retail sector due to the current economic crisis.

The 28th Street SE corridor will see the most new construction for this market in 2009. There are several developments scheduled to be completed in the 28th Street SE submarket next year. They include a 10,000 square foot center just east of the East Beltline Avenue corridor, which will include a new Chipotle Mexican Grill; a 28,000 square foot center at Kraft and 28th Street SE, which is a Meijer out lot, with tenants Qdoba and AT&T; and the redevelopment of the former Ethan Allen furniture store into a Jared’s Jewelry with adjacent 20,000 square foot center. The closing of the Linens N Things store at Centerpointe Mall resulted in a large vacancy, but that is expected to be filled when a Jo-Ann Fabrics Superstore moves into the space in early 2009.
The biggest development for West Michigan, the proposed lifestyle center to be located at East Beltline Avenue NE and 3 Mile Road, has been pushed out. Construction is not expected to begin until 2010, which means this development will have little impact on the retail market for 2009. The proposed 450,000 square foot shopping center in Walker, anchored by Cabela's and JC Penney, is also on hold.

In summary, despite the economic crisis, most of the West Michigan retailers have been able to maintain their place in the marketplace. Some attrition is to be expected, but to date it has been less than predicted. While the outlook for 2009 may be less positive than we would like to see, there are still enough bright spots in the region that will keep interest focused on West Michigan for a long time to come.

Grand Rapids Investment

West Michigan has continued to diversify its economic base helping to present a more stable environment for real estate investors. The medical expansion in downtown Grand Rapids remains at the center of this diversification and growth. The medical investments into Grand Rapids indicate the area's ability to utilize a highly skilled and educated work force to retain sustainable growth in the healthcare industry.

2007 was a record year for investment activity, especially from out-of-state investors. This trend has slowed during 2008, primarily due to the lack of available capital. The first half of 2008 saw average deal momentum as credit continued to tighten and capital became harder to obtain. The second half of 2008 proved to be more difficult, as the capital markets froze and investors fled to the sidelines or sought extremely aggressive value-add transactions. As predicted, underwriting requirements for all financing tightened as the psychological effects of the subprime lending crises created strain on lending practices. While financing became more difficult in 2008, it has created attractive pricing for opportunistic buyers. In 2009, buyers will find more opportunity in under-performing assets and certain sellers will become more motivated. Financial institutions and investors will explore more creative ways to get deals completed such as assumability of debt and land contracts.

The West Michigan Industrial market tempered during 2008 after a record year in 2007. As predicted, there was less industrial activity in 2008. Less available product and lender requirements made it very difficult for investors to achieve their required returns. West Michigan's strong manufacturing background will continue to drive investment activity in 2009, as we expect more activity from local investors.

Retail investment sales have been affected as lower consumer confidence levels have led to a loss in revenue for the majority of retailers, impacting their sustainability and ability to pay continuous higher rents. Investors have been significantly more cautious regarding retail investments and have significantly increased their underwriting standards for this asset type causing it to be the least sought after asset in 2008.
Office investment sales in West Michigan remained slow in 2008. In downtown Grand Rapids, the trend of consolidation of properties to fewer owners slowed as investors worked to stabilize their investments before taking on new projects. Investors will take a wait-and-see approach in 2009, as they determine exactly what effect the medical expansions will have on medical office space in the suburban markets.

The West Michigan multi-family market remained strong in 2008 primarily due to rental rates increasing and the availability of financing. The downtown housing market continues to be fueled by student housing. The sub-prime challenges will remain the focus of apartment activity in 2009. We expect that activity will remain strong, rental rates will hold firm, and financing will still be available to qualified buyers.

![Projected Average Capitalization Rates* 2009](image)

*Averages – It is important to note that individual cap rates vary based on a number of factors including property quality, tenants, length of lease and location. These cap rates should be considered overall averages and may vary greatly depending on any of the above qualities.

![Total National Investment Activity](image)

*Source: Real Capital Analytics, Grubb & Ellis*
Although economic history will record that the Michigan recession probably began sometime in 2006, the West Michigan economy was able to avoid the impact of the impending economic downturn until late in the summer of 2008. Lest there be any doubt, the recession is now upon us.

We entered the year fully aware that numerous economic problems were simmering in the background. The tightening of loan requirements and a wave of foreclosures in response to the subprime crisis resulted in a slumping housing market. Auto finance and every other form of consumer credit were being severely restricted. Auto sales were edging lower, and the anxiety level regarding the viability of our local economy began to increase.

However, the valuation of the dollar compared to other world currencies was still very low. Declines in automotive and housing were being offset by strong demands for export goods, including those associated with the aircraft, machinery, and agricultural industries. On a nationwide basis, job losses in Michigan were being offset by job gains in other parts of the country.

For money managers around the world, a dilemma developed. Although it has been well over 60 years since the infamous Breton Woods monetary conference, about 65% of the world’s currency reserves are still in dollars. With the sub-prime mortgage problem still far from being resolved, investing in “packaged” mortgages was now considered less desirable and downright risky. The Federal Reserve continued to cut interest rates, making treasury securities far less profitable. As the price of gold and other commodities started to rise, numerous money managers around the world decided to jump on the bandwagon of commodity speculation. Prices for commodities like cobalt, lead, copper, and zinc vaulted to record levels, severely straining the profitability of many of our local firms that depend on these types of raw material for manufacturing their finished products. The rising price of coal, iron ore, and steel scrap escalated the price of steel to record levels. Predominantly, the producers of these commodities cited demand by Chinese manufacturers as the major cause of these escalations, although some acknowledge that commodity speculation was also playing a role. As oil rose to the range of $150 per barrel, even the OPEC countries argued that at least half of that price was the result of speculation rather than actual market demand.

By late summer, the record price for gasoline was creating major deterrent to auto sales. Although the 2007 gasoline price hike to $3.50 was largely ignored at the time, the 2008 spike to over $4.30 per gallon jolted consumers into a new sense of reality. There was a newfound revival of the discussion about alternative forms of energy. However, by midsummer, gasoline consumption had fallen by 5%, and dealer lots began to overflow with heretofore beloved SUVs and pickup trucks. Firms like General Motors that had banked their future on these high-margin vehicles were starting to bleed.

As we entered the fall of 2008, the speculation binge had run its course, and price for most commodities began to plummet. The British banks and many of the European banks had somehow managed to follow our lead into a sub-prime mess of their own, resulting in a significant international economic decline which still has not run its course.

For most of our local industrial groups, there became no place to hide. The office furniture business had already started to soften in 2007, and many firms began to see significantly lower demand by late summer. Our local auto parts suppliers, who have lived between the proverbial rock and a hard place for years, were now having orders slashed to match the declining production schedules. Even those firms that had won contracts with the Japanese and Korean transplant companies have found that the automotive slump was now encompassing the entire industry.

About the Survey
The monthly survey of business condition, published under the title of “Current Business Trends,” first debuted in Kalamazoo in February of 1979 and was expanded to Grand Rapids in 1988. At present, the survey encompasses 45 purchasing managers from ISM-Greater Grand Rapids, and 25 from N.A.P.M. Southwestern Michigan. For both surveys, the respondents are purchasing managers from the region’s major industrial manufacturers, distributors, and industrial service organizations.

Patterned after the nationwide survey conducted by the Institute for Supply Management, the strength of the survey is its simplicity. Each month, the respondents are asked to rate eight factors as “SAME” or stable, “UP” or improving/rising, OR “Down” as in declining/falling.

New Orders
This index measures new business coming into the firm and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more people, or possibly expand facilities. This results in billions of dollars being added to the economy when the index of New Orders is positive, but conversely means that billions of dollars are being pulled from the economy when the index turns negative. Depending on the firm, a significant portion of this money ends up being spent — or not spent — in the local community.
As Figure 1 illustrates, the positive trend of early 2007 was eroding by the end of the year. A small uptick in January 2008 flattened for the next couple of months. By April, incoming orders began to soften, although a flat report in June gave fleeting hope that the storm may have passed. However, one month does not make a trend, and the index eroded for the rest of the year, finishing at -57, the lowest level in the 20-year history of the survey.

**Industrial Inflation**

For most buyers of major commodities such as plastic resins, steel, copper, and motor fuel, 2008 will be remembered as a year of the wildest price swings in history. January and February of 2008 saw industrial inflation ballooning as the prices of key commodities like steel, oil, copper, and aluminum began rising rapidly. By April, many industrial buyers were seeing the worst inflation they had seen in their careers. It seemed like there was no end in sight.

Unfortunately, commodity speculators jumped in to run prices even higher. In May, we reported a 20-year record high for the index of **Prices** at +76, only to see the same index slide to a record low of -58 in December. Figure 3 shows the extreme nature of these price swings over what is a relatively short period of time. In late November, one survey respondent was quoted as saying that he was now purchasing flat rolled steel for 20% of the price he had paid only four months earlier. Whereas everyone likes a “good deal,” price drops of this nature can be detrimental to the industry as a whole.

From an industrial buyer’s perspective, one of the biggest dangers of any downturn of this nature is what the economists refer to as “structural damage.” Simply put, marginal firms in a particular industry are driven out of the business, as they probably should be, under Darwinian economics. However, altogether too often this washout extends to firms that are otherwise good performers, or even worse, the high quality/higher price firms. They find themselves undercut by cheaper domestic competitors or foreign sources. When the markets finally correct themselves, there is not enough market capacity, and the surviving firms can now charge a higher price, fueling inflation as well as more foreign competition.

As of December, for some commodities such as plastic resins and petrochemicals, prices have not come down nearly as fast as they went up. As we enter 2009, we will see the prices of many of these types of commodities continue to fall.

Compounding the problem of falling prices is the problem of inventory liquidation. When we look back at 2008, we will remember it as the year that we abandon the religion of JIT inventory, probably in response to the panic created by pricing for some commodities going out of control. As prices continue to fall, firms are now utilizing these inventories, resulting in the prices for these commodities falling even further. Unfortunately, the entire world is now cleaning the warehouses that were overfilled in last summer’s buying panic. Historically, we will not be out of our current recession until the inventory liquidation is over. In the past, this kind of liquidation has usually taken about 9 months. However, these are unprecedented times, and the past rules may not apply.
Employment

The Employment index measures the expansion and contraction of the firm’s entire workforce, including office and production personnel. Many firms will remain stable for long periods of time, until significant economic events result in new hires or layoffs. Others will add or subtract people one or two at a time.

In the last half of 2007, our index of Employment turned negative. As noted in Figure 4, this workforce reduction was inexplicably halted in February of 2008, although the same negative pattern would soon return by early spring. The pace of layoffs accelerated in late summer and cascaded to a record low in November.

Looking Ahead to 2009

An unfortunate feature of the capitalistic market systems of the world is that they are periodically prone to recessions. This particular recession is more troublesome than most because it affects the production and monetary systems of the entire world. Unlike the shallow recession of 2001, the Federal Reserve was able to mitigate the dot com bust by simply lowering interest rates. With cheap money available, the auto makers propped up sagging sales with numerous rebates and low finance rates.

The causes of this recession are far deeper and more widespread. However, like other recessions, this too shall pass. Here are some clues that recovery may be underway:

First, watch for the prices of the major commodities to stabilize. Most experts agree that the prices for oil, copper, aluminum, and numerous other key commodities are below what it costs to produce them. Hence, we will watch for our index of Prices to return to some kind of equilibrium, and sustain the equilibrium for at least two or three months. We should watch the ISM national index of Prices as well.

Second, keep an eye on China. Since the Chinese are new at the whole science of managing inventories, chances are good that they are overstocked on just about every major industrial commodity. Of course, we need to watch the performance of the overall Chinese economy. When China resumes buying significant quantities of industrial commodities, it should be regarded as a positive sign.

Third, watch for a rebound in the New Orders index. Keep in mind that these orders are often placed weeks or even months before any money is actually paid. Sustained double digit growth in this index is a strong indication that the economy is on the mend.

Fourth, watch for recovery of the international economies. International economic news will provide at least some clues. The J.P. Morgan Global Manufacturing Index may provide additional evidence.

Fifth, there must be a return to price stability in the housing market. When home values are still falling, buyers are reluctant to buy, and banks are reluctant to loan. Statistics like housing starts, sale of existing homes, and reports from local, state, and national real estate organizations may be helpful.

As previously noted, this recession is far more complicated than most. Speculation regarding potential duration is therefore more difficult. However, the best guess at this time is that recovery should start to be evident by mid to late summer.
West Michigan Stock Returns

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West Michigan Stocks Tank, Matching U.S. Markets

It should surprise no one that stock returns for 2008 were horrible across most industries and regions. Stock prices mostly reflect two major factors: the ability of companies to earn money, and the degree of investor optimism. Both are in the toilet because of the double whammy of this past summer’s worldwide financial crisis and the development of a worldwide deep recession.

Investors in stocks of West Michigan-based companies mostly suffered big losses in 2008. The weighted index of fourteen local companies lost 48.3% during the year, the worst performance in at least a generation. That was worse than any of the three major national stock market indexes as shown in Table 1 below. Since most of the 14 local companies are small, the NASDAQ Composite Index is the most appropriate standard of comparison. The average NASDAQ stock lost about 41%, not greatly different than the average West Michigan stock.

The price of only one local stock rose in 2008—Spartan Stores—while nine companies experienced a more than 50% fall in price. Table 2 shows the 2008 performance of individual West Michigan stocks listed from best to worst.

Spartan Stores turned in the “best” performance in 2008, but in a normal year, its stock’s 1.8% return would be unimpressive. Still, investors in all other locally based stocks lost money, often lots of money. It’s especially notable that Spartan’s price increase follows a 9% increase in 2007 and a 101% increase in 2006. Spartan generated the highest three-year gain of stocks listed in Table 2, and is the only one to avoid a year-over-year price drop during those years.

A brief summary of the industries and companies comprising the West Michigan Index follows.

### West Michigan Banks

No matter which area bank is your focus, stock performance was horrible, ranging from a 43% decrease (Oak Financial, Byron Bank’s owner) to Independent Bank’s 77% thumping. Bad loans are the main culprit. As the real estate market collapsed, developers weren’t able to repay their loans, wiping out bank earnings and capital. Collapsing bond prices and the intensifying recession have added to the pain. Banks are in for a relatively long period of poor performance. It will end only after the Michigan economy turns around, and virtually no one is predicting anything but a weak economy for at least all of 2009.

Bank dividends were exceptionally high at the beginning of 2008. Dividend yields ranged from 7% to more than 9%. Whenever yields are that high, you can be sure something is wrong, and the high yields will be only temporary. Sure enough, banks slashed their dividends throughout the year. For example, Independent Bank cut its annual dividend from $0.84 to $0.04 per share, and Mercantile Bank reduced its dividend from $0.60 to $0.16.

### Spartan Stores

Like the Energizer Bunny, Spartan’s revenue and earnings just keep going. Income jumped 22% in second quarter (ending 9/30), and company executives forecast a 2009 growth rate in the low single digits. That’s notable considering the state’s economy will be in a tough recession. Spartan’s stock price rose during 2008 because of its earnings growth, and because of the general belief among investors that the grocery industry is relatively immune from recessions. That belief isn’t necessarily true, but Spartan’s growth may offset declining sales margins. At any rate, investors are both pleased and optimistic.

### Perrigo

Even though its stock price fell slightly, Perrigo had a great year. First quarter (ending September 27) revenue rose 25% to a record level, and the quarter’s net income also set a record. The company’s guidance is that 2009 earnings will grow 22–27% from 2008 levels. Thanks to a continuing stream of acquisitions and new products, the company has a reputation for dependable growth.

### Wolverine World Wide

The company’s stock held its value throughout most of the year. After the company reported record sales and earnings per share in the third quarter (the 25th consecutive quarter for both records), stock analysts began expressing concern about the effects of a strengthening U.S. dollar on Wolverine’s international sales, and the ability of the company to maintain its sales levels in a global recession. If the dollar remains

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Table 1

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>West Michigan Index</td>
<td>-48.3%</td>
<td>+ 6.7%</td>
<td>+ 5.5%</td>
</tr>
<tr>
<td>Dow Jones Industrial Average</td>
<td>-33.8%</td>
<td>+ 6.4%</td>
<td>+16.3%</td>
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<tr>
<td>S&amp;P 500 Index</td>
<td>-38.5%</td>
<td>+ 3.5%</td>
<td>+13.6%</td>
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<tr>
<td>NASDAQ Composite Index</td>
<td>-40.5%</td>
<td>+ 9.8%</td>
<td>+ 9.5%</td>
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</tbody>
</table>

The West Michigan Index consists of 14 publicly traded companies headquartered in West Michigan. Each company’s return is weighted by the number of shares of common stock outstanding, the same procedure used in the S&P 500 Index and the NASDAQ Composite Index. In contrast, the DJIA’s Index uses a simple unweighted average return.

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strong against the Canadian dollar and Euro, Wolverine’s earnings may take an $8 million hit in 2009.

**Universal Forest Products**
As home construction, manufactured housing, consumer do-it-yourself projects, and home remodeling plans have plummeted, pricing and demand pressures on Universal Forest Products changed modest profits at the beginning of the year into losses at the end. Still, relative to the average stock, Universal’s stock performance looked great—a decline of only about 9%.

**Meritage Hospitality Group**
Meritage Hospitality Group is the nation’s only publicly traded Wendy’s and O’Charley’s restaurant franchisee and operator of over 50 Wendy’s restaurants. Its stock is thinly traded, and its price barely budged from around $1.50 per share during the second half of 2008. The company returned to a small profit in 2008 in contrast to losses the year earlier.

**Gentex**
Gentex is in the unique position of having no debt. Thus, it’s nearly impossible for it to go bankrupt. In addition, 70% of its sales are outside the U.S. Yet, the company’s stock fell 50% during the year over uncertainty about survival of the Big 3 auto companies, the toll the recession will take on the auto industry and its suppliers, and foreign currency exchange rate losses resulting from the strong dollar.

**Herman Miller and Steelcase**
Both Herman Miller and Steelcase are victims of the global recession. An increasing amount of vacant office space exists as many companies go out of business and many others cancel expansion plans. Used office systems and furniture are flooding the market. Both companies will struggle until well after the economy turns around.

**X-Rite**
X-Rite’s stock turned in the worst performance during 2008. The company’s debt burden became excessive after it acquired Amazys and Pantone, and then sales fell as the economy began to tank. To survive, X-Rite raised over $150 million from three private equity firms and used the proceeds to reduce its debt level, but in the process, increased its number of common shares from 29 million to over 76 million. The dilution and investor skepticism drove the price to an all-time low during the year.

Investors in local, publicly traded companies will remember 2008 for four developments. Certainly, the pounding stock prices endured will be at the top of the list. Second, dividend yields sank, especially among the banks. Third, for the first time in at least several decades, not a single West Michigan based publicly traded company split its stock or declared a stock dividend. No surprise there: Splits and stock dividends both lower a company’s stock price, something making little sense when prices are tanking by themselves. Finally, several non-bank companies used their cash hoards to repurchase shares at low prices. Steelcase, for example, repurchased nearly three million shares. Not only does a repurchasing company get its shares back at a bargain price, but also with fewer shares outstanding, the price per share should rise. That’s not a bad outcome in a bear market.

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<table>
<thead>
<tr>
<th>Table 2</th>
<th>LOCAL COMPANY RETURNS</th>
<th>1/1/08 through 12/31/08</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008 PRICES</td>
<td>PRICE CHANGE</td>
</tr>
<tr>
<td></td>
<td>Closing</td>
<td>Opening</td>
</tr>
<tr>
<td>Spartan Stores Inc.</td>
<td>$23.25</td>
<td>$22.85</td>
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<td>Perrigo</td>
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<tr>
<td>Universal Forest Products</td>
<td>26.91</td>
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<td>Wolverine World Wide</td>
<td>21.04</td>
<td>24.52</td>
</tr>
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<td>OAK Financial</td>
<td>19.18</td>
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<td>Gentex Corporation</td>
<td>8.83</td>
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<td>Meritage Hospitality Group</td>
<td>1.00</td>
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<tr>
<td>Herman Miller, Inc.</td>
<td>13.03</td>
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<td>Macatawa Bank</td>
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<tr>
<td>Steelcase</td>
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<td>15.87</td>
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<td>Community Shores Bank</td>
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<td>5.96</td>
</tr>
<tr>
<td>Mercantile Bank</td>
<td>4.30</td>
<td>15.50</td>
</tr>
<tr>
<td>Independent Bank</td>
<td>2.16</td>
<td>9.50</td>
</tr>
<tr>
<td>X-Rite Inc.</td>
<td>1.49</td>
<td>11.62</td>
</tr>
</tbody>
</table>
Credit Crisis and Grand Rapids Housing Prices

Paul Isely, Ph.D., Associate Professor of Economics
Seidman College of Business

It is common knowledge that the housing market in Michigan has been in turmoil for several years. The primary problem for Michigan has been the loss of 147,000 jobs in transportation manufacturing. The loss of these jobs has resulted in the loss of many others that were linked to the 147,000. Since the end of 2005 the loss of jobs has been impacting the Michigan housing market, as fewer people have jobs that allow them to buy houses.

Several statistics show the weakness in the Michigan housing market. Michigan has continuously been in the top 10 states for foreclosures since 2005 (Realty Trac 2008). Figure 1 shows the number of houses sold in Michigan has dropped every year since 2005 (NAR 2008). Housing prices have dropped continuously. However, by the summer of 2008 there were signs that the market in Grand Rapids was nearing bottom. Every month from June through October, the number of foreclosures dropped in Michigan when compared to the same month the previous year. This indicated the ever-increasing number of housing sales that resulted from mortgage trouble might finally be peaking. In addition, the decline in home sales eased during 2007. There was hope during the summer of 2008 that the freefall in home prices since 2005 had finally ended.

Figure 1  Michigan vs. United States
Percent Change in Existing Home Sales

![Figure 1: Michigan vs. United States Percent Change in Existing Home Sales](image)

The combination of decreasing foreclosures and improvement in home sales came to an abrupt end as the Credit Crisis heated up during September. The decrease in home sales again accelerated in 2008, especially since September. Then in November the number of foreclosures increased year over year. The housing market is now searching for a new bottom.

The effect of the change in foreclosures and number of sales can be shown using the change in housing prices. The change in house values over time can be tracked using a technique that compares sales of the same individual house. Data from the Grand Rapids and Kent County assessor’s offices are used to compare the sale prices for every house sold more than once between 1987 and 2008 (City of Grand Rapids, Kent County). The drop in housing values since 2005 is clearly seen in figure 2. However, the improvements seen prior to the Credit Crisis slowed the price erosion during the 3rd quarter of 2008. Finally, the 4th quarter shows the prices in the market are now searching for a new low as credit has become scarce.

Prices in West Michigan have held up better outside Grand Rapids in some cases. For example, the price index for Rockford is compared to the price index for Grand Rapids in figure 3. Prior to 2006 the increases in price in the two locations mirrored each other. For every $100,000 spent on a house in 2000, a purchaser of that same house in 2005 would need $140,000. Since 2005, the value of a house in Grand Rapids has dropped so that in December 2008 only $90,000 would be required, well below the initial $100,000 spent in 2000. However, the news is better in Rockford where houses are still valued above their 2000 level. So, even though most areas in West Michigan have seen the value of a house drop since 2005, the magnitude of the drop varies depending on the local conditions.

These changes show that the employment problems in Michigan that had been weighing down housing prices in Grand Rapids finally started to ease during the summer, but now have been replaced by national problems. The Credit Crisis is restricting the ability of new home purchasers to finance a home. This is because lending standards have greatly increased, lenders have less to loan, and lenders have to address the risk that a house will be worth less one year from now. These credit problems have now mired the United States in a recession which is also decreasing income and wealth. The result is that no matter where you live there is less money to buy houses.

Since the problems facing the housing market in West Michigan are now the result of national problems, the solutions will need to address these national problems. The Federal Reserve has actively been trying to solve these problems. It has increased the number tools used to stabilize the credit market from 3 to 11 over the last 12 months. An example of these tools is the Term Auction Facility where the Federal Reserve provides banks a way to borrow money from the Federal Reserve. Using these tools, the Federal Reserve has been able to bring mortgage rates down to 5.125% by the middle of December. By the end of December, the Federal Reserve will begin purchasing $600 billion of securities backed by entities like Fannie Mae and Freddie Mac which...
will increase the funds available for mortgages. Finally the Federal Reserve combined with the Treasury has also introduced a program to do the same for automobile loans. These actions should begin to ease the credit crunch that consumers have felt for the last six months.

The West Michigan housing market has had to weather both the downturn in the automotive industry in Michigan and the world-wide Credit Crisis. Only after the efforts of the Federal Reserve to end the Credit Crisis start to take hold and jobs begin to recover from the recession, will the housing market start to recover.

References


Poverty Alleviation and Job Creation: Integrating Social Investment Funds with Corporate Social Responsibility as Possible Solutions

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Seidman College of Business

In West Michigan today, more families are struggling to put food on their tables and lacking basic necessities than any time in the past 15 years.” So wrote Sharon Parks in The Grand Rapids Press (September 13, 2008: Growing poverty in Michigan needs emergency response). The U.S. Census Bureau reports that the rate of poverty jumped 14%, one in five live in poverty, and the unemployment rate jumped to 8.5%. Apparently Michigan joined the rest of the world where two billion people live on one dollar a day, except we are in a relatively better position. Incidence and magnitude of poverty have spread over the past fifteen years. High unemployment rates increased to levels not seen since the Great Depression. Inflation is soaring and the number of foreclosures has multiplied. The U.S. is not alone in suffering from these ailments. We are sharing what many developing countries have been suffering for decades. There are some policies these countries adopted that Michigan and the rest of the U.S. can apply at state, county, or city levels. We can draw some parallels with the intention of showing how to implement a selective set of measures that proved to be effective in meeting the challenges.

In the 1970s the World Bank (WB) expected that the rapid move toward globalization would result in some imbalance and hardships. The International Monetary Fund (IMF) and other international organizations mandated that the developing countries implement what they labeled “Economic Reforms and Structural Adjustment Programs (ERSAPs)” which required basic changes in the economy and society including privatization and free trade, with minimum government intervention in the economy. Noting that these countries had massive public sectors with entrenched systems of heavy subsidizations of basic services to a large segment of the population, the WB initiated a new type of institution called the Social Investment Funds (SIF) or Social Funds for Development (SFD). The primary objectives of these new institutions included poverty alleviation, job creation, youth training, gender empowerment, enhancement of the civil society, and rural development. It was thought that such ramifications of the ERSAPs would be temporary in duration. To alleviate such transitory side effects, the SFDs/SIFs devised a series of measures in which they would collectively alleviate the negative impact of ERSAPs. Noticing that the negative ramifications of globalization were expected, their intensity and far-reaching impact on a large sector of the society were not then appreciated. The new institutions and their attending programs would have moved the affected sectors through the transitory phase until they reached a state of balanced growth and perpetual development, thus, catching up with the developed world.

Three decades later the imaginary transitory period outlasted the prediction. The negative impact of globalization (albeit with some positive results) intensified. The magnitude of affected sectors, in terms of number of people and societal strata who have been suffering, has mushroomed into millions. Many countries suffered from political instabilities and social unrest in Latin America, Middle East, Africa, and Asia. The U.S. is not alone.

Can we duplicate the experience with the SFDs/SIFs as a concept along with the attending programs and copy them, with major modifications, if necessary, in the U.S.? Can we experiment with the conceptual framework on a state level? Would selected programs which showed positive results in achieving specific goals be applied to local levels? Should such a new concept be incorporated with the old concept of corporate social responsibility (CSR) to form an integrated approach to deal with the perennial problems of poverty and unemployment?

The relative success of SFDs is evidenced by the fact that by 2008, 57 SFDs were established in 57 countries around the world with investments totaling over US$25 billion. It became clear what was then perceived to be a transitory negative impact has a life of its own. The initial mechanism which had an expected duration designed to last five years has already existed for three decades. Hence, we may draw on this approach and its proven effectiveness in dealing with the two basic problems that are facing each of the fifty states with varying degrees of intensity in counties and cities.

There are five dimensions to investigate the appropriateness of applying this concept to the U.S. These include the political setting, the economic premises, financial requirements, managerial responsibility, and societal acceptability.

Politically, federalism, is a constitutional principle that separates federal from state rights, and guarantees a level of coordination between the two levels. States and their subdivisions of counties, cities, and special authorities enjoy a degree of autonomy in their policy-making rights. Hence, there is no need to pass federal legislation to introduce the establishment of an SFD in, say, Kent County or Grand Rapids, Michigan.

Economically, there is an urgent impetus to think in a nontraditional manner. Traditional approaches have not succeeded in dealing with such structural problems. They might have provided some temporary relief of the pain of being unemployed or of sinking deeper into the vicious cycle of
poverty through soup kitchens and buyout deals to the laid-off employees. If the states and localities can offer some programs for retooling of skills and creating a new class of small entrepreneurs, it may prove to be of more lasting results.

Financially, there are several sources for the proposed new programs. Some of these sources are already available including free zones, grants in aid, governmental, state contributions, federal subsidies, even charitable donations and philanthropic activities. Yet, they are not aggregated in an integrated effort to achieve specific goals or to reach targeted beneficiaries within a coherent strategic plan. The assumption of corporate social responsibility is not even incorporated in the matrix of such sources. While the financial resources may be available, they are not coordinated, nor are they guaranteed to last beyond the fiscal year or the budget cycle. Philanthropists and private donors pursue their personal whims and temperamental priorities of what causes they want to propagate. Individual agendas and personal preferences dominate.

In order to introduce the SFDs as a concept and practice, several steps must be taken. These include collectively determining specific, not generic, societal goals; identifying carefully selected beneficiaries; designing programs to meet the needs of the targeted groups in consultation with the beneficiaries; approaching the potential participants in the implementation of the programs such as banks and financial institutions; training the needed managerial cadres to administer the programs and to manage the operations of the projects; performing marketing studies to sell the products or to perform the services; coordinating activities among the several governmental and nongovernmental entities; and updating laws and regulation to accommodate the new modes of operation. Of even greater significance is the integration of corporate social responsibilities into one coherent approach and financial mechanism. This latter requirement would provide some dynamism in the process and sustainability of the financial aspects of the programs. The inclusion of corporate social responsibility in the matrix of measures to sustain the functioning of the SFD could be ensured by requiring that, say, one percent of the revenue of local establishments be collected and earmarked for the SFD projects. Such contribution would be included in the expense accounting.

Managerially, there are managerial talents in abundance locally and nationally that can contribute to prepare the feasibility studies, to design the appropriate programs, to select the most promising projects, to train the needed cadres of managers, to prepare the target beneficiaries to assume their roles in operating the projects, to enlighten the participants of the potential advantages, to draft the legal documentation and contracts, to lobby for the passage of related regulations, to prepare marketing plans and selling channels of products and services and a host of other activities. The participants in these endeavors include: universities and academic institutions, bankers and financial agencies, non-governmental organizations, consultants, research groups, lobbyists and political figures, and state and local government agencies.

All that is required is the coordinative responsibility to be institutionalized, monitored, and maintained.

The societal acceptability of the concept and its various activities should be harnessed and marshaled toward achieving the goals for which the beneficiaries were yearning, namely poverty alleviation and job creation on some more lasting basis. It is important to articulate the concept and its implications in practical terms. Convincing the participants must be done without raising expectations beyond their possible achievement and without promising what could not be realistically delivered. Uncertainties must be ascertained, and the variables should be carefully identified. Contingency plans must also be prepared in advance of its possible happening.

The SFDs have existed for 28 years. Thousands of activities, in terms of projects and programs have materialized and their performance has been verified. Several assessments of the effectiveness of these projects have been conducted by national and international organizations. The concept of corporate social responsibilities has been established and practiced. Integrating the two concepts and practices is a viable approach to solve the two pressing problems that are afflicting national, state, and local entities. The commitment of the different participants would guarantee the sustainability of the programs with the ensuing goal achievement.

Dr. Samir T. IsHak, is a Professor at GVSU since 1968. He taught at Harvard, Princeton, the American University in Cairo, and Shanghai University of Economics and International Business. His consulting assignments include the World Bank, UNDP, and ILO in 14 countries.

Selected Sources:


Introduction

A new team-taught course with a focus on interdisciplinary teaching and integrative learning was offered at the Holland Meijer Campus. Faculty from Engineering and Marketing developed a community-focused course with an alternative schedule to engage students in the question: What will the community look like in ten years? A unique course emerged—Socially Conscious Innovation—that took place in an intense four-week semester. Students spent a significant amount of time in the community exploring local markets for innovation in the realms of sustainability, globalization, and active aging. This article focuses on issues relating to the sustainability segment of the course.

Why Socially Conscious Innovation?

Grand Valley State University’s Continuing Education Office is dedicated to using innovative teaching methods to meet the needs of non-traditional students. The office supported a unique pedagogical venture during the summer of 2008. The course, developed and co-taught by faculty in Business and Engineering, sought to employ alternative formats and pedagogy to address the educational needs of the Holland community in an interdisciplinary fashion. Socially Conscious Innovation asked the questions: What will Holland look like in ten years? What will the city be as a market? What will the markets be for this manufacturing center? After completing a module focused on the processes and tools for innovation, students considered three topics: independent aging, sustainability, and globalization. Students engaged these topics through independent reading projects; lecture and discussion; site visits with business, industry, and nonprofit organizations in the community; and individual sourcebooks, accompanied by business plans, for the development of innovative and feasible solutions.

Socially Conscious Innovation was offered in an accelerated format to meet the unique needs of the non-traditional student and to provide ample time to engage with the community. The intensive format created an environment that allowed for what Scott (2003) refers to as “focused learning.” The class met twice a week for six hours. This unique structure, along with the commitment to respond to the needs of the lakeshore community, really set the course apart from other offerings at the University.”

Assignments and Site Visits

The first sustainability assignment was entitled, “What is your carbon footprint?” Students calculated their carbon footprints and then made changes in the calculations to see the resulting impact. Table 1 provides a list of the assignments and exercises related to the class and topic areas.
Both professors and students concluded that the most interesting exercise was “Reducing your household ecological footprint.” Students were asked to look at one of the energy sources they use in their homes. Everyone chose electricity. The challenge was to reduce the use of electricity five percent per year for three years. For most, the first year was simple — using more energy-efficient bulbs. The second and third years required more in-depth analysis. Some would rewire circuits to decrease light that could come on with the flip of the light switch. Another would plant pines to reduce the impact of winter winds on the home as a passive way to reduce heat loss and thus the need for heat. This exercise was customized to West Michigan where the students were living.

The table at left on community visits lists the actual site visits by topic. One class met at City Flats Hotel on 7th street in Holland and toured one of the rooms, the lobby areas, and the restaurant. The emphasis was on Why a LEED (Leadership in Environmental and Energy Design) certified hotel in Holland? This is the first of what is hoped to be many hotels that will be built with LEED certification. The hotel boasts cork floors and bathroom counter tops made from concrete containing recycled glass. To conserve electricity, the lights in the room shut off after a certain period without movement. The class learned about many other innovative features that were integrated into the design of the building.

The next stop was a visit with Doug Padnos, the fourth generation of Holland’s legendary recyclers. The tour illustrated how recycling has been done profitably for generations. Students learned how cars and other items are shredded and then consolidated into saleable bricks of similar materials. The bricks are shipped all over the world and made into new products. Doug Padnos was especially proud of the special water run-off containment system that was installed to prevent contaminated water from seeping into the environment. Doug explained how they work with manufacturers, encouraging them to consider how their products will enter the waste stream when consumers discard the product. Small changes in design can allow a product to be much less difficult to recycle. The Padnos recycling operation is impressive in scope and execution.

Next door to the Padnos recycling yard, Holland’s Board of Power and Water (BPW) operates a coal-fired electrical power plant. This community-owned power plant has been creating power for Holland’s residents for over 100 years. President Loren Howard is concerned about sustainability and agreed to meet the class and describe how BPW is working to create a more sustainable power plant. His discussion of global issues with coal and electrical generation alternatives challenged the students. BPW is doing much to enlighten and challenge the greater Holland community.

The students were alarmed by the mountain of coal that the lake freighter had unloaded at BPW dock. President Howard explained that the mountain of coal would only run the plant for a week. In addition, the Holland BPW plant is small

Table 2 List of community site visits per content area

<table>
<thead>
<tr>
<th>Topic Area</th>
<th>Community Visits</th>
<th>Central Focus</th>
<th>Pros/Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aging</td>
<td>Active senior residence</td>
<td>Investigated lifestyles of residents</td>
<td>Students learned about issues facing seniors, and market opportunities</td>
</tr>
<tr>
<td>Aging</td>
<td>Senior Community Center</td>
<td>What does a non-residential senior center do?</td>
<td>Learned about changing activities and services offered</td>
</tr>
<tr>
<td>Aging</td>
<td>Senior Lunch at an organization of faith</td>
<td>Concerns of seniors</td>
<td>Spent time with seniors</td>
</tr>
<tr>
<td>Aging</td>
<td>Presentation by a local minister</td>
<td>What it is that active seniors want and need?</td>
<td>Powerful, personal summation to aging</td>
</tr>
<tr>
<td>Aging</td>
<td>Local big box retailer similar to a Wal-Mart</td>
<td>Store design with the active seniors in mind</td>
<td>Learned how basic signage size, height of shelving, and width of aisles are impacted</td>
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<tr>
<td>Sustainability</td>
<td>LEED Certified Hotel</td>
<td>How “green” is marketed</td>
<td>Appearance vs. reality</td>
</tr>
<tr>
<td>Sustainability</td>
<td>Large recycling facility</td>
<td>Waste stream and recycling</td>
<td>Understanding the importance of profit or return in a sustainable world</td>
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<tr>
<td>Sustainability</td>
<td>Local grass roots organization focused on the 3 p’s: People, Planet and Profit</td>
<td>Focus on the people portion of the 3 P’s in the form of social equity</td>
<td>A different view of sustainability</td>
</tr>
<tr>
<td>Globalization</td>
<td>Major retailer</td>
<td>Import analysis</td>
<td>Where is the competition?</td>
</tr>
<tr>
<td>Globalization</td>
<td>Community power company</td>
<td>Impact of international development on the cost of energy</td>
<td>Learned how dirty electricity is</td>
</tr>
<tr>
<td>Globalization</td>
<td>Global furniture manufacturer</td>
<td>Impact of global competition on manufacturing</td>
<td>Opportunity abounds</td>
</tr>
<tr>
<td>Sustainability</td>
<td>Community power company</td>
<td>Coal to power conversion</td>
<td>Technical literacy; grasping the scope of the problem</td>
</tr>
<tr>
<td>Sustainability</td>
<td>Global furniture manufacturer</td>
<td>Greening of manufacturing</td>
<td>Where in the world does this stuff go and what are the challenges?</td>
</tr>
</tbody>
</table>
compared with other coal-fired plants in the region. Although many of the students were aware of the environmental issues associated with burning coal, the realization of the many mountains of coal that were burned in the lakeshore region alone gave them an appreciation of the scope of the problem.

The students also learned how the larger, national energy distribution system works. In a computer-packed control room, BPW employees monitored the cost of producing electricity in their plant compared to the price of electricity from the grid. It is an incredible balancing act of buying, selling, and generating sufficient power so that when you choose to flip the switch, your light goes on. Sustainability had a new meaning for students and faculty as everyone headed across town to the newly remodeled Haworth headquarters.

What a dream to get inside the newly-built show complex with many sustainable features. It was hard to know whether to focus on the recycled content of their product line, or on the wonderful walls of glass that let in light, or the planted roof that was insulating the entire building. It was the end of a long day, but no one left as the tour progressed and the individual technologies were explained and dissected.

It is worth noting that both Haworth and Padnos are members of Seidman’s Family Owned Business Hall Of Fame.

**Reflection**

A member of the Biology Department volunteered to evaluate the Socially Conscious Innovation team as an unbiased observer. This faculty member gathered information by attending in-class sessions, accompanying students for on-site visits, conducting group discussions, reviewing materials submitted by students, and participating in classroom activities such as brainstorming sessions and idea pitches. The following general observations and recommendations pertain to the unique nature of this educational experience through discussions on the architecture of the course, the extensive community outreach opportunities, and the dynamics of team teaching that took place.

**Interdisciplinary**

Anthony et al. (2003), in a case-study on effectiveness in team-teaching and general education environment, reported that the use of team teaching can aid in the achievement of active learning goals and improve students’ ability to establish connections. The diversity of instruction styles and the variety of background expertise greatly contributed to the success of Socially Conscious Innovation. A well-rounded team delivered a sound and rigorous class that was enriching as well as entertaining. Even the most skeptical students quickly embraced the originality and complicity of the team teachers and all reflected positively on the experience. The nature of Socially Conscious Innovation was an ideal setting for team teaching.

**Course Structure**

All three topics included one in-class six-hour day for subject presentations, related activities, discussions and brainstorming sessions and one six-hour day in the community doing appropriate site visits. In addition, it was imperative that the course offer long time blocks to permit the multiple site visits and logistics of transfer between locations. It would be interesting to divide the visits into two blocks of three hours followed by time in the classroom to summarize the information received on the sites. This scenario may lead to more processing of the educational experiences and potentially lead to more learning and better preparation for the upcoming visits.

**Community Involvement**

The community aspect was a tremendous success and a key part of this course. The students were engaged, were enthusiastic, and became more and more “socially conscious” with each visit. The locations chosen for the site visits were all within the immediate community served by the University campus.

**Summary**

Although the pilot class is over, Socially Conscious Innovation is just beginning. The biologist, engineer, and business professor are working to improve the course and refocus it. The fourth co-author, an administrator on the campus and adjunct faculty member in the Liberal Studies Department, is working with the faculty team to create ideas for other interesting courses that meet the needs of nontraditional students. The authors are actively seeking ways to sustain the momentum that began with Socially Conscious Innovation because they realize that there is much innovative pedagogy in the community to be explored. There is still work to be done.

**References**


A Case for Naps in the Workplace

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Introduction

Workplace napping is a natural low-cost way to increase worker productivity. Most employers do not mind a coffee break, but if employees take a nap break they will probably get fired. In today’s fast-paced society and cut-throat global-competition, most companies frown on the idea of “napping” in the workplace. But the concept of napping is going through a slow evolution because of the concerns about the “bottom line,” reduced productivity, and profits due to sleep deprivation. Sleep deprivation is estimated to cost U.S. businesses $18 billion annually (Paul, 1998).

Napping has been scientifically proven to boost alertness and creativity. This has interesting implications for the workplace. If managers were to let their employees take a 20–30 minute nap during the afternoon, it could boost productivity. Today’s 24/7 culture has created a sleep-deprived nation, with too many people cheating on their sleep to get through all their activities.

Sleep Deprivation and Accidents

Shakespeare called “sleep” the “chief nourisher of life’s feast.” But sleep is a rare commodity in stressed-out America. Overachievers used to state loudly “Lunch is for Losers” and believed “Sleep is for Suckers.” Additionally, social culture glorifies sleeplessness. Encouraging a culture of sleepless is nonsensical and downright dangerous. The ultimate perk for the truly successful is now eight hours of sleep. Nearly two-thirds of adults get fewer than eight hours of sleep at night, according to the National Sleep Foundation, Washington, D.C.

Sleep deprivation is not just an individual health hazard, it is a public one (Czeisler, 2006). Sleepy workers are dangerous, less productive, and a major source of increased health care costs and corporate liability. Studies of the workplace and transportation industries reveal that human error causes up to 90% of accidents, with inadequate sleep representing a major factor in human error (Time, 1990). In the United States sleep deprivation is responsible for a fifth of all motor vehicle accidents and 8,000 deaths annually. Estimates are that 80,000 drivers fall asleep at the wheel every day. Ten percent of them run off the road, and every two minutes one of them crashes (Czeisler, 2006). Sleepy employees experience potentially dangerous degrees of impairment, essentially comparable to that of substance abusers.

The National Transportation Safety Board estimates that out of 100,000 crashes, there were 1,500 fatalities and 71,000 injuries due to drivers who drifted off to sleep while driving. Higher rates of motor vehicle accidents occur at night, rather than during the day. Shift workers report an increased incidence of traffic accidents or near misses due to sleepiness on their commute home.

Sleep Deprivation is a huge issue in the trucking industry where drivers are prone to going in and out of sleep while driving (Dougan, 1998). Disasters such as Three Mile Island, Bhopal, and Exxon Valdez have all been associated with workers suffering from lack of normal sleep. A Presidential Commission concluded that the crew who worked on the Challenger space shuttle was greatly sleep deprived and that this accident may easily have been avoided if the crew had been properly rested so as to not overlook any critical errors in the preparation of the shuttle mission.

Short Naps

A new approach to increasing productivity in the workplace is to allow employees to take naps. Taking naps during the workday has been shown to increase the alertness of employees, which leads to increased productivity. Despite this positive relationship, many employers have been hesitant to allow employees to take naps. In fact, less than one percent of companies allow employees to take a nap on the job. Taking a short nap in the early afternoon has been practiced for ages in China, India, Italy, Greece, North Africa, and Latin America. The idea originated from the fact that after eating a large meal, a chemical is released from the brain that makes one tired. Just 30–40 minutes was found necessary to refresh and recuperate. Born out of the siesta culture and now supported by scientific research, a short-nap has proven to improve alertness and mood.

Workplace Napping

Workplace napping is an innovative, low-cost method being introduced by some companies. Businesses with nap rooms are experiencing an increase in production and are seeing fewer human errors.

In Australia, workplaces allow naps for firemen, truck drivers, doctors, and interns. It is interesting to note that David Johnson, managing director of Deloitte Consulting Company in Pittsburg, feels his company has increased productivity due to a “nap-room.” “They love it, they lap it up.” (O’Connor, 2004) Craig Yarde, President of Yarde Metals, feels that napping contributes to higher sales, higher productivity, efficiency, and reduced turnovers. Anthony and Camille of Boston University conducted a survey and found that 70% of the 1,000 respondents admitted that they nap at work and it benefits them. Gould Evans installed 10 by 12 foot “nap rooms” and according to its spokesperson, there is no stigma attached to those using it. Workers at Gould Evans found that napping helps them get refreshed and revitalized (Meyer 2001).
Baby Boomers created a change in America’s attitude toward to wear jeans to school, and now they wear them to work.

Napping in America Today

Baby Boomers are given credit for creating a more relaxed and comfortable work environment. They were the first to wear jeans to school, and now they wear them to work. Baby Boomers created a change in America’s attitude toward work. Although America continues to focus on work and achievement, more employees today are concerned with balancing work with family and other activities. Work is important, but it isn’t everything. Younger individuals seem to have a different attitude toward napping (Vangen, 1999). For instance, 38% of adults in the U.S., on average, nap at least once during the work week. However, 41% of 18- to 29-year-olds nap during the work week compared to 35% among the 30–64 year-olds.

There are studies that suggest that naps do improve employee performance and productivity. A study from Harvard University indicated an hour-long nap at work resulted in computer programmers writing better code. The study suggested that the brain uses sleep to restore overused brain circuits and consolidate the memories of actions and skills learned during the day. Harvard concluded that any amount of sleep, even a short nap less than an hour, appears to improve our ability to process information and to teach (Jackson, 2003). The Harvard researchers indicated that 15–30 minute naps revive and refocus sluggish employees, thus improving their productivity and overall job performance. The researchers concluded that for some employees such as pilots, truck drivers, and night shift laborers, taking a nap should be mandatory. Despite the developing evidence, American employers continue to resist napping in the workplace.

Napping is an established part of the culture in many countries such as India, Italy, Mexico, Spain, Germany, Japan, and Portugal. For example, Spaniards take siestas, Germans enjoy ein Schlafens, Japanese professionals like to power snooze. The actual Spanish word siesta is derived from the Latin word sexta, which stands for the sixth hour or the middle of the day. Argentinean workers begin work at eight in the morning and work until noon. Then they have their siesta. Argentinean workers are not required to return to work until four-o’clock and finish their day at eight in the evening. Naps are a time-honored part of many cultures and 40 to 60 percent of the world’s adult population naps in one form or another.

Our societies should have an open-minded attitude allowing for planned workplace napping.

References


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