

Seidman Business Review

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



Vol. XVI I
Winter 2011



Find out:

What is in store for the West Michigan Economy in 2011

How different sectors of Commercial Real Estate will perform in 2011

What Purchasing Managers are doing about new orders, production, and prices

What the prospects are for Residential Real Estate in West Michigan

And much more ...



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

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From the Dean ...


As we celebrate Grand Valley State University's 50th Anniversary, we are proud and pleased to be able to present this edition of the *Seidman Business Review*. Both the University and the College have been honored over the years to serve this West Michigan business community. Moreover, in the mode of the classic servant-leader, the Seidman College has always felt a real responsibility for discharging effectively its "regional commitment" mission imperative. Never has this charge been more critical than during this current economic climate.

This edition of the *Business Review* continues the College's commitment to keeping this community apprised of important business results, challenges, opportunities, and innovations. While we must report some of the harsh realities of the economy for 2010, including slower-than-expected recovery in some sectors of the economy, still-low leasing of retail space, and the tight credit market for small and mid-sized businesses, we are happy to report an increase in the confidence index (now above 50%), a positive "net absorption rate" for industrial real estate, stabilizing rental rates, cautious optimism reflected in the "production index," another rise in the "local stocks index," and an improving "home foreclosure" picture.

As usual, the *Review's* expert commentators provide West Michigan economic and commercial real estate forecasts for 2011, a supply-management purchasing index review and projections, and a performance review of West Michigan's regional stocks. They also share special perspectives on the Grand Rapids Housing Market and the economic prospects for Mixed Martial Arts (MMA) fighting entertainment in West Michigan. Finally, the *Review* provides key articles addressing business and economic trends and issues, including the short-term economic impact of the 2010 iteration of ArtPrize, another perspective on the entrepreneurial climate here in West Michigan, and how local Business Schools are responding to the issue of business ethics. I trust you will find this issue as informative as ever.

As President Abraham Lincoln once observed, "There are no accidents. For every effect must have its cause. The past is the cause of the present and the present will be the cause of the future." As we celebrate 50 years as a University, caring about, and sharing responsibilities with, this West Michigan Community, we take cognizance of—and acknowledge with great humility and thanks—the unparalleled support this community has provided this University and this College of Business over many years. In large measure "that past" has caused "this present." Moreover, we know your continued support will allow "this present" to cause a bright future for all of us—across this State and throughout the West Michigan Community!

May we all proceed with renewed vim and vigor toward a happy and productive 2011!!

 H. James Williams
Dean, Seidman College of Business

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H. James Williams, Ph.D.

This decade has been marked by all kinds of corporate scandals caused by unethical behavior. However, exactly what kind of behavior should be regarded as "unethical" is controversial, depending upon whose utility is being maximized: individual, corporation, or society? Should business schools be blamed for these ethical lapses? What part of the problem can schools actually control and influence? Some key insights are provided by an education leader.

22 The Fight for it All

Amber Brown, M.A.

Struggling regional economies are trying to lure different types of sports events to their towns to encourage more economic growth. Legalized Mixed Martial Arts (MMA) is one of the new trendy sports that is beginning to attract attention. Discover what kind of prospects this has for Michigan.

24 The Economic Impact of ArtPrize 2010

Jason O'Brien and Mike Rizzo

Senior Economics Majors at Seidman College of Business

You might have strolled around the City of Grand Rapids to view the different exhibits during ArtPrize in the Fall. This contest is gaining reputation and interest from all over the world. As part of the economics capstone course, students conducted a survey to determine the economic impact of ArtPrize. The task was difficult because we had to discern the net impact: the economic expenditures that we can solely attribute to ArtPrize. Find out the estimated potential impact.

26 Passing Entrepreneurship 101

Stélos Alvarez, M.B.A., and Linda Chamberlain, Ph.D.

In the new economy, entrepreneurship skills are at a premium. Many graduates and job seekers may have to make their own jobs. West Michigan has to encourage and empower more entrepreneurs to embark on new projects that could create an expanding job market. How is the entrepreneurial climate in West Michigan? See the grade list for different aspects of entrepreneurship.

Grand Rapids Economic Forecast 2011

Hari Singh, Ph.D., and Nancy Boese, M.B.A.¹
Seidman College of Business

- Business confidence index is poised to rise significantly above 50% for the first time in 2 years
- A significant rebound in employment, expected growth is 2% in 2011
- Overall nominal sales are expected to grow by 2.5% for 2011
- Exports continue to be a bright spot; expected growth is 9% during 2011
- All indicators signal a significant turnaround in 2011

Introduction

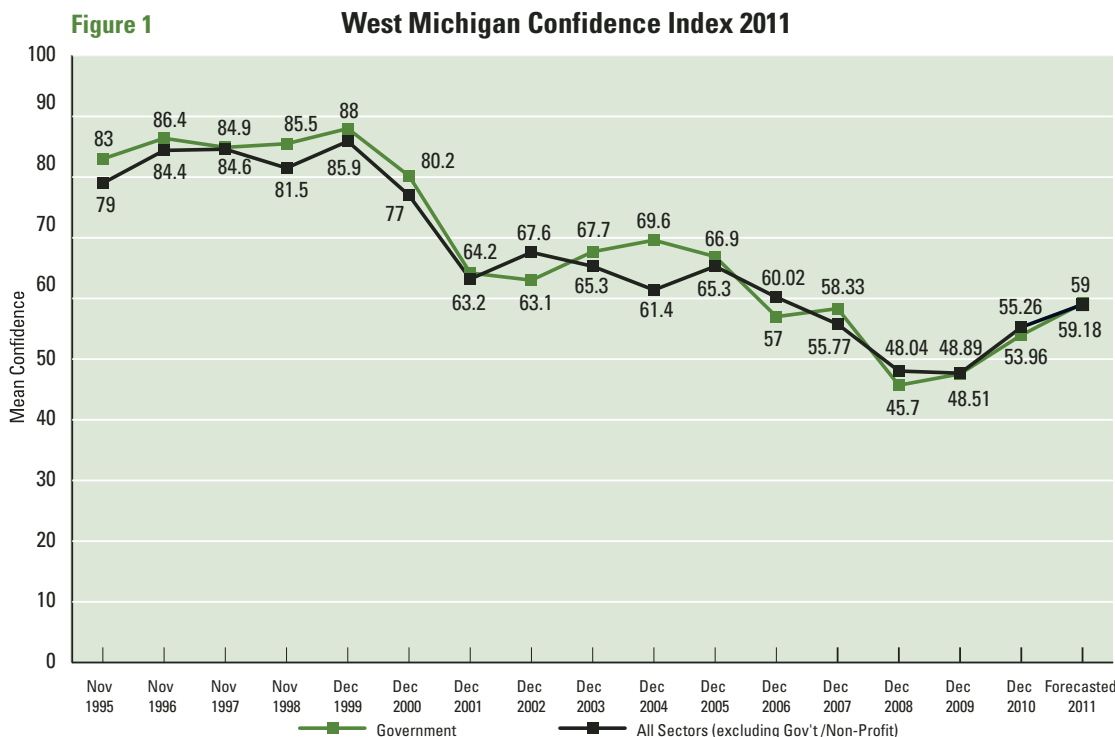
The survey for the greater Grand Rapids economy (Kent, Ottawa, Muskegon, and Allegan counties) was conducted in November 2010. A survey was mailed to the CEOs of 937 organizations based on a representative sample. We tried to ensure that the sample represented different sectors of the regional economy and the geographical diversity of the area. Of the 937, 211 organizations responded, resulting in a response rate of 22.5%. Due to the small sample size, the survey should be interpreted with caution.

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. Note that the total numbers in the histograms figures do not add up to exactly 211 because a few respondents did not provide their employment or sales data.

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). Here are the average responses for the private sector and the government/non-profit sector over the last 16 years (Figure 1). In response to the question: *How confident are you in the regional economy?*



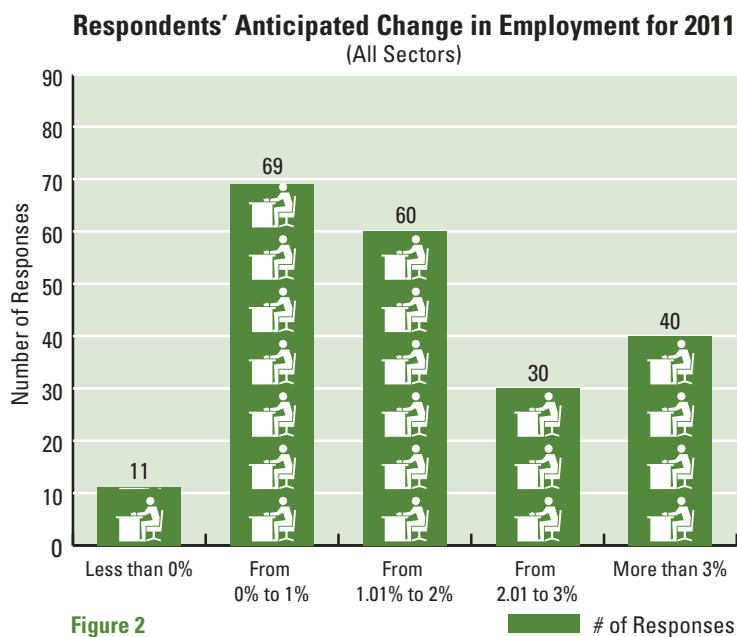
Let us consider the private sector confidence index. The current results need to be interpreted in a larger historical context. During our surveys of the region for the last sixteen years, when the economy has been growing steadily at a robust rate, the confidence index has depicted a high level of confidence, generally around 80% for the private sector. Since the 2001 recession, the confidence index has been in the vicinity of the sixties and the high fifties. However, the confidence index during the last two years (December 2008 and 2009) was below the 50% benchmark (approximately

¹ Hari Singh is a Professor of Economics in the Seidman College of Business at Grand Valley State University. Nancy Boese is the Business Tools Specialist of The Small Business & Technology Development Center (MI-SBTDC). We were aided by invaluable research support from Rennie Ramlal, graduate research assistant in the Economics Department.

49%). In November 2010, the confidence index increased to 55.26%. It is projected to be higher at 59% for 2011. The government and nonprofit sector has similar numbers 53.96% for 2010 and 59.18% projected for 2011).

Although we are beginning to come out of the Great Recession, expectations are still depressed but the overall outlook is beginning to take a positive turn. For the first time in the last two years the projected confidence is rising significantly above the 50% benchmark. There is a palpable increase in the regional confidence for the next year. The regional economy has picked up its pace for the long consolidation process.

Factors that continue to depress expectations for 2011 include the continued tightening of credit to small business and the high unemployment rates. Consumer and business confidence will consolidate slowly as the national economy improves. The structural problems in Michigan and the ongoing consolidation in manufacturing will continue to depress expectations significantly compared to the national profile.



Employment

Due to the restructuring in the manufacturing sector, the regional labor market in West Michigan had been repairing at a very slow pace since the recent recession.

The respondents answer the following question: *What percent change do you expect in employment for the four counties in 2010?*

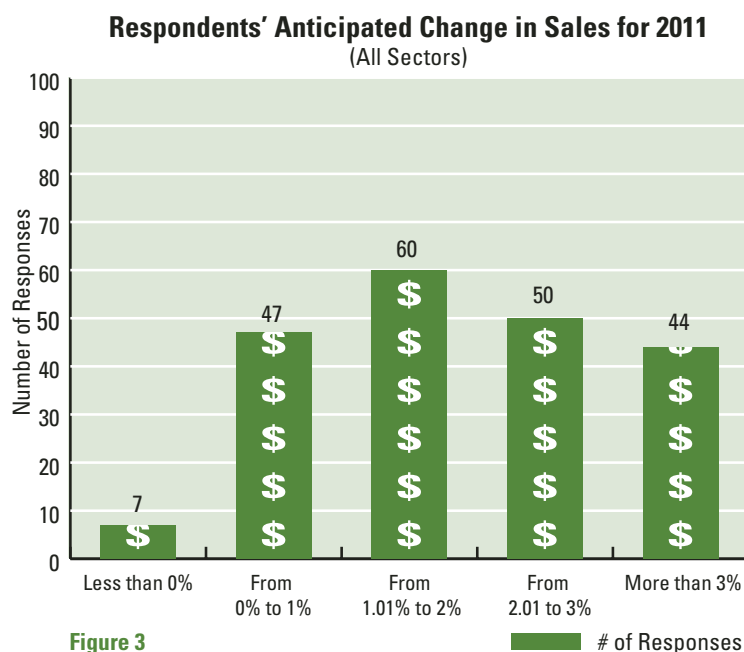
The projected change in employment for 2009 for the private sector was a decline of almost one percent (-0.94%). The actual decline in employment in West Michigan for 2009 was quite close to the projection.

Similarly for 2010, we projected private employment to be one half of one percent. The actual numbers for October 2010 compared to one year earlier show an increase of

about 0.3 of one percent. It appears that the forecasts have been quite accurate for the last two years.

For 2011 employment is projected to grow at an average of 2.3% in the private sector (without outliers). This is a significant increase compared to last year. All the responses are depicted in Figure 2. We can see that the distribution is clustered in the 0 to 2% range, but there are 40 respondents who expect to increase their workforce by more than 3%. Only 11 respondents expect to reduce their work force.

Last year 36% of the respondents indicated that they will hire workers in 2010. This year approximately 60% have indicated that they will hire in 2011. Of the persons who responded, about two thirds (66%) indicated that they would hire permanent workers. These numbers corroborate the significant pickup in hiring that is expected to take place in 2011.



Sales

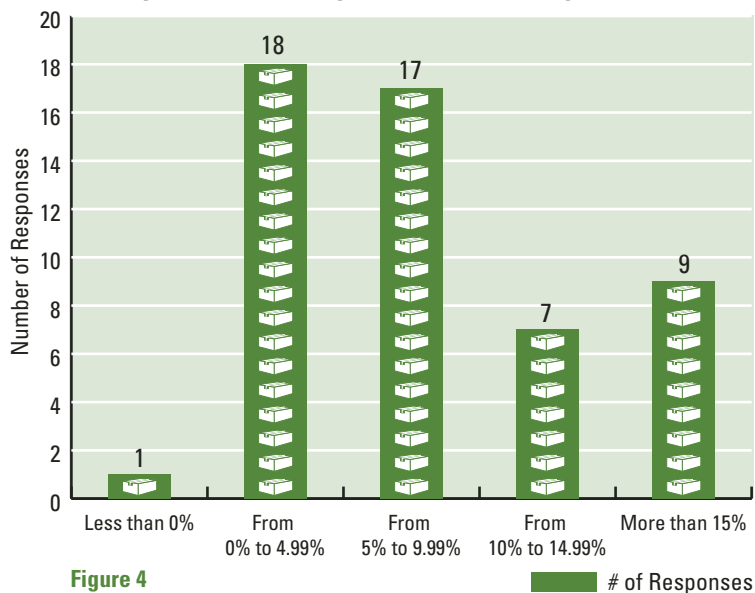
For sales, the respondents answer the following question: *What percent change in sales do you project for the four counties in 2010?* In times of robust economic growth, sales have grown at an annual rate of 5%. The sales projection made by respondents for last year was 0.77%. For 2011, sales are expected to grow at 2.5% for the private sector (without outliers). We can see in Figure 3 that respondents are clustered around the 1% to 3% range. The holiday season shopping numbers indicate that retail sales are showing a significant rebound. In this context, an overall sales growth of 2.5% seems reasonable.

Note that our sales numbers are for the nominal sales of all goods/services produced in the West Michigan economy. Consequently, the increase 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

Respondents' Anticipated Change in Exports for 2011



were expected to grow an average of 8%. Compared to the domestic outlook, export growth has been a bright spot for the regional economy. Part of the export growth is propelled by the low value of the dollar and the resumed high growth rates in Asia, particularly China and India. This year exports are expected to grow at approximately 9%. However, since the expected growth of exports is based on a much smaller sample of only 52 respondents, it should be viewed with caution.

The more optimistic numbers in employment, sales, and export have also influenced the expectations about achieving a robust regional growth rate of 5% in the near future. Last year, 36% of the respondents expected a robust growth in two years. This year the number has gone up to 42% (by December 2012). Last year the number for after two years was 45%, but this year that percentage has shrunk to 37% (after December 2012).

These results are consistent with Dr. Brian Long's *West Michigan Supply Management* survey of purchasing managers (N.A.P.M.) that shows a turnaround in production and employment in 2011.

What is the final word on the national and regional economy? At the national level, the economy will continue to pick up growth. The Federal Reserve Bank is attempting to keep long-term interest rates low by embarking on quantitative easing for the second time (QE 2). The compromise tax package that extends the tax cuts enacted by President Bush and has a variety of other tax incentives is likely to provide more stimulus, at least in the short run.

Nationwide employment will continue to improve in 2011. Right now it is reflected in more hiring of temporary workers and

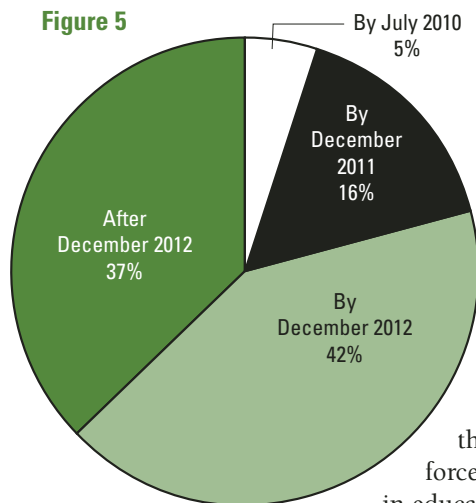
lengthening of the average work week hours. Full time hiring will increase significantly as businesses become progressively more confident about the future. However, it is likely that the employment situation will have a "new normal" compared to the "good old days" of the late 1990s when the nationwide unemployment had dropped to 4.5%. Since a significant part of the unemployed are older and have been without work for a long time, the new normal in the labor market, even in good times, might be in the 6% to 7% range.

The economy will expand faster in 2011 compared to last year, but the growth in real Gross Domestic Product will not be back at full capacity. There will be considerable variation in GDP growth rates each quarter. Overall, GDP may grow 3% to 4% for the entire twelve months of 2011.

One note of caution is in order. The impact of accommodative fiscal and monetary policies, within the context of historically high budget deficits, has already started exerting upward pressure on long-term interest rates. Unless we put our long-term fiscal house in order by reducing long-term entitlements and raising taxes, there is a significant possibility that the long-term solvency of the government resources will be tested by the market. The important thing is to get the timing right in pivoting towards a more constrained fiscal policy for the long term, once we have consolidated a strong growth path. The right time to have a more restrictive fiscal policy and whether the federal government will develop a *credible binding policy for controlling entitlements* are the key issues confronting the nation.

Respondents' Anticipated Date of Economic Rebound (All Sectors)

Figure 5



At the regional level, there is significant improvement across the board. Overall confidence is projected to increase significantly above the 50% benchmark. Employment will grow by approximately 2%. Nominal sales will increase by 2.5%. In spite of its volatility, exports have always been a bright spot during the Great Recession and are projected to rebound even more next year to 9%.

West Michigan will continue to find a foothold by diversifying away from manufacturing into specialized services such as health care, professional services, and education. The state needs to ensure that it will create a highly-qualified work force for the future by investing more resources in education. State resources need to be leveraged to position ourselves strategically in growth sectors of the future. Besides health care and homeland security, state policies need to promote more renewable/alternative energy options within the state.

Acknowledgments

We are very grateful to all the organizations that participated in the survey. ■

West Michigan-Grand Rapids Commercial Real Estate Review and Forecast

Jeff L. Williams, Research Analyst | West Michigan Colliers International

After a depressing year in 2009, the West Michigan commercial real estate market saw many signs in 2010 to suggest that the long road to recovery had begun. Sales and leasing activity of commercial property has increased and, in general, pricing and vacancy rates are stabilizing. Specifics will vary based on each specialty type (Office, Industrial, Retail, Investment), but there is a positive outlook on the market heading into 2011. As the overall economy and employment rates continue to make gradual improvements, so too will the commercial real estate market.

Industrial

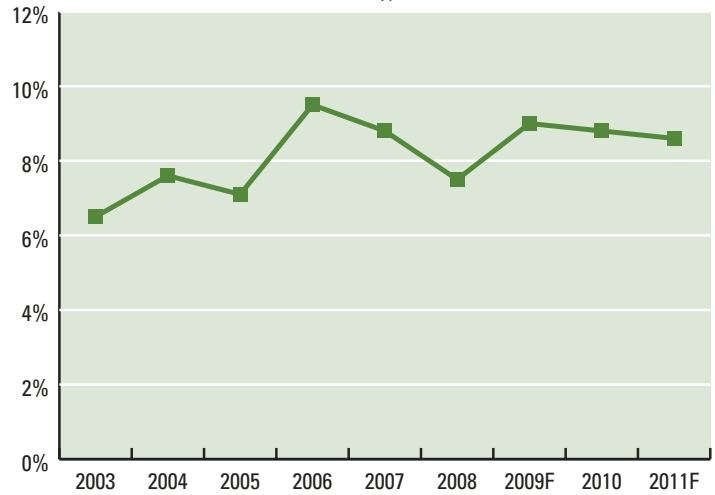
The Grand Rapids industrial market ended 2010 with encouraging statistics compared to the unsightly year of 2009. Year-to-date net absorption for the overall West Michigan industrial market at the end of 2010 was a positive 236,696 square feet. That compares to a negative 1.7 million square feet of absorption in 2009. Last year our forecast predicted the 2010 West Michigan industrial market would again have a negative absorption number so any number above zero comes as welcomed news. For 2011 we foresee continuing positive absorption in all industrial areas, particularly in manufacturing facilities.

As was the case in 2010, do not anticipate any new construction of warehouse or distribution buildings in 2011 as years of supply currently exist for this property type in the Grand Rapids market. The only new construction potentially occurring in the next year would be for user specific manufacturing facilities because of the lack of quality product in West Michigan. Due to the high cost of new construction, another trend that will likely continue is the rehab of existing manufacturing buildings.

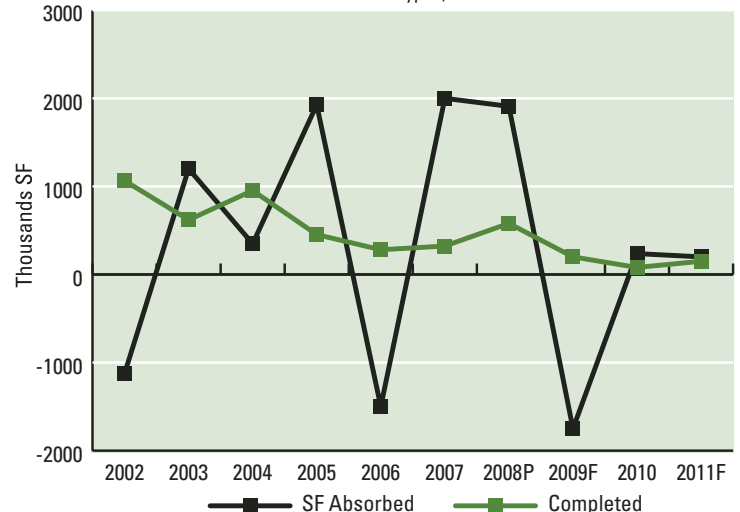
The industrial real estate market in West Michigan ended the fourth quarter of 2009 with a 9.0 percent vacancy rate; that rate decreased over the last year to finish 2010 at 8.8 percent. Along with an overall decrease in vacancy for the market, another positive sign over the past year is rental rates are beginning to stabilize. Leasing activity has improved which helped to drive the average asking rental rate 4.3 percent higher in 2010 compared to 2009. Looking into 2011, expect these statistics to continue to recover, albeit at a measured pace.

Leasing velocity has increased over the past year as well as the average size of each transaction. According to our data, the average size of an industrial lease in 2009 was 8,129 square feet, and in 2010 that number increased to almost double at an average of 16,045 square feet per lease. Some of the largest lease transactions that took place in the market include the 164,349 square foot lease signed by Gilson Graphics at 2000 Oak Industrial Drive NE in Grand Rapids and 224,000 square feet leased at 4247 Eastern Avenue SE by Undercar Products.

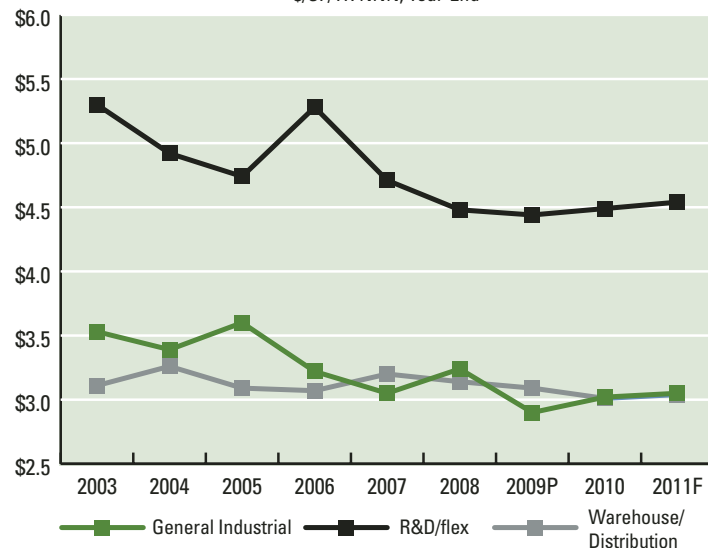
Vacancy Rates
All Product Types Year End

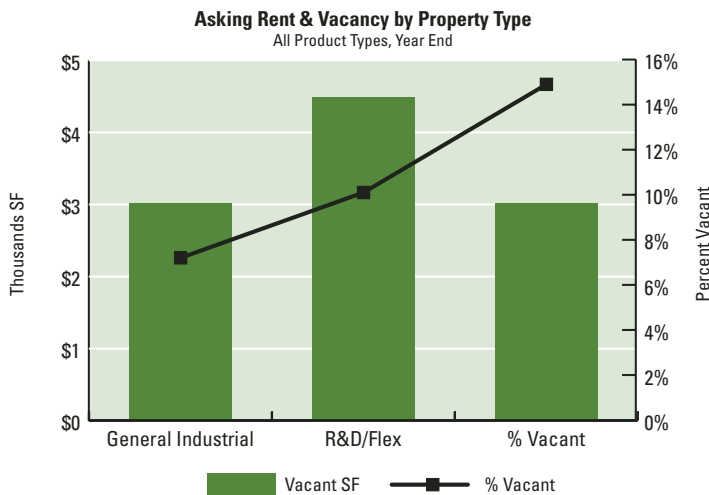


Absorption vs. Completions
All Product Types, Year End



Asking Rental Rates
\$/SF/YR NNN, Year-End





In 2011, lease prices will remain stable but tenant directed incentives will begin to decrease. Also expect to see leases slowly progress to longer term lengths in the next year as business confidence increases.

From a sales perspective, our professionals are seeing well located Class A industrial properties with solid infrastructure selling at improved pricing. A great example of this is the sale of 5801 Clay Avenue SW in Wyoming which is a 53,472 square foot building that sold for \$25.70 per square foot. On the other hand, distressed buildings that are outside of the major industrial hubs are selling for dramatically decreased prices. The declined pricing caused for some noteworthy deals that took place in 2010 including the 222,800 square foot user purchase of the former Nicholas Plastics building at 11700 48th Avenue in Allendale that sold for \$15.91 per square foot. Other examples of this trend are 870 74th Street SW in Byron Center which is a 48,575 square foot building that was purchased for \$18.53 per square foot, as well as the 53,000 square foot building at 2310 Breton Industrial Park Drive SE in Kentwood that sold for \$7.26 per square foot.

Expect to see sale prices of quality product rise to “normal” highs comparable to that of 2005, but not to the unusually high levels of 2007. We predict that banks will continue to dispose of Real Estate Owned (REO) properties on their books and will take a significant loss on anything besides their Class A assets. For 2011, it will seem as almost two separate markets exist as the Class A asset market improves and REO and Class C properties continue to struggle.

Almost 2 percent of the over 114 million square feet of industrial property in West Michigan may soon cease to exist as the former GM Metal Fabrication Division at 300 36th Street SW in the Wyoming could possibly be torn down for redevelopment. The plant has produced stamped-metal parts since 1935, until its closing in May of 2009. The Obama administration proposed a trust fund of more than \$800 million to pay for the clean-up and potential demolition of several closed General Motors sites in 14 states which includes the plant on 36th Street in the Grand Rapids area. It has not yet been determined whether the plant will be knocked down but it is highly unlikely someone will want the nearly 2 million

square foot building in its current configuration. A number of redevelopment possibilities remain as the City of Wyoming continues to work with consultants on a reuse plan; however, it is anticipated that the site will remain primarily industrial.

West Michigan is widely viewed as having the best combination of access to manufacturers, labor aptitude and cost, as well as entrepreneurial talent to support the next decade of production. Because of this positive outlook of our area, we anticipate that insourcing will be a trend for West Michigan going forward. Expect the Grand Rapids industrial market to be driven by the manufacturing of automotive, medical, office furniture, food and other consumer products in 2011.

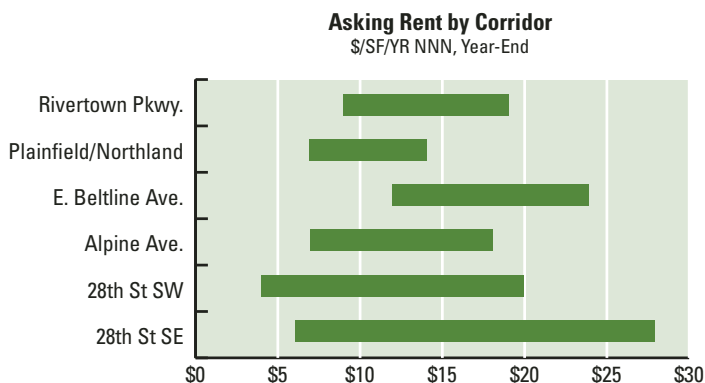
While the industrial real estate market in West Michigan continued to languish during 2010, increasing evidence does suggest that the worst is over. Businesses were still largely wary of taking additional space, but the move by tenants to vacate space has mostly dissipated. The key industrial economic measures are still in expansion mode, although at a slow rate of growth. The local economy will push ahead with the national economy into 2011 in a positive, yet restrained direction. We will see vacancy rates as well as asking rents stabilize and the intense competition for tenants will continue.

Retail

The West Michigan retail market has taken a hit recently due to decreased consumer spending over the last few years. The current economic recession had 8.4 million jobs lost nationally versus the 1.6 million lost in the recession of the early 1990s. However, economists see light at the end of the tunnel; national unemployment at the end of the third quarter was at 9.6 percent and many expect that to be reduced to 8.8% by 2012. Even with the struggling economy, the overall retail market in the Grand Rapids area saw encouraging signs as the total vacancy rate dropped from 12.6 percent in 2009 to 11.5 percent in 2010. It will remain a slow recovery for the local retail market but the statistics at the end of the year show positive momentum going forward.

It is still taking longer to lease vacant retail space in West Michigan because many smaller tenants are in a holding pattern due to the economy, and several national retailers remain concerned about the Michigan market. In order to secure tenants, owners are still offering several months of free rent as well as reduced rent. One bright spot is that a number of lower price point retailers are leasing space in stronger retail areas because they can now afford the improved location with the lower rents being offered, thus reducing the vacancy rates. In West Michigan, as well as nationally, leasing is still being dominated by discount retailers. In 2010 some of the most active companies in the retail market were Dollar Tree, Big Lots, Dollar General, Goodwill Industries and Family Dollar. Dollar General planned to complete 600 new stores nationally in 2010 alone, while Dollar Tree had estimated their 2010 total national units at 235 before the end of the year. In aggregate, we saw dollar store chains add close to 1,500 new stores nationwide in 2010.

Auto parts stores are also strong locally with stores like AutoZone and O'Reilly Auto Parts signing new leases and



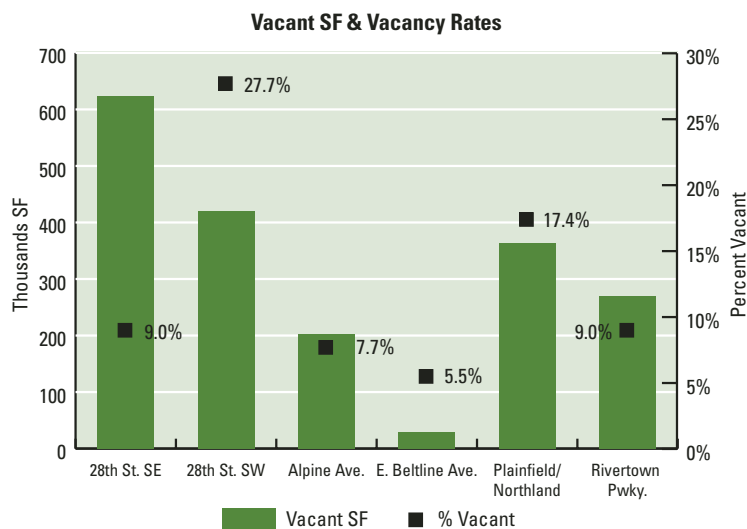
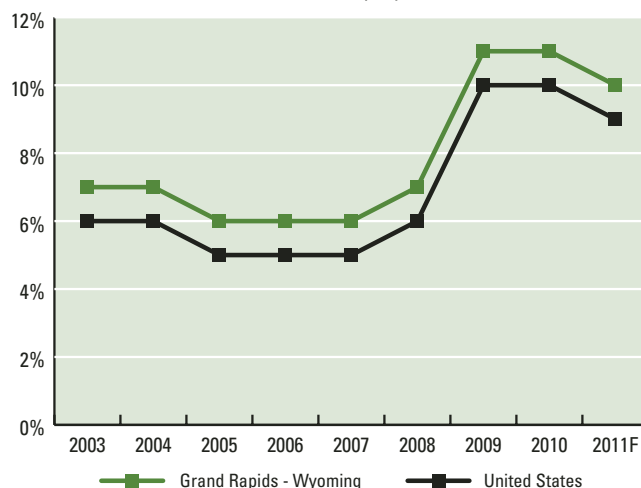
purchasing sites in the West Michigan market in 2010. The cell phone boom is another segment that continues to do well in this economy as providers such as Sprint, Verizon Wireless, Metro PCS and AT&T Wireless grow their presence in our area.

Growth is also coming from retailers who are increasingly willing to experiment with their footprint templates to take advantage of deals and to cash in on more vibrant urban markets. Meijer, Walmart, Cabela's, Costco, Petco, Target and numerous restaurant chains are all experimenting with smaller footprints. From a restaurant perspective, there is increasing activity in the fast food/fast casual restaurant arena. One example in West Michigan is Brann's Restaurant & Sports Grill that has approved its first franchise location on M-37 in Caledonia. Nearly every major operator in this field is counting on franchise growth to fuel expansion plans in the coming years. To accomplish this, many chains are dropping their initial capital requirements to attract new franchisees, as the biggest hurdle continues to be acquiring financing.

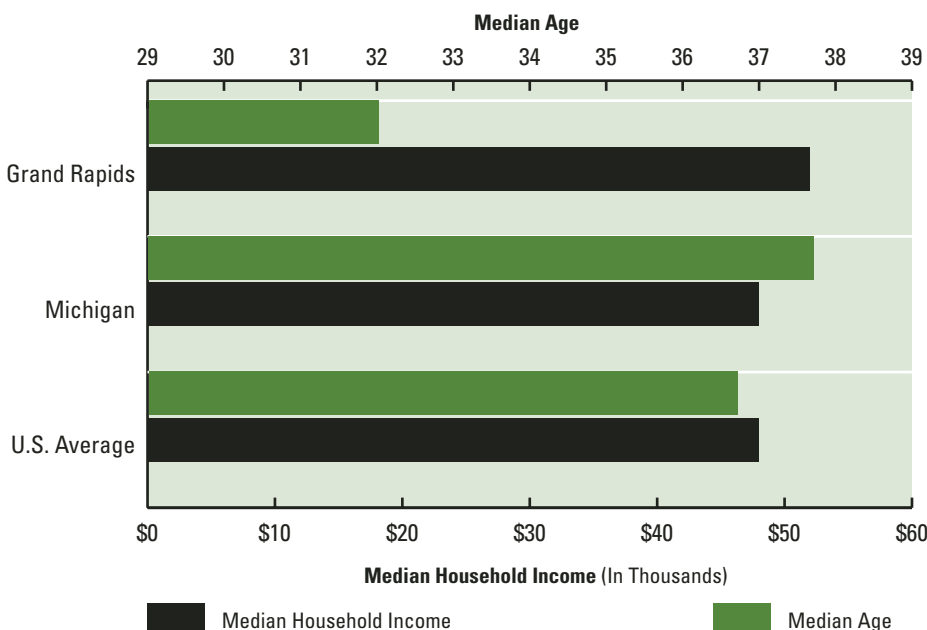
It remains to be a tale of two cities for 28th Street in the Grand Rapids area. The typically strong Southeast corridor of 28th Street saw a decrease in vacancy over the year as the rate dropped 9.0 percent compared to 11.3 percent in 2009. On the opposite end, the Southwest corridor of 28th Street saw its vacancy rate increase even further from its 2009 figure of 25.7 percent to 27.7 percent at the end of 2010. The two large closings that hurt the vacancy rate dramatically last year, Studio 28 and Classic Chevrolet, remain vacant and have not finalized any plans for reuse. Additional big box vacancy was caused by the closing of Klingman's Furniture and the continual struggles of Rogers Plaza.

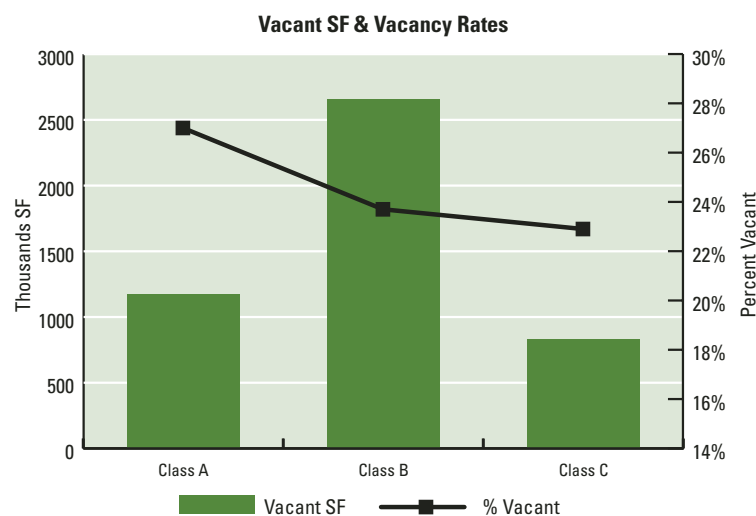
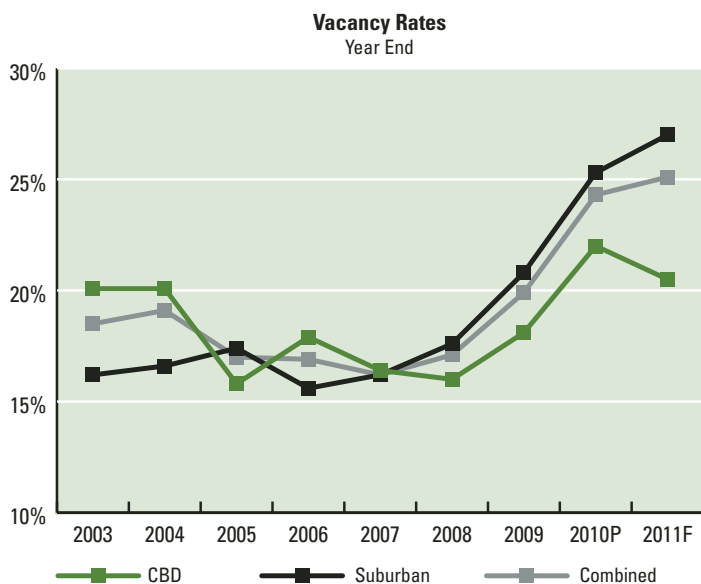
By far the largest improvement in overall activity was in the East Beltline corridor as the area saw its retail vacancy rate drop by 4.2 percent compared to 2009. The Rivertown corridor and Alpine Avenue, two other major retail areas in Grand Rapids, saw slightly mixed results over the past year. Rivertown saw its vacancy rate increase from 8.5 percent in 2009 to 9.0 percent in 2010, while the Alpine corridor had a decrease in vacancy of 1.6 percent dropping it to 7.7 percent at the end of 2010. The Plainfield Avenue/

Unemployment Rate - Grand Rapids - Wyoming Metro vs. U.S.
Not Seasonally Adjusted



Median Age and Income





Northland Drive submarket remained the same as in 2009 at a 17.4 percent vacancy rate.

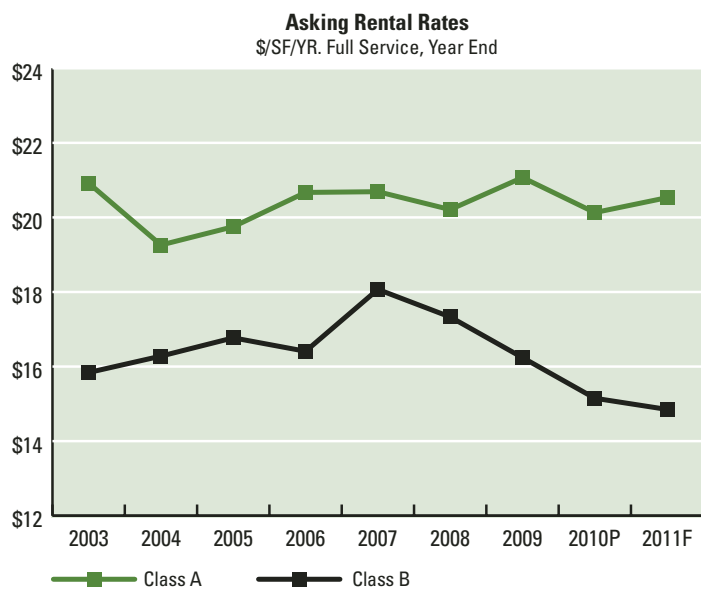
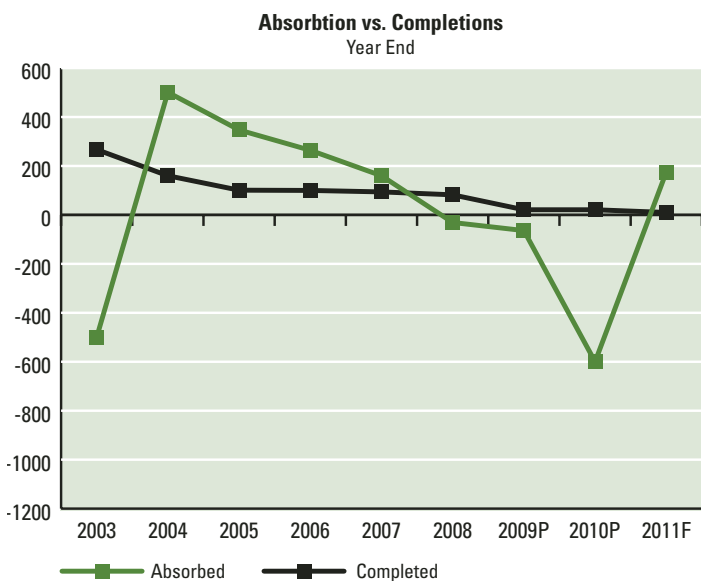
With the beginning signs that the retail market is firming up, landlords will not be as desperate as they have been in recent years. The sole focus on maintaining occupancy at any cost is waning, and short term deals are becoming more rare. Department store sales are increasing which will cause more traffic in the centers they anchor and help non-anchor retailers that may be struggling as a by-product. The success of junior retailers is on a case-by-case basis as some increase their market share and others close their doors.

Expect to see the 2011 retail vacancy rate improve slightly in West Michigan. After a flurry of retail tenants closed their doors and left vacant space in West Michigan, the bleeding is beginning to subside. The big black X's are finally lifting off of the State of Michigan for many retailers, but there will be little to no new retail development in 2011 and most likely into 2012. The majority of new tenants will be backfilling currently existing vacancies in the market and there will be a slight upward pressure on lease rates.

The long-term future of retail remains bright due in part to the age of our area's population. The median age for a Grand Rapids resident is 32 years old, which compares to a median age of 38 for the entire State of Michigan and 37 on a national basis. This means that West Michigan will have a larger number of shoppers in their prime spending years for a longer period of time.

Office

The West Michigan office market saw some positive signs in 2010 after a few dismal years caused by the struggling economy. Without raising expectations to unrealistic levels, the results over the past year suggest the office market has begun what will almost certainly be a very long and slow road to recovery. Even though the market saw an overall increase in vacancy, the data alone can be misleading. As confidence in the economy began to increase slightly, leasing activity in 2010 increased as well. The increase in vacancy can be attributed to large blocks of space that became vacant in 2010 like the Israel's campus, as well as many occupiers



using office space more efficiently. With the local economy posting reasonable growth and the addition of more private sector jobs, the West Michigan office market is expected to improve in 2011, albeit only in small increments with no sudden surge anticipated.

Suburban office buildings have been hit the hardest with occupancy not supporting the mortgage values. Some building owners have lost their equity and their passion for maintaining the asset leading to the negative values seen in the less than desirable locations. A number of examples exist where the value of the property is no greater than the land it is setting on. These tend to be Class C properties, but the general trend in the Suburban market is sub replacement value. This affords new owner users the opportunity to acquire property, upgrade it to fit their needs, and secure financing as the banks are still favoring these types of loans.

Rental rates for the suburban office market have not yet bottomed out, and it is expected that rates will continue to decrease slightly into 2011. Landlords of these properties continue to provide larger tenant improvement packages and other incentives to lease up their buildings. These outlying submarkets have been hurt by tenants leaving the suburbs to take advantage of attractive rates in Central Business District (CBD) office properties. However, a positive sign for the suburban office market is that tenants are beginning to sign longer term leases instead of short-term or month-to-month leases. It is anticipated that the suburbs will lag behind the stronger CBD market.

There are many key indicators that support the view that the CBD office market has hit bottom and is improving. Downtown tenants are also executing longer term deals compared to the last two years where a majority of the leases executed or renewed were short-term leases; there has been a sharp uptick in five, seven, and ten year terms. Tenants are taking advantage of the low lease rates, and the belief that over the next year and a half rental rates will rise as the economy strengthens and more office space is absorbed. There is a definite upsurge of confidence in the long-term success and growth of downtown, spearheaded by the philanthropic nature of our Grand Rapids community and its leaders.

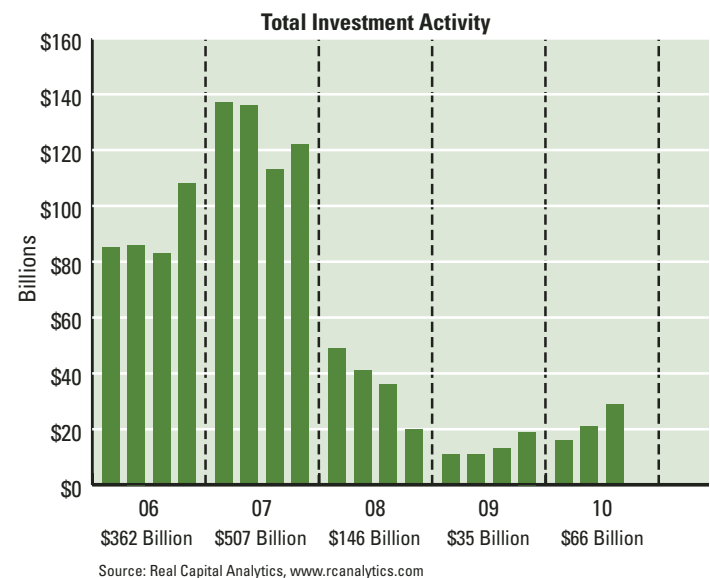
In general, downtown companies have downsized and reevaluated how they do business and how to utilize their office space. Companies have been able to upgrade to newer, less costly, and superior located space. Several well located office buildings south of the entertainment district are at 100 percent occupancy. This encouraging sign reinforces the fact that demand is increasing, and buildings are once again beginning to fill up.

The success of new construction projects like 38 Commerce gives additional hope that the worst of the economy is behind us. The idea that new development is happening is a great sign that the market has hit bottom and the office market is improving. There has recently been an increasing market presence in the downtown area from key companies like Meijer, Amway, Steelcase, Wolverine World Wide, and

universities such as Michigan State, Davenport, GRCC, Grand Valley, Ferris State, Kendall and Western Michigan. Restaurants and other entertainment venues have continued to expand downtown and that should be the harbinger to more people living downtown.

Empty-nesters and young professionals are actually creating waiting lists at some of the apartment and condominium projects in the downtown area. Leading the way in filling downtown housing are healthcare professionals, drawn to downtown by the recent medical development, and college students, who are attending one of the various universities. Many Class C office buildings have been converted to residential, eliminating functionally obsolete office space and providing for a more attractive urban core going forward. Many people are taking advantage of the live, work, play environment that downtown provides.

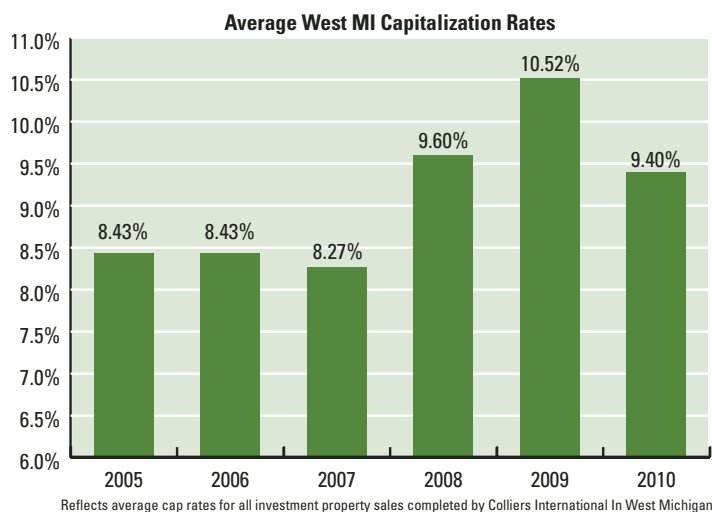
Expect rental rates for downtown office space to stabilize in 2011, while the suburban market will continue to decrease slightly for the next year. Overall, the number of transactions will increase with users realizing that the market has bottomed out and that now is the time to act before prices increase. Landlords will begin to tighten up and hold their ground on incentive packages as the demand for space increases.



Investment

West Michigan commercial real estate investors began the year still facing headwinds from the recent recession. As the year progressed, investors became more certain that the recovery had begun to take hold. As forecasted last year, this rising confidence led to increased transaction volumes, and transaction momentum continued to increase throughout the year. As we look towards 2011, we anticipate a continued increase in investment sales, particularly by opportunistic buyers.

Investment sales activity was significantly higher than that of both 2008 and 2009. Investors were focused on core assets with strong tenants and long term leases as well as distressed



assets with noticeable upside potential. We've referred to this trend as "Trophies and Train Wrecks." While there is confidence that the recovery has taken hold, this "Trophies or Train Wrecks" philosophy leaves investors focused almost exclusively on either the most secure or value-add based transactions.

One of the biggest themes of the last two years has been the challenges of the financing market. While financing remains challenging for investment real estate, those investors with strong balance sheets and liquid capital are once again able to find competition among financing sources. Financing for recent transactions has come from local West Michigan banks as well as national life insurance companies, and there have even been early signs of a return of the CMBS (Commercial Mortgage Backed Securities) market. Underwriting criteria remains stringent, and loan-to-value levels remain well below those found in peak years. Interest rates, however, remain at historic lows and it appears will remain at these low levels well into 2011. We expect financing options and terms to continue to improve into 2011.

As previously mentioned, the most active investors have been focused on distressed real estate across all property types. Investors are seeking opportunities that can be purchased well below replacement cost yet still allow potential for increasing leasing activity to drive superior returns. In reviewing these distressed opportunities, investors are very focused on basic real estate fundamentals. Lease rates must be at or below current market levels and there must be an opportunity to reposition the property positively compared to the competition. Those distressed property types seeing the most activity include multi-family and office properties.

In addition to these distressed real estate investment sales, there was much activity focused on class A opportunities which offered a very stable cash flow. Class A properties either had a superior location, superior tenant, and typically a long-term lease in which an investor could rely upon. Activity for these property types came from both local real estate investors as well as national real estate investors. Interest from national investors is again increasing, particularly for those investors who have already invested in West Michigan and view the community favorably.

Cap rates have shown an improvement trend throughout 2010. We began the year with cap rates averaging 150 to 250 basis points higher than 2007 levels (the market peak). Throughout the year, increasing competition and improving financing conditions saw cap rates move lower, subsequently increasing the values of real estate investments. In some instances the premier properties saw a 10 to 15 percent increase in property values in 2010 alone, although property values remain between 15 percent and 30 percent below peak levels. In 2011 we expect continued improvement in real estate investment values, with value appreciation greatest in stable properties with long term leases in place.

Retail

The retail investment market seems to be one of extremes. One example is net leased single tenant buildings, where competition for such assets remains particularly strong. Cap rates seemingly improve by the month, and for the very best, assets are nearing values seen at the peak. On the other extreme are multi-tenant retail buildings. In such buildings, income has deteriorated, and there has been very little investor demand with values remaining well below their peak. As fundamentals continue to improve, we do expect well located strip centers to begin to trade again.

Industrial

Investment in West Michigan industrial real estate was virtually non-existent in 2009. In 2010 however, investor activity significantly increased and investors were very focused on superior assets with long term tenants. Warehouse distribution investment remained tempered, but competition existed for single tenant net leased industrial assets. With the manufacturing sector leading the country out of the recession, we expect the industrial segment to continue to be an active market in 2011.

Office

As was the case in 2009, investors were focused on distressed office properties in 2010. Multiple class C office portfolios sold in 2010, as investors sought to take advantage of pricing well below replacement cost. We expect investor interest in 2011 to be focused on the downtown core, which has seen the most stable occupancies and shows the greatest potential for growth. Additionally, we expect investors to continue to show interest in medical office buildings and distressed assets.

Multi-Family

The multi-family market continues to show strength and reliability throughout 2010. Occupancy rates have been steady, and some owners have successfully managed to raise rents. There is active competition amongst investors to locate distressed multi-family opportunities.

In summary, we expect the improvement trend begun in 2010 will continue into 2011. We expect investors to remain focused on distressed assets as well as class A stable opportunities. Cap rates will continue a slow moderating improvement trend; financing availability will continue to improve, and interest rates will remain low throughout 2011. ■

West Michigan Supply Management: A Year in Review

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Seidman College of Business**

The recovery continues. In April of 2009, Grand Rapids began recovering from one of the worst recessions in recent history. For 2010, the recovery continued unabated for the entire year. However, as of the end of the year, the lofty economic levels of 2006 were still far from reach. Because of this unusually slow recovery, the 2007–2009 economic downturn will always be referred to as the “Great Recession.”

Among our key local industries, the office furniture business began to show new signs of life in the summer of 2010. Whereas most industrial groups in Greater Grand Rapids began to improve in mid-2009, it was well into 2010 before we could declare that the recovery was starting to take hold for office furniture.

Several factors contributed to this slow recovery. First the purchase of new office furniture is obviously one of those decisions that can easily be deferred. As business conditions improved and firms began accumulating cash, the market for office furniture began turning the corner in the months of June and July. However, part of the slow sales in office furniture rests with the sharp decline in commercial construction. New buildings are often furnished with new furniture, and the lower rates of new office construction have hurt the market. Hence, there is still a long way to go before office furniture sales will return to the lofty levels of 2004–2005.

Our second largest industry, automotive parts, continued on the recovery path set in motion by the 2009 “Cash for Clunkers” program. Because of record low rates for auto financing and the aging of the fleet of cars currently on the road, expectations were high. However, the 2010 industry improvement was good, but far more modest than many of the projections based on previous recessions. Although the prices for new cars are very high when compared with average household incomes, the quest for quality has finally resulted in cars that simply have a longer life expectancy. It now appears that the industry may have to adjust to a new norm of selling fewer vehicles than were sold in the 2002–2006 time period.

About the Survey

The monthly survey of business conditions, 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 53 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.

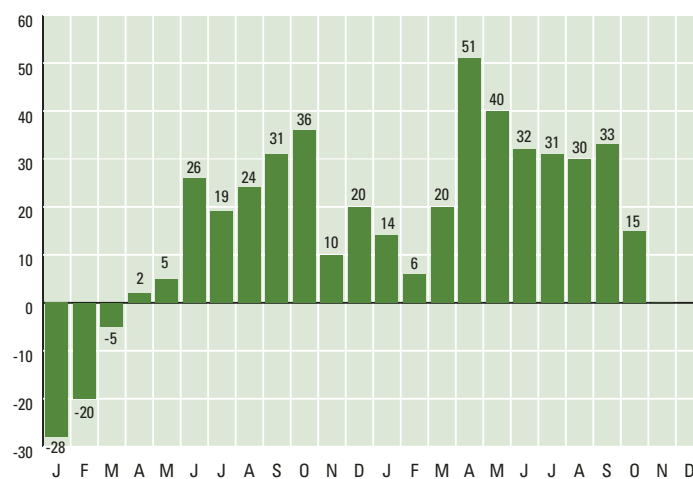
Patterned after the nationwide survey conducted by the Institute for Supply Management, the strength of the survey is its simplicity. Each month, the respondents are asked to rate eight factors as “SAME” or stable, “UP” or improving/rising, OR “Down” as in declining/falling.

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 local economy. Conversely, billions of dollars are pulled from the economy when the index turns negative. Depending on the firm, a significant portion of this money ends up being spent in the local community.

We entered 2010 with a modest New Order index of +14 for January. The index eased to +6 in February. Fortunately, New Orders continued to grow higher in March. In April, the index rose to +51, a 16-year high. Given the numerous problems which still permeate the economy, it was not possible to maintain this lofty level of growth, although the remainder of the year remained fairly positive. As noted in Figure 1, the growth of New Orders tapered off in the latter part of the year. However, growth is growth, and the zig-zag nature of these reports over the past five years says that we should expect some variation from one month to the next.

Figure 1: 2009–2010 New Orders
Percent “Up” vs. “Down”



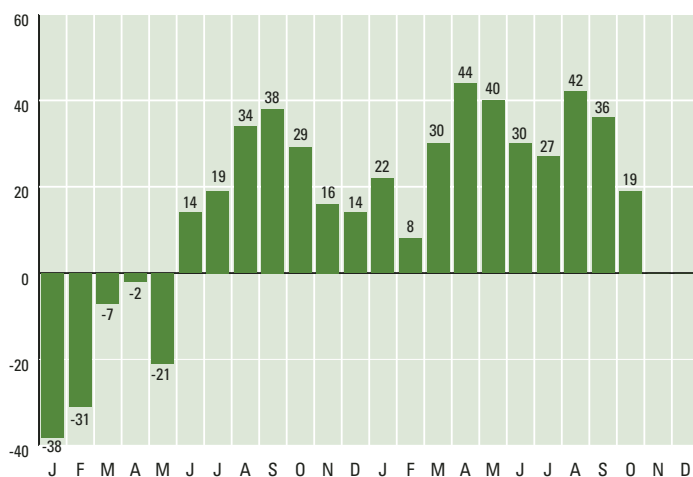
Production

Just as most years, the production schedules varied widely among different types of manufacturing firms. Automotive is

usually weaker in the summer months, although the annual “model changeover” continues to become less pronounced with each passing year. However, a glance at Figure 2 clearly reflects a less robust level of production in the months of June and July of 2010. In this same context, many of our local manufacturers show a decreased level of production in the season surrounding Thanksgiving and Christmas. Other holidays, bad weather, and material shortages may also constitute uncontrollable influences for the production index.

When the production index remains positive for several months, it almost always results in an increase in the employment index. Conversely, a decline in production for several months in a row will almost always result in layoffs. Hence, the fact that the production index remained positive for the entire year bodes well for 2011. Although many firms still seem to have at least some difficulty adjusting to market demand, the wave of cautious optimism that started back in 2009 continues to roll forward as we enter 2011.

Figure 2: 2009–2010 PRODUCTION
Percent “Up” vs. “Down”



Industrial Inflation

For many industrial buyers, 2008 will be remembered as the year that worldwide speculation drove many commodities to record levels. As the proverbial bubble burst in 2009, most buyers saw many major industrial commodities post record declines. Commodity speculators, frustrated by the world financial markets, were forced out of the market.

By the beginning of 2010, the pricing for most commodities had returned to normal, or so we thought. Unfortunately, the middle of 2010 saw another round of inflation for big ticket commodities like steel, aluminum, magnesium, corrugated, plastic resins, and all oil related products.

Several factors were responsible for the resumption of commodity inflation. First, many countries in the rest of the world recovered from the recession much faster than the United States. Hence, worldwide commodity demand picked up very quickly in February and March of 2010.

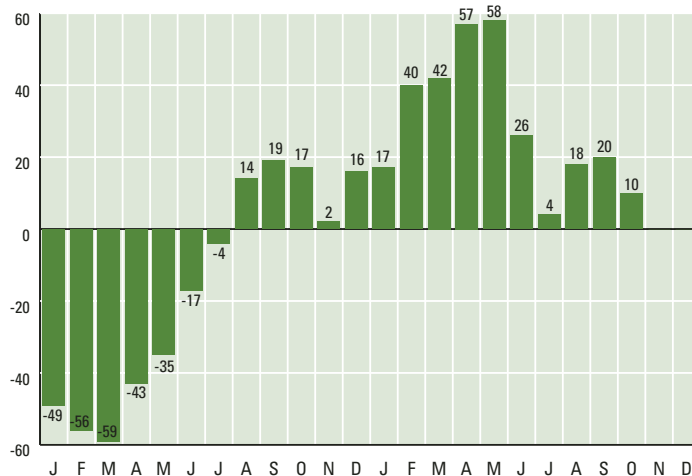
Second, countries like China bought up raw materials in anticipation that prices will soon be higher and/or that some commodities may be in short supply or unavailable. In other words, they thought it was a better business decision to store money in copper ingots than store it in Euros that were falling in value or in dollars that pay almost no interest.

Third, given that the cost of carrying raw commodity inventories is now relatively low, the buying policies of many domestic companies called for discarding the 1990s religion of JIT. Furthermore, predications of higher prices and potential shortages loomed on the horizon. These same firms were watching the Chinese, and jumping on the wagon.

Last but not least, the speculators decided to get back into the commodity markets. With interest rates around the world at record lows and the stock markets now seeming top heavy, the hedge funds and the big money speculators started creeping back into the commodity markets, especially for big ticket commodities like steel, aluminum, magnesium, lead tin, nickel, all oil related products, and many farm commodities like corn, rice, wheat, and soybeans.

Much of the recovery boom was attributed to replacing depleted inventories. By mid-summer, it appeared that the world economy had gotten ahead of itself. For the remainder of the year, commodity prices eased considerably. With the pace of the worldwide economy continuing to slow, we ended the year with inflation returning to normal levels for most industrial commodities. However, some selected commodities like corn hit record highs because of the lack of any good places for the speculators to go with their money.

Figure 3: 2009–2010 PRICES
Percent Reporting “Up” vs. “Down”



Employment

It is no secret that unemployment is probably the most important economic index for America’s politicians at all levels of government. The cry for more “jobs” permeates almost every candidate’s rhetoric regardless of party affiliation. Unfortunately, the unemployment rate in the

Greater Grand Rapids area has remained excessively high, despite the recovery by our local industrial sector.

For our 2010 survey, the year began dead flat with an index of +0. However, as the indexes of New Orders and Production expanded, the Employment index posted moderate to substantial gains for the remainder of the year. In August, the Employment index rose to a twenty-year high of +46. Indeed, half of the firms in our survey reported adding personnel.

With these statistics, it would seem that the unemployment rate in the local area should be much lower. However, several key factors are causing problems. First, in past recessions, the expansion of New Orders has been followed by expansion of the business itself in the form of new product lines, capital investment, new construction, and acquisitions. In this recovery, business owners remain worried about the future, including concerns over new taxes, new regulation, and rhetoric of a possible double dip to the recession. When their business brings in cash, they prefer to hold it rather than reinvest in the uncertain future.

Second, our survey covers only the industrial sector, and the consumer sector has not shown as much promise. Again, retailers and other service-related firms are uncertain about the future, and prefer not to expand. In this same context, the consumers themselves have become considerably more fragile, and the percentage of income-devoted savings has grown considerably in recent months.

Last but not least, there is the problem of new construction. A significant portion of our unemployment problems relates to carpenters, electricians, and plumbers who were drawn into the 2002–2006 housing boom and are still out of work. With new construction now half what it was a few years ago, the employment in this sector remains weak. With so many unsold properties available in the form of both residential houses and commercial buildings, the construction segment of the economy will continue to underperform for years to come. Furthermore, the supply chains that service these industries are also underperformers.

Looking Ahead to 2011

The outlook for the industrial economy in 2011 is positive, although some segments of the overall economy, namely residential construction, will continue to restrain economic growth at both the national and local levels. Because of the on-going decline in commercial construction, the office furniture business will also be restrained. New buildings are often furnished with new furniture, and the lower rates of new office construction have hurt the industry.

Almost from the time that the recovery began, there has been talk about the possibility of a double dip recession. Whereas a double dip is still possible, it is not probable. However, growth throughout 2011 will be inhibited by a weak construction sector, mediocre auto sales, and low consumer confidence. Furthermore, we are still dependent on China as well as other creditor nations to continue to buy our ever-growing treasury debt. If we get into any kind of currency war or trade war with China, this could start to generate a second down-leg to the recession.

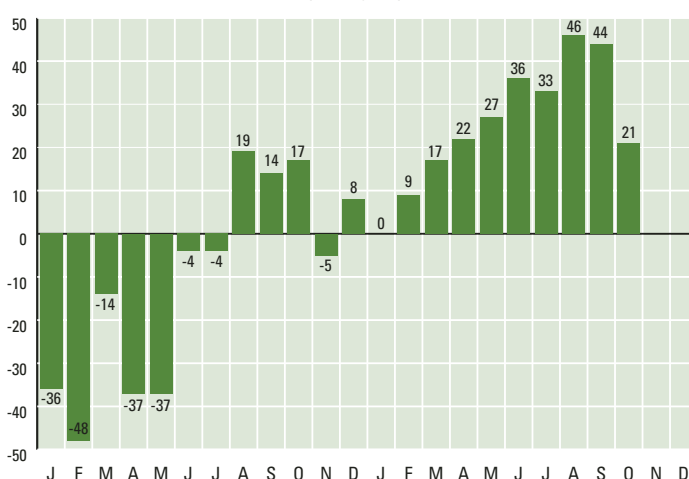
A bigger problem with economic growth relates to the inability or unwillingness of firms to expand. Unlike most recoveries in the past, many firms that are at full capacity are not expanding for several reasons. First, credit for small firms, even those that have been around for a long time, is still very tight. Because of the sweeping new regulations that have just been enacted, the financial institutions say that it may take months before the full impact of the new regulations are interpreted and understood. Since much of the legislation favors the borrowers over the lenders, they do not want to get trapped. Hence, banks are now only loaning money to borrowers who can prove that they don't really need it.

Second, there is a feeling among many firms that expansion is simply not necessary. Rather than incur a bunch of new debt, a lot of firms seem to be content to stay right at their current size. In this same context, these firms now seem to be more risk averse. In the case of Tier I automotive, they are also resisting pressure from their customers to expand.

A third problem is pessimism. Since consumer confidence is now almost as low as it was at the peak of the recession, it stands to reason that businesspeople, especially those with small businesses, remain pessimistic about the future. They feel that Washington and Lansing are out of touch. They fear the impact of the higher taxes that are coming their way, and they fear that more budget shortfalls at all levels of government may lead to even more taxes.

Last but not least, we need to be vigilant of surprises or catastrophes that may be out of our immediate control. Many terrorist acts have been subverted since 9/11, but a major terrorist act that could slip through the cracks could shake our confidence and force us back into a recession. ■

Figure 4: 2009–2010 EMPLOYMENT
Percent Reporting “Up” vs. “Down”



West Michigan Stock Returns

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West Michigan Stocks Roar in 2010

Individuals who invest mostly in publicly traded West Michigan-based companies should be elated over their gains during 2010. The index of 15 local stocks rose nearly 41% during the year. That's 3.7 times the return the Dow Jones Industrial Average produced, 3.2 times the S&P 500's return, and 2.4 times the return generated by the NASDAQ Index. Compared with any of these performance yardsticks, local stocks had a great year.

All the more impressive, last year's return followed a 32.5% return in 2009. In other words, \$1 invested in the Index two years ago would have grown to \$1.87 by the end of 2010. Table 1, Stock Market Returns, shows how the West Michigan Index performed over the past three years relative to the most commonly used yardsticks: the Dow Jones Industrials, the S&P 500, and the NASDAQ Composite Index.

Table 1: Stock Market Returns¹

	2010	2009	2008
West Michigan Index	40.8%	32.5%	-45.2%
Dow Jones Industrial Average	11	18.8	-33.8
S&P 500 Index	12.8	23.5	-38.5
NASDAQ Composite Index	16.9	43.9	-40.5

¹The West Michigan Index consists of 15 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. The indexes ignore dividends.

The West Michigan Index experienced three significant changes in 2010. OAK Financial—the corporate holding company for Byron Bank—disappeared from the Index after Midland-based Chemical Financial Inc. acquired it mid-year. In addition, Stryker Corporation was added to the index. Finally, Independent Bank enacted a 1:10 reverse stock split at the end of August to raise its stock price tenfold in an effort to keep its stock from being delisted by the NASDAQ Exchange. As a consequence, the Bank's shares fell from about 75 million to 7.5 million. All three changes are reflected in Index returns shown for the three years shown above.

Of the 15 stocks comprising the Index, only two—Community Shores Bank and Independent Bank—ended 2010 with a price lower than at the beginning of the year. Both are banks hard hit by Michigan's depressed economy but without the financial size or geographical diversification to bounce back in 2010. At the other extreme, prices of both Mercantile Bank and X-Rite more than doubled during the year, and over the past two years, both X-Rite and Gentex more than tripled.

The performance of each of the West Michigan-based companies is described below.

West Michigan Banks

When investors buy stocks, they buy the future stream of earnings and dividends the stocks will generate. In other words, they buy based on the future, not the past or present. As badly as local bank stocks performed in 2009, prices of three of them generated great returns in 2010 because investors believe the banks have turned the corner. Investor demand for the stocks drove up the prices. Investors in both Mercantile and Macatawa banks reaped the benefit as prices soared. Choice One was one of the few banks in the US avoiding losses in 2009, and as a result, its price didn't fall as much as its peers. Because the bank's profit was about 40% higher through the first nine months of 2010 compared with 2009, investors bid up its price 33%.

Although there is reason to believe both Community Shores Bank and Independent Bank also are turning the corner, some investors aren't convinced either bank will survive long enough to return to profitability. Only time will tell.

X-Rite

X-Rite completed its second year of rebound in 2010. As was the case in 2009, sales grew (by 21% in 2010), it continued to pay down its long-term debt, and most recently, its credit rating was raised by Moody's. In response, several stock analysts raised their recommendations for X-Rite. These combined actions drove up the company's stock 110% in 2010 following a 46% increase in 2009.

Herman Miller and Steelcase

Both companies turned the corner in 2010 with earnings increases and projections exceeding analysts' estimates. For example, Steelcase raised its 4th quarter earnings forecast to 11-15 cents per share, exceeding stock analysts' estimates of 8 cents. Similarly, Herman Miller's earnings are soaring. In its most recently completed quarter, net earnings rose 87% while net sales grew 19.9%. Its backlog of orders grew nearly 35%.

Gentex

After its stock price rose more than 102% in 2009, Gentex followed with a 66% increase in 2010. Its stock is now at an all-time high. Investors are pleased with the company's high growth rate, and even better, the prospects for accelerating growth due to the National Highway Traffic Safety Administration's recent proposal to require rearview cameras in all new cars by 2014. The potential exists for Gentex to increase its vehicle camera market from one-third to one-half of all light vehicles.

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 70 restaurants and leisure properties. Because its stock began the year at \$1.25 per share, a small change in price will lead to a large percentage change. Its stock rose only \$0.80 in 2010, but that equated to a 64% increase. Investors are pleased with the company's high sales growth and a more than six-fold increase in net income during the six months ended July 4.

Perrigo

Perrigo stock continues to soar, reflecting strong earnings growth quarter after quarter. For example, its 3rd quarter earnings were 87 cents per share compared with analysts' estimates of 77 cents. Whenever a company beats the consensus estimate, the stock is bound to rise. The company also raised its estimate of full-year earnings.

Spartan Stores

Grocery store sales suffer during recessions. Customers buy lower margin products and cut back on their purchases of higher-priced products. The result is that sales and profits fall. Spartan Stores was not immune from the cyclic downturn beginning in 2007. Now that the recession has ended, Spartan's profitability is rising. After a first quarter profit of \$3.2 million, its profit rose to \$6.0 million in the second quarter, and \$11.2 million in the third quarter. Investors noticed this trend, and bid up the company's stock.

Wolverine World Wide

Wolverine World Wide achieved record sales and earnings in each of the last three quarters. The company's chairman and CEO, Blake W. Krueger, reported that, "The momentum in our business continues to build." Because the company has a history of delivering what it says, investors bid up the price 17%. If the US dollar continues to weaken, Wolverine's global sales will increase, helping its bottom line, and increasing the odds of further increases in its stock price.

Stryker

Stryker's stock was added to the West Michigan Index in 2010. Many companies in the health care industry have been in the doldrums since the recession began. That's the case with Stryker, especially because consumers can, and have, postponed elective orthopedic procedures such as hip and knee replacements. Now that the economy is strengthening, the market for this segment will grow, helping Stryker's bottom line. Even without great growth, Stryker stock managed to generate a nearly 7% return in 2010.

Universal Forest Products

Grand Rapids-based Universal Forest Products Inc. is a major company in the lumber and wood production industry. That's a problem when the housing and building industry is in a depression. As a result, Universal has been limping along since the bottom of the industry fell out beginning in 2006.

The company projects no earnings growth for the year 2010, but is optimistic for 2011. Its stock did eke out a nearly 6% price increase during 2010, however.

In summary, 2010 was a great year for West Michigan stocks. Prices of thirteen out of fifteen publicly traded stocks rose, and the entire index rose 40.8%. It may be many years before we see another year with such across-the-board high returns. Performance of the West Michigan Index demonstrates an important point for investors: The best time to buy stocks is when they are on sale, not when they are high-priced.

Just about all stocks were on sale in 2009. No special knowledge was needed to make money in the stock market. The only requirement was to buy. Yet fear is greatest when stocks are on sale. Many investors sold their stocks, putting their money in bonds paying interest rates at the lowest rates in decades, just the opposite action needed to earn the high stock market returns that followed.

At the very least, you shouldn't try to time the market by selling in a panic when stocks tank. Stay the course, or, if you can handle the uncertainty, jump in, buying when stocks are on sale. ■

Table 2: LOCAL COMPANY RETURNS
1/2/10 through 12/31/10

2010 PRICES			
	Closing	Opening	Price Change
Mercantile Bank	\$ 8.20	\$ 3.08	+166.2
X-Rite Inc	4.57	2.18	+109.6
Macatawa Bank	4.12	2.09	+ 97.1
Steelcase	10.57	6.36	+ 66.2
Gentex Corporation	29.56	17.85	+ 65.6
Meritage Hospitality Group	2.05	1.25	+ 64.0
Perrigo	63.33	39.83	+ 59.0
Herman Miller, Inc.	25.30	15.99	+ 58.2
ChoiceOne Financial Services	12.00	9.00	+ 33.3
Spartan Stores Inc.	16.95	14.29	+ 18.6
Wolverine World Wide	31.88	27.22	+ 17.1
Stryker	53.70	50.37	+ 6.6
Universal Forest Products	38.90	36.81	+ 5.7
Community Shores Bank	0.40	0.80	- 50.0
Independent Bank	1.30	7.20 [†]	- 81.9
[†] Price has been increased tenfold to reflect a 1:10 reverse split 8/31/10.			

Has the Grand Rapids Housing Market Bottomed Out?

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Pessimistic reports about the national housing market abound, such as the report titled “Home prices expected to slide another 8%” reported on CNN.com November 1, 2010 (CNN). Articles like this have made many believe that housing has still not bottomed out in West Michigan. However, there is a lot of evidence that there are significant differences between the West Michigan and national markets for housing. The evidence includes differences in foreclosures, defaults and employment. In addition, the behavior of the housing market has been affected by a series of tax incentives for housing purchases that have made it more difficult to predict the trends.

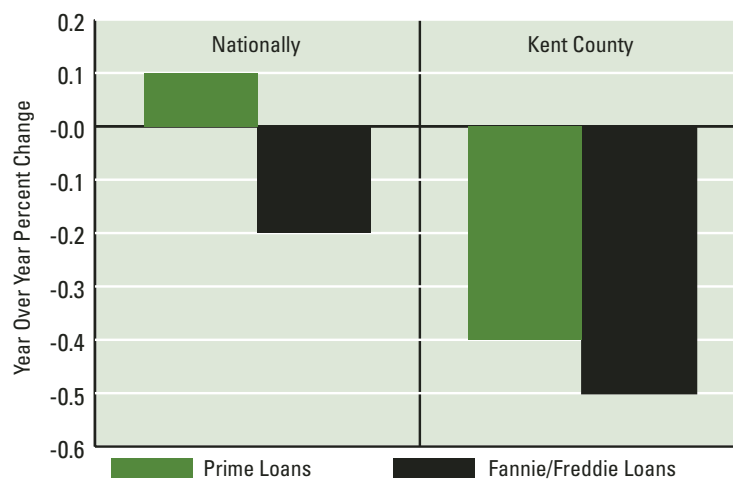
Foreclosures in the United States continue to climb. Realtytrac reports that, nationally, foreclosures increased by 4% from July to August 2010; however, it also reports that overall foreclosures were down over 5% year over year (Realtytrac). Michigan is showing faster improvement, with overall foreclosures down over 8% year over year. In fact, after adjusting for changes in how foreclosures are reported, Michigan has improved from 1 foreclosure in 314 households in September 2007 to 1 foreclosure in 388 households in August of 2010. Although these levels are still elevated from pre-crises levels, Michigan’s foreclosure picture is improving and doing so faster than the national market.

A mortgage 90 days behind is a sign that a household might face a future foreclosure. Again the national market is showing more distress than the West Michigan market. In the second quarter 2010, 5.7% of households were more than 90 days late on their mortgages, but only 4.1% were 90+ days late in Kent County. Looking at Figure 1, it is easy to see that the number of homeowners in Kent county falling behind on their mortgages is also improving more rapidly than the national average. In fact, every county around Kent is improving faster than the national average (New York Federal Reserve). This suggests that the foreclosure picture will continue to improve here in West Michigan.

One of the primary reasons for the improvement seen in West Michigan is the employment picture. In Kent county the unemployment rate is still elevated (10.3% in September 2010), but employment has grown by 0.9% year over year (BEA). This is three times faster than the job growth seen nationally. As the job picture improves, it not only allows people to avoid foreclosure, it also increases the number of people who might buy a house. Both things should improve the housing picture in West Michigan.

To illustrate the story of the housing market in West Michigan, I will use a quality-adjusted housing price index.

Figure 1: Change in Mortgages 90+ days late
August 2009 to August 2010

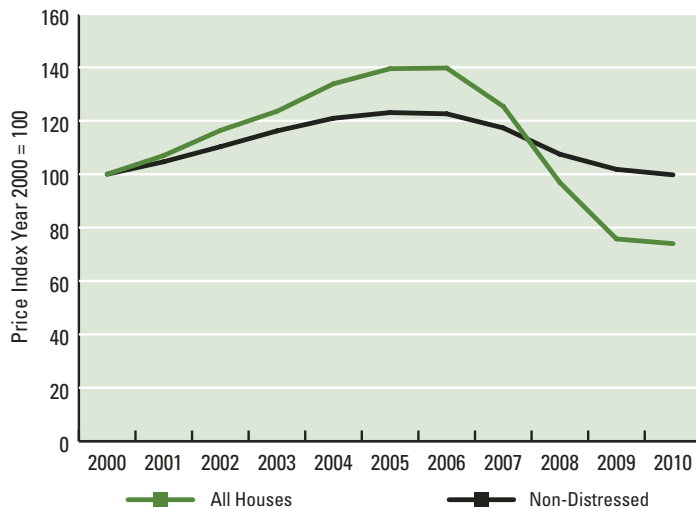


Unlike the change in median prices that report the price of the median house sold, a quality-adjusted price index statistically compares the change in value of the same house across time. The index is set to 100 in the year 2000, so it can be interpreted as how much money is needed to buy a house now for every \$100 needed to purchase the same house in the year 2000. Using data from the Grand Rapids assessor’s offices, the sale prices for every house sold more than once between 1987 and 2010 are compared (City of Grand Rapids). Although there might be things such as renovations or overdue maintenance that affect the change in the price for a particular house, this technique will find the cumulative effect of all houses across the entire city.

In figure 2, the price index by year is shown. The index is divided among all houses, including distressed houses selling for prices as low as \$10,000 and houses that sell for at least \$50,000. For simplicity I will call these indexes the all-house index and the non-distressed index, respectively. The non-distressed index more likely describes the effect on housing prices for owners selling non-foreclosed houses that are in good condition. However, both indices show that the slide in house prices has slowed dramatically over the last year. The index for non-distressed property has settled at around year 2000 prices.

The monthly price index is shown in Figure 3. Here note that both indices in February 2009 are basically the same as the respective index in September 2010. During the course of that time frame, prices increased and decreased in conjunction with the two federal tax incentive programs. The first ended in November 2009 and the second ended in April 2010; in figure 3 these are the vertical lines. Prices

Figure 2: Grand Rapids Housing Price Index



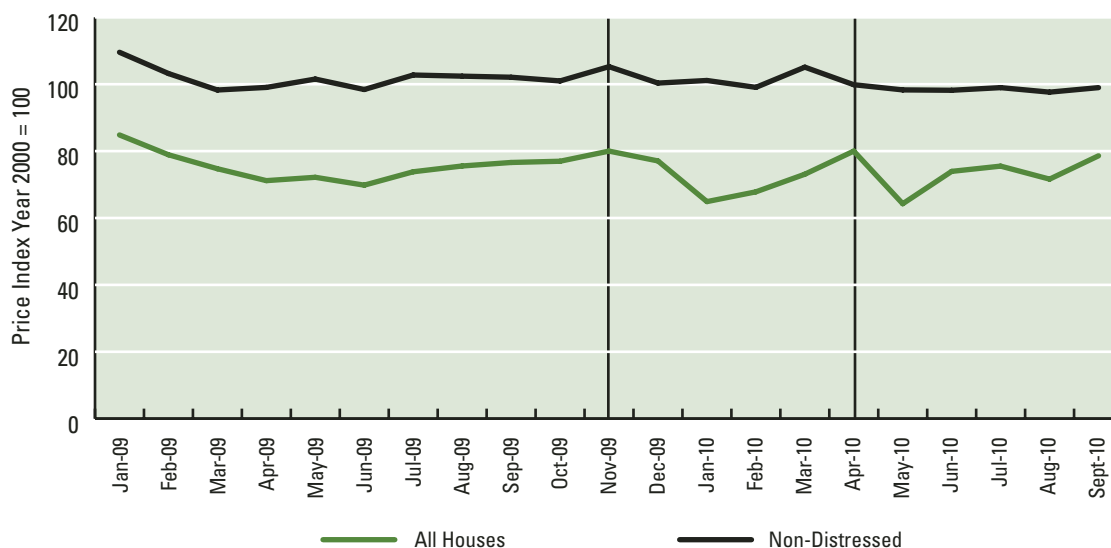
increased before the expiration as homebuyers rushed to take advantage of the incentive and fell after the incentive expired as fewer buyers were left in the market. These incentives caused extra volatility at the bottom of the market as people looked for bargains, so the effect on houses selling above \$50,000 was relatively small. Finally, there was no lasting effect of the incentives, as the overall price index has returned to levels seen prior to the incentives.

In conclusion, the residential housing market in Grand Rapids appears to have bottomed out during the first half of 2009, and increases in employment combined with decreases in foreclosures should lead to continued, but slow, improvement in the Grand Rapids area. ■

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Figure 3: Grand Rapids Housing Price Index



Business Schools and Business Ethics: Responsibility and Response

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Introduction

“The Oath

Preamble: As a manager, my purpose is to serve the greater good by bringing people and resources together to create value that no single individual can build alone. Therefore I will seek a course that enhances the value my enterprise can create for society over the long term. I recognize my decisions can have far-reaching consequences that affect the well-being of individuals inside and outside my enterprise, today and in the future. As I reconcile the interests of different constituencies, I will face difficult choices.

Therefore, I promise:

I will act with utmost integrity and pursue my work in an ethical manner.

I will safeguard the interests of my shareholders, co-workers, customers, and the society in which we operate.

I will manage my enterprise in good faith, guarding against decisions and behavior that advance my own narrow ambitions but harm the enterprise and the societies it serves.

I will understand and uphold, both in letter and in spirit, the laws and contracts governing my own conduct and that of my enterprise.

I will take responsibility for my actions, and I will represent the performance and risks of my enterprise accurately and honestly.

I will develop both myself and other managers under my supervision so that the profession continues to grow and contribute to the well-being of society.

I will strive to create sustainable economic, social, and environmental prosperity worldwide.

I will be accountable to my peers and they will be accountable to me for living by this oath.

This oath I make freely, and upon my honor.”¹

And this is the short version of the oath inspired and written by a Harvard School of Business student for his classmates and himself to adopt. The student created this oath in reaction

to some of the recent criticism of business students and their business schools, regarding unethical business behavior.

Since the beginning of time, society has been concerned about unethical behavior by businesses. This concern has become more pronounced over the decades, as smaller, more transparent, and locally owned business entities have given way to larger, much less transparent and, at least arguably, much less community-responsive, publicly held institutions. Over the past three decades society’s interest in business ethics has continued to grow dramatically, and seemingly unabated. In many ways, society’s increased interest and concern is justified by the serious loss of life and economic wherewithal resulting from what appear to be unethical business behaviors. From the Bhopal disaster, to the Enron scandal, to the BP fiasco, the public has had many reasons to question the extant and evolving global business culture.

This paper addresses one aspect of the components of the larger issue of Business Ethics by examining the challenges business schools face in responding to the criticism leveled at them for their perceived roles in creating—or at least failing to stem the tide of—unethical behavior on the parts of individuals and their business organizations. At least, effectively, it addresses the compound question of what business schools can and should do to enhance and encourage ethical conduct on the parts of its graduates when they enter the business world.

Definition of Business Ethics

One of the real difficulties of even discussing this topic is that persons have very different understandings of the definitions of “Business Ethics.” Ethics is that branch of philosophy dealing with values relating to human conduct, with respect to the rightness and wrongness of certain actions and to the goodness and badness of the motives and ends of such actions. It is also used to describe the moral principles of an individual engaging in business or commerce. Finally, and most important for purposes of this paper, ethics refers to the rules of conduct recognized in respect to a particular class of human actions or to a particular group or culture. Thus, Business Ethics refers to the rules of conduct—and the rightness or wrongness of that conduct—recognized in respect to the persons and human interactions of those involved in the wide array of activities broadly classified as commerce or business.

Three fundamental conceptions of ethics are important in framing the response to the question of what business schools can reasonably do to enhance and encourage ethical conduct on the parts of its graduates: *Normative Ethics*, *Descriptive*

¹Harvard Business School Student Oath.

Ethics, and *Applied Ethics*. *Normative Ethics* refers to the moral theory of ethics; it provides “prescriptions” of what is right and wrong, and why. In other words, it suggests how persons ought to act, generally. *Descriptive Ethics*, on the other hand, reveals persons’ beliefs about morality and what is right and wrong; it focuses on what persons actually do. Finally, *Applied Ethics* refers to the applications of the normative theories and prescriptions of what to do, usually, in a specific context, such as medicine and business; it focuses, for example, on what *business* persons ought to do, specifically.

Are Business Schools to Blame?

Despite the focus on business organizations, usually large, publicly held institutions, individuals make the decisions that result in these organizations’ “acting” in unethical ways. In fact, the conventional wisdom is that the “tone at the top” manifested by the behaviors of presidents and chief executive officers is critical in establishing ethical business cultures, or the lack thereof, in organizations. If this is true, perhaps, business schools should accept some level of responsibility for the business ethics of these organizations. Indeed, approximately 90 percent of the Fortune 100’s CEOs have earned at least one business degree, suggesting that, at a minimum, business schools have an opportunity to influence corporate culture regarding business ethics.

Over the hue and cry of society’s reaction to what it characterizes as unethical business behavior, we in The Academy can hear the clear and distinct blame being hurled at business schools for, in the minds of many, shirking their responsibility to address the ethics issues of business leaders through their business programs and curricula. Moreover, although the results are mixed, at least some recent research findings suggest that even business students tend to cheat more than their non-business-student counterparts in colleges and universities. [McKendall, et. al., 2010] The question is what, if anything, can business schools do to stem the tide of unethical business behavior? While, at least arguably, ethics is fundamentally philosophy subject matter, this paper provides a non-philosopher’s, business educator’s point of view.

Of course, business persons and students make decisions based on their values. And as one writer noted very well, “These adults arrive on the first day of class with a well-entrenched set of values that were instilled long ago by parents and siblings, teachers and religious figures, Scout leaders and athletic coaches, peers, and heroes.” [Schonsheck, 2009] As another colleague points out, “...in 3 or 4 years, even though various ethical topics are discussed, cases studied, and papers written, these are not in many ways the formative years of a student’s life. What [students] ...believe, their values, their objectives, have been formed much earlier and by multiple forces.”² Obviously, if students come to business programs imbued with the “right” values then all is well. On the other hand, if they come with the “wrong”

values system, what can a business school do? It certainly cannot make “bad” persons “good.”

Many in society argue that business schools should be responsible and accountable for much of the unethical behavior in which their students and graduates engage. Indeed, business school faculty and administrators generally agree that business schools should accept some of the responsibility and blame. “... [A]s a provider of professional education that influences business practices, business schools need to accept their “share of the blame.”³ I agree. I think, however, that the degree of responsibility and accountability should relate to a business school’s level of authority over the subject matter. Responsibility is the before-the-fact mindset of “ownership” of the expected results of an item or action, while Accountability is the after-the-fact mindset of such “ownership.” Authority, on the other hand, is the power to control or determine the outcome or result of an action or item. Very few business school critics address the fundamental role of authority, as it relates to business school responsibility and accountability for ethical conduct of students and graduates.

One of the basic tenets of effective management and leadership is that no one should accept *responsibility* or ultimate *accountability* for action, items, or results over which he or she has no control; similarly, no manager should hold anyone responsible or accountable for items and/or results over which he or she has no control. And so, it should be for business schools: business schools should accept responsibility for the ethics-related issues and concerns over which they have authority (i.e., control); moreover, society should only hold business schools accountable for those ethics-related items over which they have authority. Figure 1 depicts this Business Schools’ Ethics Responsibility Model.

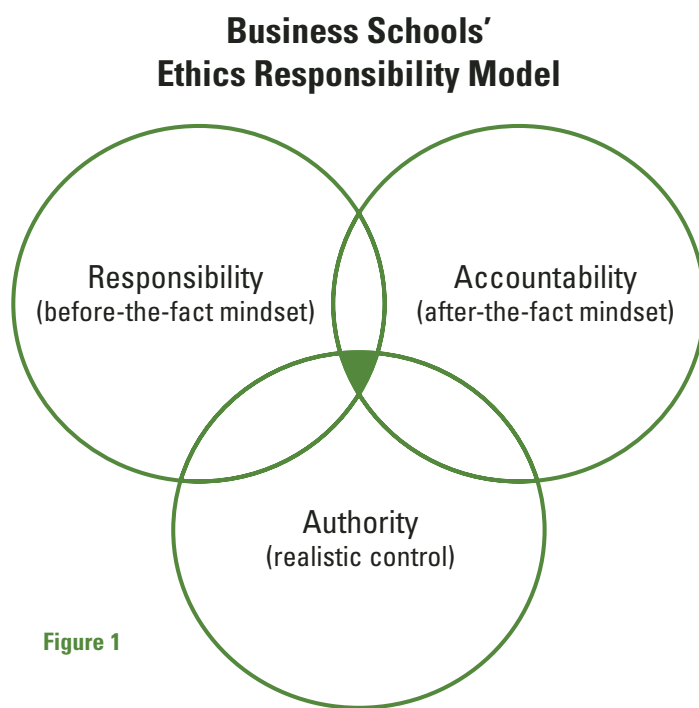


Figure 1

²Brad Stamm, Division Chairperson & Professor of Business, at Cornerstone University

³Frank Novakowski, Associate Dean and Professor of Business, Davenport University

Thus, the question of what a business school can do to stem the tide evolves to a slightly different, but no less compelling, question: “What can a business school reasonably do to educate graduates to have—and to exercise—strong moral values when they enter the business world?” That is to say, what is a reasonable expectation for society, given the level of authority or control business schools have over the ethical conduct of students and graduates?

How are Business Schools Responding?

What can a business school reasonably do to educate graduates to have—and to exercise—strong moral values when they enter the business world? In some ways the distinction is as elementary as the difference between teaching and learning. To *teach* is to inform, enlighten, discipline, drill, school, indoctrinate.⁴ To *learn*, on the other hand, is the modification of knowledge or behavior through practice, training, or experience.⁵ Schools of Business can control what they teach and the environments they create, to assist students in “learning” business ethics. As with any other subject matter, students, on the other hand, will learn as they deem appropriate for themselves.

Creating an appropriate, empowering environment is the most important component of what business schools must do.

Creating that environment, of course, includes providing ethics courses that serve to help students understand the fundamentals, concepts, and theories that allow them to engage in some deep introspection about their own values systems, as well as to critically evaluate opportunities and challenges for applying their values in appropriate ways in the work place. Indeed, exposure to the great philosophers’ (e.g., Socrates, Plato, Aristotle, and Kant) points-of-view on ethics can encourage students to reflect on their own values and the resulting actions. Perhaps, this kind of orientation and education can result in students developing life-long habits of reflecting on their values and business ethics.

Of course, over the past decade, as the AACSB International (the premier accrediting agency of business schools world-wide) has increased the emphasis on, and requirements⁶ for, business schools around business ethics, the member schools have responded by including ethics courses in their curricula. Also, those

institutions not accredited by the AACSB have also responded by adding ethics courses—perhaps, either because they view education around ethics as fundamental to an effective business education, or so that they can remain competitive in the marketplace. Moreover, a number of business schools also offer other ethics-oriented initiatives and opportunities for students, including business ethics centers, sustainability initiatives, centers, and programs, and faculty and student honor codes, similar to the one shared in the Introduction to this paper. In fact, the State-assisted colleges and universities in Michigan all have business programs that attempt to create diversified environments to support and promote business ethics, including courses, programs, centers, and other initiatives (see Table 1). Moreover, in this West Michigan community the eight colleges and universities all have business programs that include some form of business ethics courses, programs, centers, and other initiatives (see Table 2 on page 28).

Research results support the notion that most persons share a common set of values, irrespective of cultures and religions. As a consequence, some argue that the real challenge of conducting business ethically, indeed, in being ethical in any endeavor, is not the point of knowing what is right but, rather, the doing of what we know is right. To the extent this is true, another very important component of an appropriate

Table 1: Ethics Courses and Programs in Michigan State-Assisted Colleges and Universities

College/University	Business Ethics Courses	Ethics Embedded in Business Courses	Ethics Initiative, Program, or Center
Central Michigan University	—	Embedded in some courses	—
Eastern Michigan University	1 course	Embedded in most courses	Ethics Program ETHOS initiative
Ferris State University	1 course	Embedded in most courses	—
Grand Valley State University	8 courses	Embedded in 5 courses	Sustainability Business Ethics Center
Lake Superior State University	None	Embedded in most courses	—
Michigan State University	None	Embedded in some 21 courses	Sustainability Student Honor Code
Michigan Technological University	None	Embedded in 5 courses	Sustainability
Northern Michigan University	None	Embedded in 8 courses	—
Oakland University	None	Embedded in law courses	—
Saginaw Valley State University	1 course	Embedded in most courses	—
University of Michigan – Ann Arbor	12 courses	Embedded in 7 courses	Sustainability Community Values Requirement
University of Michigan – Flint	1 course	Embedded in most courses	—
University of Michigan – Dearborn	1 course	Embedded in some courses	—
Wayne State University	2 courses	Embedded in 5 courses	—
Western Michigan University	—	Embedded in core business courses	University-wide initiative

⁴ Dictionary.Com

⁵ Dictionary.Com

⁶ The AACSB’s accreditation standards require curricula component that addresses ethics (Business Accreditation Standards, #15 and Accounting Accreditation Standards, #37.)

Table 2: Ethics Courses and Programs in West Michigan Colleges and Universities

College/University	Business Ethics Courses	Ethics Embedded in Business Courses	Ethics Initiative, Program, or Center
Aquinas College	4	Embedded in 4 courses	Sustainability
Baker College	-0-	—	—
Calvin College	1	Embedded in 2 courses	“Voices to Values” Curriculum
Cornerstone University	2	Embedded in most courses	—
Davenport University	3	Embedded in most courses and Integrated into Academic Excellence System	Sustainability Leadership Effectiveness
Grand Rapids Community College	2	Embedded in 1 course	—
Grand Valley State University	8	Embedded in 5 courses	Business Ethics Center Sustainability Student Honor Code
Hope College	1	—	—

environment for learning and enhancing the ethics of business students is providing students opportunities to practice being ethically responsible. These practice opportunities can take many forms, including evaluating cases and role-playing. Over the past few years a new and compelling approach has begun to take hold: “Giving Voice to Values,” which focuses on providing opportunities for students to practice and, thus, learn, to speak up when confronted by ethically complex situations. The idea is that students learn to anticipate the difficulty of confronting unethical behavior and how to deal with the discomfort associated with doing what they know is the right thing. (See Table 3) Indeed, Grand Valley State University hosted the author of this new methodology, Mary Gentile, who presented to a full house during March of 2010. Moreover, another area business program, at Calvin College, is incorporating this program into an entirely new curriculum on ethics.

Table 3: Giving Voices to Values Program: Seven Pillars

Pillar	Brief Description
1 Acknowledging Shared Values	Consider the short list of values that research shows that people share, irrespective of cultures, religions, or eras
2 Choosing to Act	Identifying strategies to enhance “action-enablers” and counteract action-disablers”
3 Normalizing Values Conflicts	Adopting the mindset of expecting to face values conflicts, to demystify and disempower the idea of values conflicts
4 Defining Professional Purpose	Accepting a broad definition of professional purpose (i.e., beyond the “bottom line”)
5 Understanding the Self	Developing and refining a self-awareness, as well as a positive alignment with personal values, that focuses on personal strengths
6 Using One’s Voice	Understanding and gaining comfort with expressing opinions in different ways (e.g., by asking questions, making assertions, negotiating, and setting examples)
7 Preparing Responses	Learning to anticipate and respond to typical reasons and rationalizations for unethical behavior

Conclusion

Over the past three decades society’s interest in business ethics has continued to grow dramatically. Moreover, many argue that business schools should be responsible and accountable for much of the unethical behavior in which their graduates engage as leaders of business organizations.

Business schools have a very limited level of “control” over the values their students bring with them and any positive changes they can only hope students might adopt during the students’ matriculations. Consequently, business schools should focus their efforts on creating learning environments that provide opportunities for students to learn about ethics, including

the philosophical underpinnings, on the one hand, and to practice exercising their moral values in real-world, complex contexts, on the other. In this regard, at least in large measure, business schools across the State of Michigan and in this West Michigan community are at least beginning to do what they should and must to educate graduates to have—and to exercise—strong moral values when they enter the business world! Unfortunately, because of the countervailing work environments in which many business professionals find themselves, including the high-stakes disincentives to ethical behavior in business, much work remains. ■

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The Fight for it All

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On November 20th, Rampage defeated Machida in the headline UFC fight at the Palace in Auburn Hills. This was the first Ultimate Fighting Championship (UFC) event in Michigan since Public Act 196 of 2007 legalized mixed martial arts (MMA) events in Michigan. MMA involves a combination of boxing, kicking, and jujitsu skills. The fights, referred to as “human cockfighting” by Senator John McCain, are held within an octagonal cage and usually last from three to five rounds.

Michigan, in approving legislation to allow MMA fighting, opted to keep licensing and regulation fees low in the hopes that Michigan would attract many events and improve many of its struggling economies. Mixed martial arts, unlike other professional sports, has no home court and, thus, no ability to hold cities hostage for arena subsidies. Cities hope for an economic shot in the arm from visiting fight fans without incurring the usual expenses of hosting a professional team.

Though other MMA organizations exist, UFC is the dominant organization, responsible for 90% of the mixed martial arts business and 75% of the top fighters. The UFC is the wildly successful venture of the Fertitta brothers and Dana White. Frank and Lorenzo Fertitta, who made their mark in Las Vegas’s Station Casino, bought the struggling UFC for \$2 million in 2001 at the insistence of Dana White. After falling into more than \$40 million debt, the Fertitta brothers were ready to bail. That was before the fighters offered to fight for free, and a lucrative TV deal with the Spike TV propelled the UFC on its meteoric rise. In 2008, Forbes magazine valued the organization at \$1.1 billion, though Mr. White has more recently estimated the value of the company at \$2.5 billion. Fights are staged throughout the 48 U.S. states where MMA is illegal, and as far away as Germany, Australia, and Abu Dhabi. UFC 120 recently sold a record 17,133 tickets to the London’s O2 arena. The live attendance at UFC 123 in Auburn Hills was 16,404 for an estimated \$2.1 million. The largest UFC gate was \$5.4 million, though pay-per-view remains their primary source of income. Average number of viewers for pay-per-view fights is over 3 million.

UFC has been able to maintain much of its monopoly power using somewhat controversial tactics. Mr. White has lured successful fighters away from other organizations and is critical of those who refuse to make the jump, e.g. Fedor Emelianenko from Strikeforce.

“...Nobody gives a [expletive], and nobody is going to give a [expletive] about Fedor until he gets in here and fights the best fighters in the world. And believe me when I tell you I tried to make it happen. You don’t even know the crazy [expletive] places that I’ve flown and the

[expletive] that I’ve done to try and get this fight done. It got to the point where it became an obsession. I wasn’t sleeping. But I can’t sign Fedor? How is this possible that I can’t sign this guy? It’s not possible. These guys don’t want to fight the best in the world.” (Wayne)

Mr. White refuses to allow any of his fighters to contract with any non-UFC fighter. The UFC has scheduled fights on Spike TV during the same time as other organizations have scheduled their fights. Some organizations, such as Pride and WEC, were purchased outright by the UFC. Referring to himself as the “Grim Reaper of MMA”, Mr. White proudly sported a tombstone imprinted with now defunct MMA organizations (IFL, EliteXC, Afflictions). The rising profits and popularity of MMA has prompted other organizations to enter the field, but none has risen to the heights of the UFC.

In the latest move, Mr. White announced the merger of the WEC (World Extreme Cagefighting) and the UFC. Though the UFC purchased the WEC in 2006, it has since been run as a separate organization. Starting in 2011, all WEC fighters will be absorbed in the UFC, which will add two new weight classes, 135 and 145 lbs. Fighters in duplicate weight classes will challenge each other for the title. The merger will help the UFC to compete in Asian countries against other MMA organizations such as Dream, where fights among the lighter weights draw large, enthusiastic crowds.

Monopoly power in most industries is unwelcome and often prosecuted. Is this true for MMA as well? Are fans better served by having one company comprised of the best of the best or by competing organizations? The monopoly power of sports leagues, such as Major League Baseball or the National Football League, is not only tolerated but expected. When we watch the World Series or the Super Bowl, we are convinced that we are watching the most talented football and baseball players in the world. Mr. White has compared his UFC to the NFL as a showcase for the very best fighters. College football fans, dissatisfied with the BCS ranking system, clamor for a definitive winner. Likewise, MMA fans would prefer matches pitting the champions against one another over having a myriad of titles from different organizations. Would one dominant organization be the only way to ensure that bouts always pair the most outstanding fighters together?

The reaction was overwhelmingly positive to the announcement of the WEC merger, as fans and fighters alike anticipated fights between the best of the WEC and the UFC. Upon hearing about the UFC-WEC merger, Ben Henderson, the lightweight WEC champion, texted:

“I’m very excited. Now the major goal is to go over there wearing a belt....To be the best and make that claim, you’ve gotta beat the best. I want to take that one step further and beat not only the best, but everyone so there’s no doubt.” (Hendricks)

Would broader competition enhance the quality of the sport? During the early 1960’s, the American Football League (AFL) challenged the monopoly then held by the NFL. After the leagues merged, the combined league adopted some of the innovations of the AFL such as the two-point conversion, the spread offense, and displaying players’ names on jerseys. Competition has spurred innovations in other industries also, including the telephone and airline industries. Given that the UFC faces upstart MMA organizations often, is there already sufficient incentive to innovate, or would a more serious threat bring improvements?

How would more competition affect the accessibility and affordability of the sport? WEC offered more fights on free TV than the UFC offered. That number will decrease, and more fights will now be broadcast on pay-per-view. WEC tickets for the Arizona WEC 51, which will also be shown on free TV, are listed from \$35 to \$165 on Ticketmaster. Tickets to the fights at the Palace (UFC 123) can be purchased anywhere from \$60 for upper bowl to more than \$400 for the lower bowl or floor seats. Pay-per-view fees for that fight are in the neighborhood of \$50.

How would competition affect the payouts of the fighters? Fighters in the UFC come from all over but are primarily from rural locations. To prepare for a fight, which may be three a year, fighters retreat to a remote training ground for up to a month before the fight with no contact with family or friends. Their compensation depends on the performance and the reputation of the fighter. Bonuses are given for wins, knockouts, and being declared “bout of the night.” Sample salaries from UFC 121, given below, vary widely from \$8,000 to \$400,000. Fighters in the UFC receive health insurance for injuries during the fight.

The competition between the AFL and NFL for players resulted in fantastic antics to sign players and a significant jump in the salaries of players. Joe Namath signed a record 3-year \$387,000 contract for the AFL Jets, when the average NFL salary was \$25,000. When the AFL secured a lucrative \$42 million 5-year deal with NBC, the added income increased the value of the product on the field and, therefore, the value of players. Would more competition for MMA fighters drive up payouts and give fighters a larger piece of the revenue pie?

The players in other professional leagues, such as the NBA, NFL, MLB and NHL have unions that work to protect the players’ interest in bargaining with only one employer. MMA fighters have no union, and the willingness of individual fighters to accept lower payouts in order to get the opportunity to fight makes a union improbable. Brock Lesnar topped the UFC 121 payout with \$400,000. Average pay-per-view sales for a UFC fight featuring Mr. Lesnar is \$1.2 million. While the superstars at WEC will most likely increase their winnings upon moving to the UFC, the total number of fighters in the duplicate weight classes will likely diminish, and there will be downward pressure on their wages.

Many of these issues are only just emerging, and time will best tell the outcomes. Certainly, the rising popularity of the sport and opening of potential markets around the world will contribute to a rapidly-changing industry structure. ■

Cain Velasquez: \$200,000 (includes \$100,000 win bonus); Brock Lesnar: \$400,000 Cain Velasquez defeated Brock Lesnar via TKO (Strikes) Round 1
Jake Shields: \$150,000 (\$75,000 win bonus); Martin Kampmann: \$27,000 Jake Shields defeated Martin Kampmann via Split Decision
Diego Sanchez: \$100,000 (\$50,000 win bonus); Paulo Thiago: \$18,000 Diego Sanchez defeated Paulo Thiago via Unanimous Decision
Matt Hamill: \$58,000 (\$29,000 win bonus); Tito Ortiz: \$250,000 Matt Hamill defeated Tito Ortiz via Unanimous Decision
Daniel Roberts: \$16,000 (\$8,000 win bonus); Mike Guymon: \$8,000 Daniel Roberts defeated Mike Guymon via Submission (Anaconda Choke) Round 1
Sam Stout: \$32,000 (\$16,000 win bonus); Paul Taylor: \$16,000 Sam Stout defeated Paul Taylor via Split Decision
Chris Camozzi: \$16,000 (\$8,000 win bonus); Dongi Yang: \$8,000 Chris Camozzi defeated Dongi Yang via Split Decision

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The Economic Impact of ArtPrize 2010

Jason O'Brien and Mike Rizzo

Jason and Mike are senior economics majors at GVSU. This article is a result of a class project in ECO 495—the economics department's capstone course.

Introduction

ArtPrize is an international art competition that takes place in Grand Rapids, Michigan, where the public is encouraged to register online to vote for their favorite pieces of art. To estimate the economic impact of ArtPrize, a survey was conducted at ArtPrize 2010, and that data were used to model the effects of local and non-local visitors to Grand Rapids. We estimate ArtPrize 2010 added between approximately \$3.8 million to \$8.1 million to the Grand Rapids area economy. While these figures are not large compared to the West Michigan economy¹, much of the local cultural and economic impact of ArtPrize will occur over the long run.

The Survey

The survey was conducted during the first two weeks of ArtPrize by Grand Valley State University students in Economics and in Hospitality and Tourism Management in partnership with Experience Grand Rapids. Using PDA-based survey software, students stopped ArtPrize attendees at random and asked if they would be willing to participate in a survey. Those who agreed were asked a range of questions including the purpose of their visit to Grand Rapids, where they were from, their spending habits while visiting ArtPrize, and whether they intended to vote in ArtPrize, among other questions. A total of over 850 adults was surveyed.

Attendance Estimates

An estimate of the number of ArtPrize attendees is critical to developing an estimate of its economic impact. From the ArtPrize website we know that there were 44,912 registered voters. Also, 55.57 percent of respondents to our survey said they either were registered to vote or intended to register. These figures imply 80,821 adult attendees.²

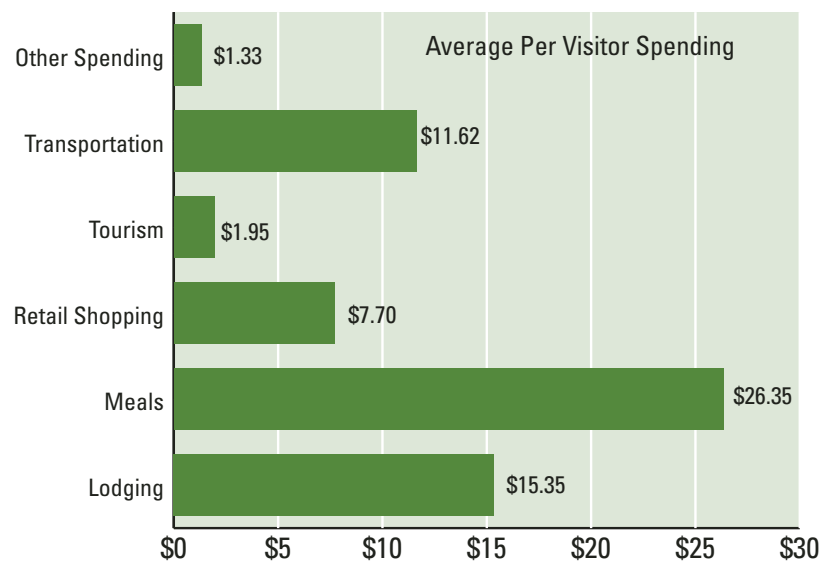
To estimate total attendance, we must account for children. Unfortunately, the survey only asked about children for attendees who were not from the area. From the survey, there were two ways to define whether a respondent was a “non-local,” and the estimate of number of children depends on which definition is used.

If we define local as a resident of Grand Rapids, we estimate .2694 children per adult. If we define local as someone living within 50 miles of Grand Rapids, we get an estimate of .9304. This disparity is caused by school groups surveyed for ArtPrize from the outlying suburbs. We use only the definition of non-local to Grand Rapids to develop our economic impact estimates. Using the narrow definition of “local,” adjusting for .2694 children per adult, we estimate 102,594 people in attendance. The survey also found that half the attendees came from outside Grand Rapids, suggesting approximately between 51,300–78,000 non-local visitors.³

Economic Impact Estimates

As is common in economic impact studies, we assume that only spending by non-locals has an added economic impact on the Grand Rapids area economy.⁴ Graph 1 presents per visitor spending for the six categories of spending included in the survey.

Graph 1: Estimates of Direct Spending



¹ For example, the Bureau of Economic Analysis estimates the Grand Rapids–Wyoming GDP in 2008 (the most recent year for which estimates are available) was \$33 Billion.

² There are several reasons to believe the survey data overestimates the percent of attendees who actually registered to vote. Thus, our estimate of number of attendees is likely an underestimate.

³ It is important to distinguish between “visitors” and “visitor-days.” Non-local attendees, according to the survey, stayed, on average, 1.83 days. Thus “visitor-days” by non-locals totaled between 93,879 and 142,755.

⁴ The idea is that locals would have spent money in the area even in the absence of ArtPrize. This makes for a conservative estimate of the true economic impact as “locals” likely spent more than they would have otherwise and some locals who might have traveled outside of Grand Rapids stayed locally to experience ArtPrize.

This direct spending has “multiplier effects”—additional spending generated by the initial spending of ArtPrize attendees—which makes the total economic impact larger than just the initial spending. To account for these multiplier effects, we use the “Regional Input-Output Modeling System” (RIMS) multipliers developed by the Bureau of Economic Analysis (www.bea.gov). Table 1 presents direct spending and total economic impact estimates (including multiplier effects) of ArtPrize 2010 under alternative estimates of total attendance.

Conclusion

We have two estimates for the total economic impact of ArtPrize, ranging from \$3,811,929.09 to \$8,139,204.64. This is a wide range for several reasons. Chiefly, it concerns whom we consider local and non-local, both in terms of our survey and in terms of economic impact. Regardless of how we define locals and non-locals, our estimates are conservative for

several reasons. First, our estimate of number of visitors is likely biased downward. Second, we have assumed that local spending has no economic impact. Finally, the survey was conducted only during official ArtPrize hours of operation. Anecdotal evidence suggests that ArtPrize exhibits attracted many visitors to Grand Rapids prior to the official start of the event. Moreover, many ArtPrize venues were open (and crowded) during non-official hours during the weeks of ArtPrize.

As this was the first year a survey of ArtPrize attendees was conducted, we discovered several limitations to the survey. We recommend conducting another, more reliable study of ArtPrize 2011 to confirm or disprove our assessment of economic impact, but do not consider it likely that the data will change so dramatically as to alter our conclusions. ■

Table 1: Direct Spending and Total Economic Impact Estimates

Spending Categories	Average Visitor Spending	Estimating attendance at 51,605 non-locals	Estimating attendance at 110,186
Lodging	\$ 15.35	\$1,358,383.03	\$2,900,410.05
Meals	\$ 26.35	\$2,451,830.15	\$5,235,130.79
Retail Shopping	\$ 7.70	\$228,048.70	\$486,928.01
Tourism	\$ 1.95	\$182,774.87	\$390,259.64
Transportation	\$11.62	\$223,997.78	\$478,278.51
Other Spending	\$1.33	<u>\$39,454.59</u>	<u>\$84,243.16</u>
Total Spending		<u>\$4,484,489.12</u>	<u>\$9,575,250.16</u>
Less non-ArtPrize attendees		\$(560,561.14)	\$(1,196,906.27)
Less Transportation Margin		<u>\$(111,998.89)</u>	<u>\$(239,139.26)</u>
Total Adjusted Spending		<u>\$3,811,929.09</u>	<u>\$8,139,204.64</u>

Passing Entrepreneurship 101

Stélios C. Alvarez, M.B.A., and Linda Chamberlain, Ph.D.
Seidman College of Business, Center for Entrepreneurship & Innovation

Michigan's entrepreneurial climate ranks 44th out of 50 states. In order to develop strategic objectives to significantly improve this score, we need to better understand the factors that drive global, national, state-wide, and regional dynamics of entrepreneurship. Fully researching how we fare compared to other cultures and societies will help provide a platform for applied and action-based learning to support a robust boost to West Michigan entrepreneurship.

The World and the United States

A recent study by the Small Business Administration (SBA) examined several traits of entrepreneurship in the United States relative to the rest of the world. The research paper, titled "Global Entrepreneurship and the United States," annually reports a measure called the Global Entrepreneurship and Development Index (GEDI). Again this year the United States ranked third, behind the leader Denmark and runner-up Canada. The rankings computation weighs three sub-factors: entrepreneurial attitudes, activities, and aspirations. The worst normalized scores for the U.S. were in the technology sector and in providing cultural support for entrepreneurship. The study also divides countries into three developmental stages of entrepreneurship, which are directly proportional to economic development: (1) factor-driven, (2) efficiency-driven, and (3) innovation-driven. The United States and

most of the European Union are in the most advanced third stage. China and India are in the second stage of development and most of the developing world is in the primary stage of entrepreneurship. What this suggests is that in order to remain competitive in a dynamic global marketplace; the United States must continue to, first and foremost, drive innovation.

Figure 1 shows the top 20 GEDI performers of 2010 in blue, and the bottom 20 in black. Of particular historical interest, as well as evidence for the significance of innovation and entrepreneurship in building economies, are the diametrically opposed stories of Singapore (blue) and Jamaica (black). John Lerner provides evidence that proactive management of entrepreneurial and educational infrastructure is central to the success of entrepreneurship in his historical contrast of the two nations, "The Future of Public Efforts to Boost Entrepreneurship and Venture Capital."

In 1965, the two countries had recently gained independence and were very similar on paper. Both had populations slightly under 5 million, were previously British colonies, favored sea-trade, and had annual GDP per capita figures of around \$2,800. Forty years later, Singapore's economy has soared and Jamaica's has stagnated. The 2006 GDP per capita for Singapore was \$431,400, while Jamaica's was only \$4,800.

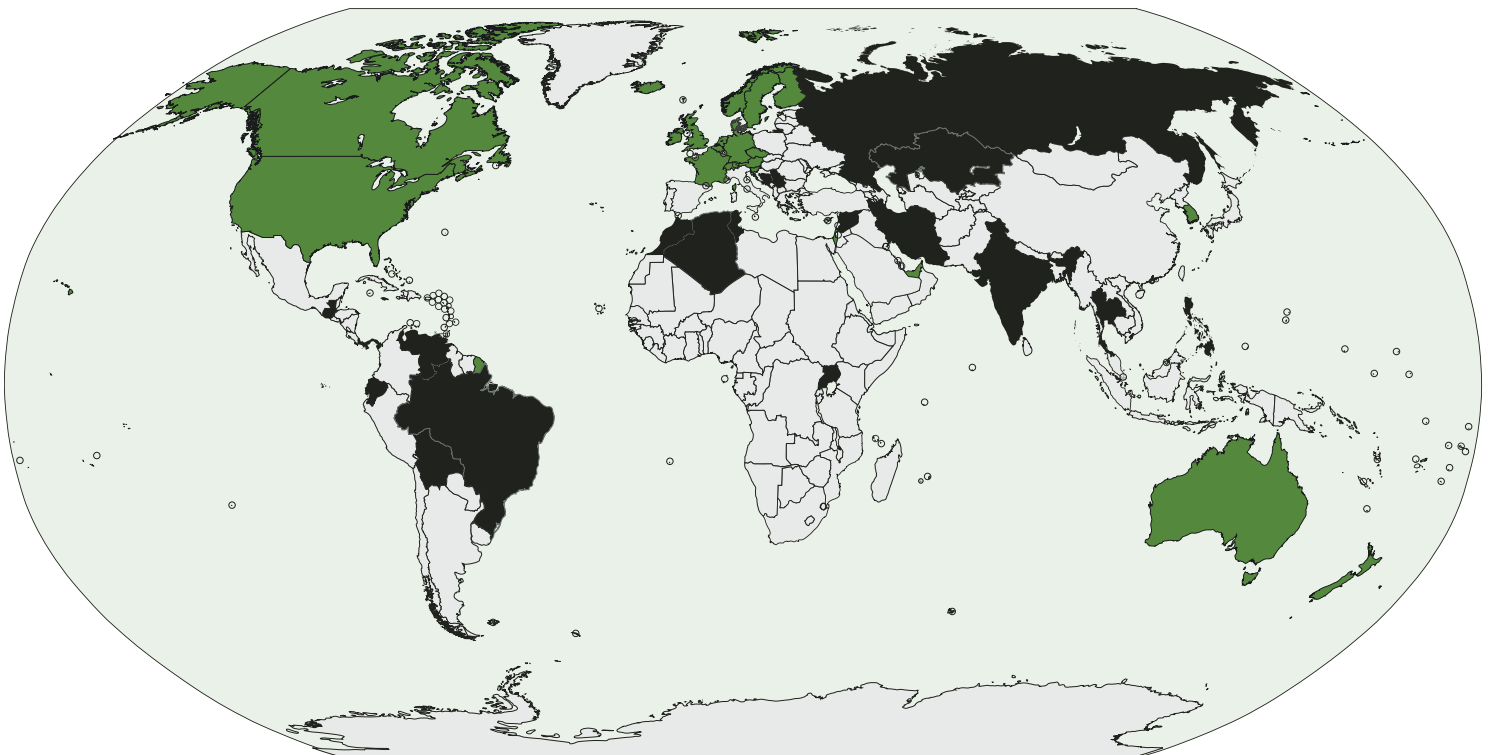


Figure 1: Top 20 (green) and Bottom 20 (black) climates for entrepreneurship, Source: SBA GEDI Ranking, 2010

This gross disparity can be directly related to proactive governing efforts to build entrepreneurial environments, which included strong educational components. What made Singapore so successful was a tailored approach to incentivizing entrepreneurship: (1) providing public funds for venture investors, (2) delivering subsidies for targeted technologies, and (3) encouraging potential entrepreneurs and providing mentoring. John Lerner suggests that public dollars spent each year on entrepreneurship have a long-term effect comparable to spending on education. The moral of the Singapore-Jamaica anecdote is that societies which actively pursue and support entrepreneurship can and should reap long-term rewards, where those who fail to capitalize on it suffer the reverse effect.

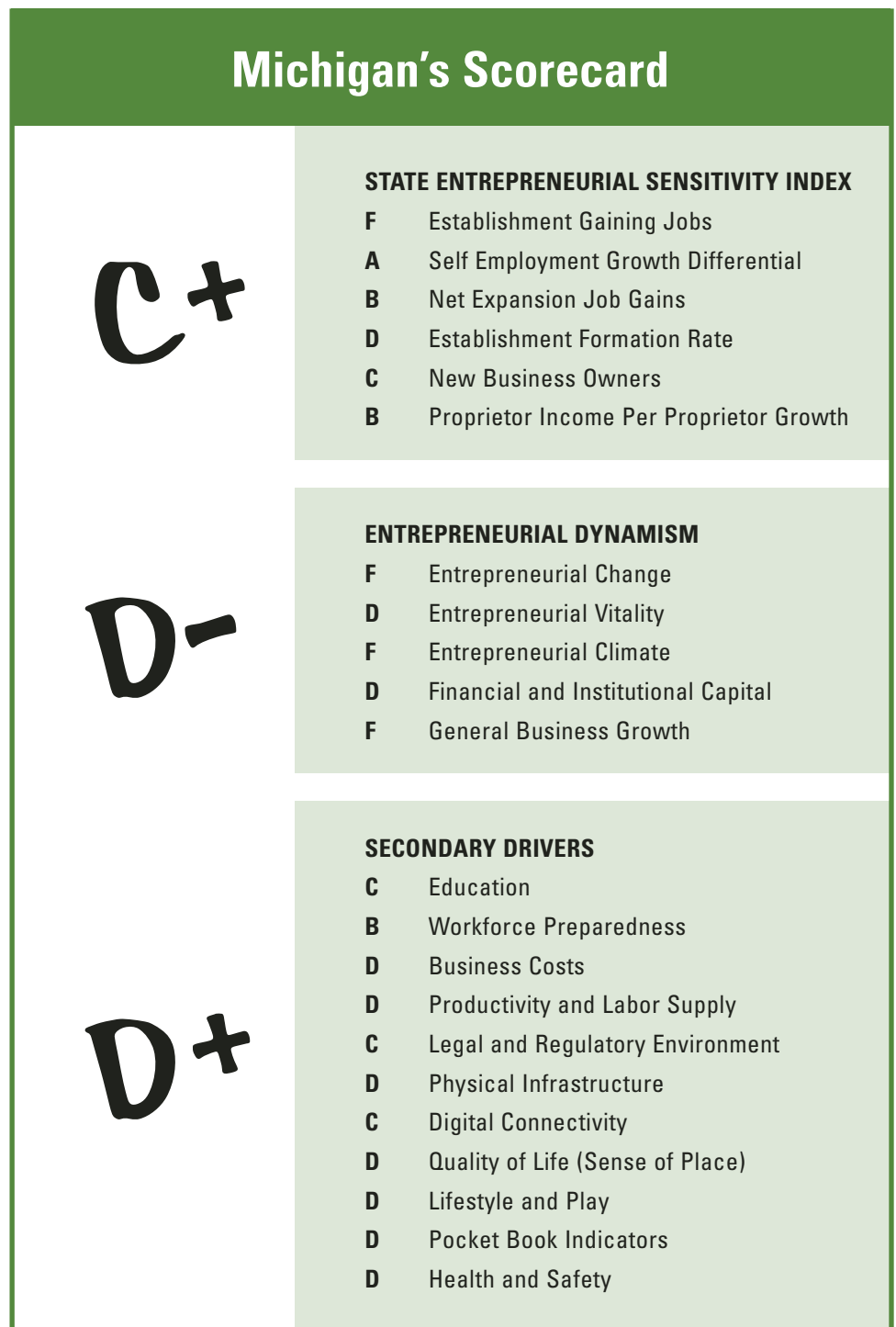
The United States, the Midwest and Michigan

According to the most recent *The Michigan Entrepreneurship Score Card*, published by the Small Business Foundation of Michigan (SBFM), our state underperforms the rest of the Midwest and most of the nation in providing an environment that enables effective investments in innovative activities and access to financial capital, and that exemplifies a level of economic dynamism. The study also ranks Michigan 48 of 50 in Entrepreneurial Change, which combines overall growth in the number of small businesses and small business payroll, as well as the increase in high performance firms and net establishment entrants. This tells us that Michigan has lost small businesses in the past four years, has been the worst in the nation at rewarding employees with higher wages, has been incapable of attracting high-performance companies, and has a higher-than-average failure rate for small businesses. Not to mention, we rank dead last in job growth.

Thankfully, Michigan ranks higher in specific sub-sets of the Entrepreneurship Score Card. We rank 21st in Research and Innovation, as well as 22nd in Entrepreneurial Sensitivity, measured by the State Entrepreneurship Sensitivity Index (SESI). This index combines a series of metrics relating to entrepreneurial job creation, business growth, and proprietary income growth. Another redemptive measure

is postsecondary education. Michigan ranks 21st overall and 9th in quality, consistently outperforming the national average for the past five years. Figure 2 shows Michigan's position for each entrepreneurial factor studied by the Entrepreneurship Scorecard.

Whereas the overall picture may seem bleak and disturbing, there is no better time for Michiganders to face the realities, learn best practices, and chart a new path catalyzed by innovation and entrepreneurship.



Source: SBAM. 2010. Entrepreneurship Score Card Michigan.

West Michigan and the Seidman College of Business

Entrepreneurship culture occurs when favorable factors synergize around talent development, supportive policies and regulations, tolerance for taking risk, and accessible funding. West Michigan entrepreneurs, as well as those who benefit from the value they create, must have an enriching, embracing, and energizing culture enabling the formation, building, and adaptation of ideas into viable business opportunities. It is imperative we work together to make West Michigan attractive to entrepreneurs and small businesses, providing real opportunities for sustained value creation.

Currently, economic indices paint an encouraging picture of the West Michigan entrepreneurial climate. According to the most recent Business Outlook for West Michigan, published by the Upjohn Institute, four out of six metropolitan areas reported employment increases, while joblessness decreased to 13.0 percent (although still historically high). Retail activity in West Michigan has also increased, hinting at signs of renewed consumer confidence. Although these indicators offer a lukewarm indication of recovery, there is also optimism in the decrease in layoff activity. Macroeconomic factors aside, what our region needs is a grassroots revival of entrepreneurial culture.

The Center for Entrepreneurship and Innovation has facilitated idea-shares among entrepreneurs, investors, and business and community leaders, discussing best practices and engaging together in problem identification and solving, creating a sense of community. Competitions such as the Idea Pitch and Business Plan Competitions involve a younger generation and stimulate interest in entrepreneurship and the desire to turn ideas into viable businesses. Also, collaboration among regional advisory resources for Global Entrepreneurship Week and the launch of ENTREprnr.net, a portal that links entrepreneurs to key tools, services, and support infrastructure in the region. This is precisely where Grand Valley's Seidman College of Business has played—and continues to play—a leadership role by providing advisory services, coaching, and other resources to entrepreneurs and small businesses. From the Michigan Small Business & Technology Development Center, to the Center for Entrepreneurship and Innovation, to the Family Owned Business Institute, the Van Andel Global Trade Center, and the GVSU Business Portal (gvsu.edu/BusinessResource) which links entrepreneurs to GVSU resources, the College has invested heavily in outreach to enrich the region's entrepreneurial climate. And, as we move forward on the heels of an economic recovery, this is the time to be bold and brave and to think big. The Seidman College of Business is committed to West Michigan entrepreneurship.

We must move forward with innovation and entrepreneurship *now*. ■

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