Find out about...

What is in Store for the West Michigan Economy for 2003

How the Commercial Real Estate market will perform in 2003

What the trends and competitive strategies are in commercial banking

How we can promote both border security and commerce

The return on investment in residential homes

What the challenges and opportunities are for job sharing

And much more...
Educational Opportunities Offered by the Seidman School of Business

Bachelor of Business Administration (BBA)
- Accounting
- Business Economics—Emphasis in Real Estate
- Finance
- International Business
- Management—Emphases in general, human resources, operations, organizational information systems
- Marketing

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

Master of Business Administration (MBA)
- General
- Accounting emphasis
- Taxation emphasis
- Management of Innovation and Technology emphasis

Master of Science in Taxation (MST)

Master of Science in Accounting (MSA)

Certificate Programs
- E-Commerce
- Taxation

Non-Credit Certificate Programs
- Certified Financial Planning (CFP)
- NxLevel Entrepreneurial Program
From the Dean...

The Seidman School of Business has a new mission statement:

“The Seidman School of Business creates a rigorous learning environment with a student focus, regional commitment, and a global perspective. The School strives to excel at innovation, the application of concepts, and the integration of knowledge.”

An important aspect for us to fulfill this mission is through research. This publication, our eighth annual edition of the Review, presents excellent examples of how we are moving toward our goals. All of the articles deal with West Michigan business issues—a "regional commitment." In particular, Dr. Hari Singh, editor of the Review, and Nancy Boese, Assistant Director of the Seidman Small Business Development Center (SBDC), demonstrate the West Michigan focus with their economic forecast for 2003.

It is a pleasure to “integrate” the Commercial Real Estate Outlook for 2003 by T. J. Pontarelli from Grubb & Ellis/Paramount, one of our business partners. Dr. Gregg Dimkoff, Professor of Finance, reviews the 2002 stock market performance of our “regional” companies.

Research can be “innovative” by applying methodologies to form business strategies. Dr. John C. Taylor, Professor of Marketing, and Dr. Paul Mudde, Assistant Professor of Management, use the “application of concepts” to suggest approaches to our U.S.-Canada border commerce and to regional banks, respectively.

Other research dealing with housing prices, interstate, and branch banking, job sharing and economic performance helps to “integrate our knowledge” and to bridge the gap between academic theory and the real world.

Our faculty does “excel” in the classroom and at application-based research. Be sure to review our “Panel of Experts” on the last page of this issue. You will be convinced that we “create a rigorous learning environment.”

— David E. Mielke, Dean  
Seidman School of Business

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

e-mail: gvbizinfo@gvsu.edu

Editor:  
Dr. Hari Singh, Chair, Economics Department

Copy editors:  
Vonnie Herrera
Claudia Bajema

Design and production:  
Ruth Oldenburg, RainstickStudio

Seidman Business Review Winter 2003 Contents

REGIONAL TRENDS

3 Grand Rapids Economic Forecast 2003  
Hari Singh, Ph.D., and Nancy Boese, M.B.A.

The West Michigan economy has witnessed a year of consolidation and is poised to grow at a higher rate. How will business confidence build up over 2003? What are the projections for employment and sales for 2003? Find out what Grand Rapids area executives think.

7 Commercial Real Estate Outlook for 2003  
T. J. Pontarelli, Director of Research, Grubb & Ellis/Paramount

The commercial real estate market in Greater Grand Rapids faces many challenges and opportunities. The retail, office, and industrial markets are in different phases of the market cycle. Find out which sectors of the commercial real estate industry are poised for an expansion.

9 West Michigan Stock Returns  
Gregg Dimkoff, Ph.D.

The regional stocks had another volatile year fueled by an uncertain economic environment. In 2000 and 2001, regional stocks outperformed major national market indexes. How did the regional stocks perform in 2002 compared to major stock indexes?

11 Housing Prices in East Grand Rapids, 1987–2002  
Paul Thorsnes, Ph.D.

With the turmoil in stock and bond markets, opportunities for sound investments are hard to come by. What kind of rate of return can you expect in residential real estate? This article analyzes the changes in valuation of homes in East Grand Rapids to find an answer in one local market.

13 The U.S.-Canada Border: Benefits of “External Perimeter” Strategy  
John C. Taylor, Ph.D., and Douglas Robideaux, D.B.A.

Security and commerce at the United States borders has become a major issue after September 11. We want our borders to be secure, but we also want the costs of inter-border commerce to be relatively manageable. Can we increase security and still encourage more commerce across our borders? Find out what experts have to say.

16 Interstate Branching and Banking Trends  
Daniel Giedeman, Ph.D.

The American banking industry has been consolidating dramatically over the last few years. This trend is driven by economies of scale and recent deregulation. Banks are now free to branch across state lines and provide brokerage and insurance services. Find out if the concentration of banking in the region has changed with these trends.

CORPORATE STRATEGIES

18 Competitive Strategies for Banks  
Paul Mudde, Ph.D.

With the deregulation of the financial industry and the changes in the regional economies, banks have to reformulate their strategies. Banks can focus on product differentiation, cost leadership, or a mixed strategy to position themselves in a competitive environment. Discover what strategies regional banks are adopting.

21 Job Sharing: Challenges and Opportunities  
Suzanne M. Crampton, Ph.D., Ceasar Douglas, Ph.D., John Hodge, Ed.D., and Jitendra Mishra, Ph.D.

The dynamic transformation of the American workplace has included more fluidity across different dimensions. Location, time, and personnel are all becoming more fluid. What are the major advantages and disadvantages of job sharing? Find out what firms can do to take advantage of job sharing opportunities.

23 Strategy, Time, and Economic Performance  
John Nader, M.B.A.

Have you often wondered why some firms are able to weather a recession better than others? The answer may have to do with organizational choices made several decades ago. Find out why organizational decisions that seem to look bad during a recession may actually do well over an expansion phase.
West Michigan Economic Forecast for 2003

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

- Broad indicators show that the regional economy is expected to grow at a modest rate for 2003
- The Confidence Index depicts a marginal increase of 4% and is projected at 71% for 2003
- Employment prospects will improve in 2003 with a projected growth of 1%
- Sales growth is expected to grow at a tepid 1.8% for 2003
- 57% of the respondents expect a robust growth of 4% after December 2003

Introduction

Our latest survey forecast for the Grand Rapids MSA (Kent, Ottawa, Muskegon and Allegan Counties) depicts the expectations of a modest upturn. A survey was mailed to the CEOs of 601 organizations based on a sample representing different sectors of the regional economy and the geographical diversity of the region. A total of 100 organizations responded.

The results of the survey need to be interpreted with caution because of the small sample size. In order to give some sense of the variation in the responses, the data are presented in a histogram format to show the entire distribution of responses.

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. This confidence index is scaled from zero percent (no confidence at all) to one hundred percent (complete confidence).

Some historical perspective will place the latest results in the proper context. Our surveys of the region for the last seven years, when the economy has been growing steadily, have depicted a high level of confidence, generally upwards of 80% for the private sector.

Figure 1

West Michigan Confidence Index 2003

1 Hari Singh is Chair of the Economics Department. Nancy Boese is the Regional Director of the Small Business Development Center. We were aided by invaluable research support from Jared English and Kaloian Kirilov, graduate research assistants at Seidman Business Services.
During the previous survey in November 2001, the Confidence Index had fallen to the lowest level in seven years to 63% amid widespread anecdotal evidence that the economy had slipped into a recession. The September 11 terrorist attacks caused a disruption in airline and other services and further slowed the economy. The results this year indicate that business confidence in the private sector is shoring to 67% and is projected at 71% for 2003 (Figure 1). The expectations by the non-profit sector are lower, probably reflecting shortfalls in revenue.

Observing the fluctuation of the index over the last seven years, we know it is highly sensitive to business expectations and the national business cycle. The regional/national economy has grown at a slow pace in the second half of 2002. The national unemployment rate is hovering around 6%, and the national Gross Domestic Product (GDP) grew at a modest rate in the fourth quarter of 2002. The Federal Reserve Bank has moved aggressively to reduce the short-term interest rate (Federal Funds Rate) to 1.25%. Monetary policy does not have much more room to be effective. President Bush’s $670 billion fiscal stimulus proposal is likely to be the focus of intense debate early in 2003. Recent numbers indicate that the recovery will gather strength in 2003. Overall investment in software and equipment has started rising. The Institute of Supply Managements monthly survey of purchasing managers index rose to 54.7 in December, suggesting that manufacturing activity is beginning to show an upturn.

**Employment**

Amid all the well-publicized layoffs by major corporations in the West Michigan area, respondents in 2001 did not expect any significant employment growth for 2002. Figure 2 indicates projected employment growth for 2003. Overall, the projected average growth in employment is 0.9%—with considerable variations across organizations and sectors. Since employment is a lagged indicator, job losses often continue even when a recovery is underway. The unemployment rate for the Grand Rapids MSA peaked in July at 7.5% and has been declining to some extent. Employment opportunities are expected to pick up in 2003. The projected employment growth of less than one percent indicates that employment prospects will improve, but a dramatic turnaround is unlikely. The modest growth in employment will mask considerable variation in job opportunities across different industries.

The present modest economic growth has been supported by relatively robust consumer spending, especially in housing and autos. Over the last year, the economy has been working through its over-investments in technology and consolidating for the expansionary phase. Recent numbers indicate that the recovery will gather strength in 2003. Overall investment in software and equipment has started rising. The Institute of Supply Managements monthly survey of purchasing managers index rose to 54.7 in December, suggesting that manufacturing activity is beginning to show an upturn.
Sales
Sales projections made by respondents in 2001 for 2002 were around 1.5%. Sales over the holiday season in 2002 have not been very encouraging. Moreover, a significant portion of this holiday season’s spending may have borrowed from future consumer demand. The projected average sales growth of 1.8% expected for 2003 (Figure 3) is consistent with the moderate rise in the confidence index and job opportunities in the Grand Rapids area. Viewed in the context of the five-year sales projection for 2002–2007 of 24.7% by Sales and Marketing Management 2002 (based on effective buying income), the annual projected sales growth of 1.8% is pessimistic. In times of robust economic growth, sales have grown at an annual rate of 5%. The expectations of our respondents indicate that it may be a year before the trend growth rate of 4% to 5% is achieved. Note our numbers are for nominal sales of all goods/services produced in the West Michigan economy.

Export growth
For respondents who export their output, the expected growth of exports has generally averaged higher than 5% in the 1990s. However, one feature of the current slowdown is that it is synchronized at the global level. The prospect for any recovery in Japan does not look good. Asia and Latin America are also suffering a significant slowdown. The prospects for robust growth in the European Common Market are also dim. In this context it is not surprising that expectations for export growth is volatile and likely to be modest (Figure 4). A projected growth rate of 3.2% in exports indicates pragmatic optimism.

Trends for 2003
Recent reports suggest that some of the increases in labor productivity in the late 1990s—the key to keeping employment costs and inflation in check—were cyclical. However, most economists believe sustainable productivity growth without the cyclical effect could be 2.5% to 3% in good times. This indicates that the economy can grow at approximately 4% without generating significant inflationary pressure. These fundamental foundations of the economy are intact.

A majority of our respondents (57%) expect the growth rate of 4% in real output to be achieved after December 2003, indicating considerable underlying pessimism about the good times returning soon (Figure 5). We asked respondents what the main reasons were for the slow growth in 2002 (Figure 6). Not surprisingly, the slowdown in the global markets is ranked by most respondents as the number one factor. The expectations of war with Iraq and the threat of terrorism are ranked almost equally as the second and third factors. Note these three factors are overlapping to some extent and reinforce each other.
The effect of the aggressive reductions in interest rates by the Fed will continue to be felt next year. One key to recovery is consumer confidence. Consumption expenditures account for 67% of the national output. The economy cannot regain a robust growth rate unless consumers are confident about their future prospects. With the specter of war with Iraq hanging in the balance, and the spate of high profile corporate scandals and bankruptcies, consumer confidence has been fragile. The Conference Board’s Consumer Confidence Index has been around 80, although in good times it is above 110. Consumer expectations are likely to be tempered by modest sales and job growth. Although business confidence has also been slow to build up over 2002, new business investments are overdue. Look for business investment to lead the recovery this year.

In summary, the West Michigan economy has consolidated over a significant downturn and is poised to grow at a faster pace in 2003. On the basis of what we know presently, barring any unforeseen negative shock and given the momentum of interest rate reductions, a modest growth in real output of 3% in the first half of 2003, strengthening to 4% for the second half of 2003, is a reasonable expectation for the nation. The West Michigan economy will follow this trend.

Acknowledgments

We are very grateful to all the organizations that participated in the survey.
The Greater Grand Rapids commercial real estate market faces a bumpy road mixed with opportunities and challenges for 2003. While the office and industrial markets met the challenges of more corporate downsizing and consolidation, which in turn led to increased vacancy, 2002 proved to be a year of growth and expansion for the retail market. The year 2003 looks to be another prosperous year for retail with continued development in what retailers perceive as an “under retailed market.” The office and industrial markets are expected to undergo a year of stagnation, rather than growth or decline, as available space is slowly absorbed.

To better understand how the major market types relate to the real estate market cycle, we utilize the Real Estate Market Cycle Graph (Figure A). Real estate markets are cyclical due to the lagging relationship between supply and demand for existing space. As illustrated, the cycle is divided into four phases: Recovery, Expansion, Hyper Supply, and Recession. Our research finds that each property type—retail, industrial, and office—falls into its own unique location due to the following circumstances.

The retail market is currently in Phase II of the market cycle called Expansion, showing such characteristics as declining vacancy and new construction. For retail, 2003 appears to be on track for another year of growth and expansion as more national retailers enter our market and existing companies expand to additional locations throughout Greater Grand Rapids. Confidence for growth was strengthened with reported retail sales during the Thanksgiving holiday shopping weekend up more than 10% over the same period last year.

Retail expansion will be realized in several areas throughout West Michigan. In Holland there are developments on the US-31 corridor including a new Meijer, as well as new construction for Target and Menards, all north of town. In Muskegon, across from the Lakes Mall, 400,000 square feet of retail space (Lakes Crossing) is slated for construction, with Kohl’s rumored to be the anchor tenant. Lakes Crossing will also include two hotels, the AmericInn and Fairfield Inn.

On 28th Street SE in Grand Rapids near the I-96 interchange, new construction of some 500,000 square feet of retail space called Waterfall Shoppes is anticipated on the site where Showcase Cinema now stands. One anchor tenant, Home Depot’s Expo Design Center, an all-in-one home specialty store claiming to have every resource you could possibly need to complete your home projects, has been announced. On 28th Street SW, the Roger’s Plaza renovation is well underway and includes a completely new façade and the addition of a Family Fare grocery store and A.J. Wright, a discount softgoods store. On Alpine Avenue, at the former K-mart site, approximately 166,000 square feet of new retail space called Alpine Summit is currently under construction and should be completed in the spring of 2003. Anchor tenants include Linens ‘N Things, Marshall’s, Petco, and Schuler Books. On two lots in front of Alpine Summit, construction of a new Friday’s and Logan’s Steakhouse was recently completed.

Retail lease rates are expected to remain steady for 2003. See Figure B for a range of lease rates in Greater Grand Rapids.

The industrial market is in a completely different phase of the market cycle. It has witnessed increasing vacancy, almost no new speculative construction, and less demand, which places it in a unique area on the Real Estate Market Cycle: somewhere between Phase IV - Recession and Phase I - Recovery. The industrial market has been plagued with substantial corporate downsizing and consolidation leaving Grand Rapids with more than 6.2 million square feet of available space and 6% vacancy. With speculative construction at a virtual standstill, existing space will have an opportunity to be absorbed throughout 2003 and into 2004, thus decreasing supply. Rental rates should respond to this absorption.
of supply with a slight increase. Currently the weighted average asking rate is $3.25 per square foot per year for industrial space with a triple net lease. We expect to see that rate slowly climb from three to five percent in late 2003 and into 2004. Negative net absorption in 2002 peaked at a daunting 1.125 million square feet but is expected to drop into positive territory in the coming year. Another indication of industrial growth in 2003 is the great demand for investment grade industrial facilities at full or near-full occupancy, particularly from investors leery of a weakened stock market who have sought real estate as a safe haven and better investment alternative. See the graphs illustrating vacancy rates (Figure C) and net absorption (Figure D).

The office market shares similar circumstances as the industrial market. The office market falls right next to the industrial market on the Real Estate Market Cycle Graph, lying between Phase IV - Recession and Phase I - Recovery. Corporate downsizing and consolidation, compounded with low interest rates, have forced the office market into another year of negative absorption and increased vacancy.

Companies looking to survive the economic downswing have initiated employee layoffs, facility consolidations, and expansion freezes. This in turn has left the market with a glut of available space. In other words, the market has shown a considerable increase in supply with a significant decrease in demand. See Figure E (vacancy rates) and Figure F (Net Absorption).

Historically low interest rates have made real estate ownership an attractive alternative to leasing, luring many tenants away from their current spaces and into facilities that they can own. In many cases they purchase more square footage than they need and lease the remainder out for additional income. For those tenants determined not to purchase, or those wishing to move, expand, or simply renew an existing lease, the bargaining chips are in their corner. Over-supply has forced landlords to be very competitive as well as creative when it comes to luring new tenants and keeping existing ones. In addition to low lease rates, landlords are also offering very tempting build-out allowances and, in some cases, free rent.

The office market is expected to maintain its current trends throughout 2003, or until more of the existing space is absorbed. We project, however, that asking rates will decline slightly in 2003 as landlords continue to compete for a limited number of qualified tenants. See the Office Rental Rates graph (Figure G) for year-end office lease rates.

The investment market encompasses all of the markets including hospitality and multi housing. This year’s outlook for commercial real estate investment in Greater Grand Rapids is marked by strong demand and limited supply, even though weak rental and occupancy rates, especially in the office and industrial markets, remain an issue.

The strong demand for investment property is driven by three primary forces: historically low interest rates, the reallocation of investment capital to real estate, and higher demand in West Michigan from outside investors. Despite softer rental rates and higher vacancies, potential sellers have a sense the market will strengthen and, with today’s low interest rates, are able to take a wait-and-see approach. Overall, the climate for investment properties in West Michigan is expected to remain very strong for the foreseeable future.

Commercial real estate in general has an encouraging future filled with many more challenges, but even more opportunities. M-6, more commonly known as the South Beltline, will spark several new developments along its corridor as it reaches its anticipated completion in 2005. As Grand Rapids expands to the south, all the major types of commercial real estate will find opportunity here.

1Source: Great Lakes 2003 Real Estate Forecast Book, Grand Rapids Industrial.
West Michigan Stock Returns
Gregg Dimkoff, Ph.D.
Department of Finance, Seidman School of Business

Local Stock Returns: It Could Have Been Worse

Last year’s performance of West Michigan-based stocks can be compared to an injured person who is the only survivor in a train wreck: no complaints, it could have been much worse, as it was for everyone else. Local stocks reversed a two-year string of gains by ending the year down 5.7 percent. Such a loss, however, pales when compared with the performance of several widely-followed national market indexes:

<table>
<thead>
<tr>
<th>Stock Index</th>
<th>2002 Stock Index Returns 1/1/02 - 12/31/02</th>
<th>2001 Stock Index Returns 1/1/01 - 12/31/01</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Michigan Index</td>
<td>-5.7%(^1)</td>
<td>+17.6%</td>
</tr>
<tr>
<td>Dow Jones Industrial Average</td>
<td>-16.8%</td>
<td>-6.6%</td>
</tr>
<tr>
<td>S&amp;P 500 Index</td>
<td>-23.4%</td>
<td>-12.5%</td>
</tr>
<tr>
<td>NASDAQ Composite Index</td>
<td>-31.5%</td>
<td>-19.9%</td>
</tr>
</tbody>
</table>

Uncertainty is bad for stock prices, and 2002 contained more than enough uncertainty to do in all of the indexes shown above. We began the year believing we were in a recession (though the National Bureau of Economic Research, an organization of economists that dates business cycles, subsequently announced the recession ended in November 2000). The economy, however, didn’t recover as quickly as expected. In fact, concern over the possibility of a double dip recession — a second recession — caused investors to fret during the latter half of the year. Further, concern about the effects of a possible war with Iraq kept investors edgy. Even worse, as one company after another disclosed accounting irregularities and outright fraud, investors began to doubt the reliability of any company’s reported earnings. Hopefully, this mess of uncertainty and distrust will be resolved, paving the way for a great 2003.

The table on page 10 shows the performance of each West Michigan stock.

Spartan Stores suffered the worst carnage, losing over 87% of its value during the year. Ironically, Spartan was one of the best performing West Michigan stocks in 2000, rising 99%. Part of the drop is attributable to a slow economy (yes, recessions take their toll on grocery stores), but a significant piece of the loss reflects an inability to win a toe-to-toe battle with giant grocers in its markets. In another bit of irony, Clarion Technologies was the area’s worst performing stock two years ago, losing 80%, but was the best performing stock in 2002.

Repeating last year’s results, the stocks of all four West Michigan banks rose. Bank earnings were fueled by the lowest interest rates in several decades. Fees from mortgage refinancings and other fee income also contributed significantly to their record earnings. No doubt these banks also continued to gain new business from disgruntled customers leaving Fifth Third Bank after its acquisition of Old Kent Financial.

Companies tied to the office systems industry were again especially hard-hit by the recession. Stock returns for shareholders of Herman Miller, Steelcase, and Knape & Vogt were battered a third straight year by depressed demand for their products. The good news is that their prices have risen since bottoming out last year.

Tower Automotive was dragged down by a falloff in demand for light vehicles during November. Its stock subsequently was downgraded by several research firms.

As was the case two years ago, two more companies disappeared from the Index in 2002 — Donnelly and SPX. Magna International completed its acquisition of Donnelly on October 1, while SPX executives moved their corporate headquarters out of Muskegon to North Carolina. In a year when stock prices are battered, we wouldn’t expect to see many stock splits, and sure enough, there weren’t any. Independent Bank, however, announced a 3:2 split affecting its price beginning January 2, 2003.

As you can tell from the table, investing in companies whose stock prices are severely depressed presents an excellent opportunity to earn a huge return, or to destroy your wealth. I’m not sure how proud an investor should be whose stock rises a grand total of 13 cents during the year, powering a 39% return. Because such stocks are thinly traded, price changes of only a few pennies might represent random fluctuations, not the beginning of a recovery. In any case, over 80% of companies whose stock drops below $2 go bankrupt. The secret to wealth creation is investing in good companies with good outlooks, not speculating in companies trying to survive.

\(^{1}\) The West Michigan Index consists of 18 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. The DJIA’s Index, however, uses a simple unweighted average return.

### Local Company Returns
01/01/02 Through 12/31/02

<table>
<thead>
<tr>
<th>Company</th>
<th>2002 Prices</th>
<th>Price Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Opening</td>
<td>Closing</td>
</tr>
<tr>
<td>Clarion Technologies</td>
<td>0.33</td>
<td>0.46</td>
</tr>
<tr>
<td>Mercantile Bank</td>
<td>18.64</td>
<td>24.83</td>
</tr>
<tr>
<td>Riviera Tool Company</td>
<td>1.01</td>
<td>1.30</td>
</tr>
<tr>
<td>Meritage Hospitality</td>
<td>4.05</td>
<td>5.00</td>
</tr>
<tr>
<td>Community Shores Bank</td>
<td>6.65</td>
<td>8.00</td>
</tr>
<tr>
<td>Gentex Corporation</td>
<td>26.73</td>
<td>31.64</td>
</tr>
<tr>
<td>Independent Bank</td>
<td>29.19</td>
<td>31.77</td>
</tr>
<tr>
<td>Macatawa Bank</td>
<td>19.83</td>
<td>20.64</td>
</tr>
<tr>
<td>Perrigo</td>
<td>11.82</td>
<td>12.15</td>
</tr>
<tr>
<td>Universal Forest Products</td>
<td>20.93</td>
<td>21.32</td>
</tr>
<tr>
<td>Wolverine World Wide</td>
<td>15.05</td>
<td>15.11</td>
</tr>
<tr>
<td>X-Rite Inc.</td>
<td>8.51</td>
<td>6.99</td>
</tr>
<tr>
<td>Knape &amp; Vogt</td>
<td>13.15</td>
<td>10.65</td>
</tr>
<tr>
<td>Herman Miller, Inc.</td>
<td>23.66</td>
<td>18.40</td>
</tr>
<tr>
<td>Steelcase</td>
<td>14.72</td>
<td>10.96</td>
</tr>
<tr>
<td>Tower Automotive</td>
<td>9.03</td>
<td>4.50</td>
</tr>
<tr>
<td>Alternative Marketing</td>
<td>1.28</td>
<td>0.33</td>
</tr>
<tr>
<td>Spartan Stores Inc.</td>
<td>11.96</td>
<td>1.51</td>
</tr>
</tbody>
</table>

1Price adjusted for a 5% stock dividend on February 1.
2Price adjusted for a 5% stock dividend on October 31.
3Price adjusted for a 4% stock dividend on May 8.
The recent dramatic drop in stock prices has led investors to look for safer havens for their hard-earned savings. One of these alternatives is real estate. More than two-thirds of Michigan households live in the house they own; home ownership has long been regarded as an important component of an investment portfolio. Of interest, then, is how homes perform as an investment. We investigate a component of this issue by looking closely at the trends in home prices in one Grand Rapids-area community, East Grand Rapids.

Over the period 1987 to mid 2002, the sale prices of single-family dwellings in the City of East Grand Rapids rose at an average rate of just over 7% per year. This implies that home prices in EGR more than doubled (increased by 105%) over 14 1/2 years. This number does not much reflect the influence of new construction: only 2.6% of the housing stock, 96 houses, were built during the time period. The purpose of this study is to explore across both time and space the variation in the growth of house prices around this 7% average.

First, a little background. The City of East Grand Rapids (EGR), which borders the City of Grand Rapids on its east, had a population of 10,783 in year 2000, essentially unchanged from 1990. Interestingly, the Census Bureau reports that less than two-thirds (62%) of the EGR population over five years of age in 2000 lived in the same house in both 1995 and 2000. EGR assessment records indicate that there are a total of 3,740 single-family detached housing units in EGR. The area of the City is roughly rectangular, bordered by Robinson/Cascade Roads on the north, and roughly East Beltline on the east, Breton Village on the south, and the Eastown area on the west. Reeds Lake is a dominant feature in the northern portion of the City. Gaslight Village and Spectrum’s Blodgett Campus are the main commercial developments.

Table 1: Characteristics of Houses in East Grand Rapids

<table>
<thead>
<tr>
<th>Year House Built</th>
<th>Mean</th>
<th>Median</th>
<th>Std Dev</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td>1950</td>
<td>19</td>
<td>910.8</td>
<td>672</td>
<td>15,646</td>
</tr>
<tr>
<td>1920</td>
<td>10,200</td>
<td>10,125</td>
<td>12,132.7</td>
<td>1496</td>
<td>171,626</td>
</tr>
<tr>
<td>75</td>
<td>79</td>
<td>75</td>
<td>31.8</td>
<td>16</td>
<td>347</td>
</tr>
<tr>
<td>2.2</td>
<td>2</td>
<td>0.9</td>
<td>1</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>460</td>
<td>441</td>
<td>216.5</td>
<td>0</td>
<td>4413</td>
<td></td>
</tr>
</tbody>
</table>

Figure 1 shows our estimate of the trend in house prices in EGR between the beginning of 1987 and the middle of 2002. We obtained the estimate by using statistical regression analysis. The data consist of information provided by the EGR assessor on 3,534 usable house sales, an average of 244 sales per year. Regression analysis allows us to control for variation over time in the characteristics of the houses that sold. In a particular year, for example, an unusually large number of newer and larger homes may have sold, and average sales prices would, therefore, appear to have jumped considerably over the average in the previous year. Computing simple averages in sale prices for a series of discrete time periods (such as years) would produce a pattern that generally follows that shown in Figure 1, but it would appear much more lumpy. While the curve shown in Figure 1 is smoother than is realistic, it captures the general trend in the price of a standard house.

Not surprisingly, the trend follows that of the general economy. House prices rose relatively quickly in the late 1980s, but growth in prices slowed during the recession of the early 1990s. The economic boom of the latter half of the 1990s was reflected in a faster rate of growth in house prices, peaking at an annual rate of about 9%. The growth in prices was clearly beginning to slow with the onset of the current economic slow-down.
Some of the price growth reflects improvements made to houses over the study period. How much is due to improvements is a topic for a future study.

The idea is to group houses together that have similar characteristics, assessment purposes divided EGR into distinct neighborhoods. Recognizing this, staff in the EGR assessor’s office have for

dominate in that neighborhood.

Thus, the growth in prices in each neighborhood varies mainly with changes in the demand for the types of houses that predominate in that neighborhood.

Recognizing this, staff in the EGR assessor’s office have for assessment purposes divided EGR into distinct neighborhoods. The idea is to group houses together that have similar characteristics, and that, therefore, tend to respond similarly to changes in market conditions. Staff monitor trends in prices in each neighborhood, and each year establish a growth-rate differential for each neighborhood. This helps staff guard against over-stating or understating the growth rate in prices for tax-assessment purposes.

We took these assessor-identified neighborhoods as given and analyzed each neighborhood (represented on the horizontal axis in the graph) separately to obtain neighborhood price indices. The estimated average annual rates of growth are shown in Figure 2. Growth rates vary substantially across neighborhoods, from a high of over 9% to a low of just over 5%.

Interestingly, the neighborhoods with the highest rates of price growth consist of those with both the least and the most expensive houses. Neighborhoods 1 and 2 are neighborhoods near the Eastown and Gaslight Village commercial areas, and contain some of the oldest houses on the smallest lots that have seen substantial renovation over the past 15 years. Some of the growth in house value in these neighborhoods reflects the value of these recent investments. Neighborhoods 3 and 4 likewise consist of older homes, but many of these homes are of high construction quality and architectural interest. Some of the higher-than-average price growth may reflect renovation, but most probably reflects growing interest in character homes. Finally, neighborhoods 10 and 20 contain unusually large, well-constructed houses; neighborhood 10 consists of houses on lots that border Fisk and Reeds Lakes. Again, rising incomes during the booming ’90s drove demand for the limited supply of high-amenity properties.

All this suggests that the rate of growth in the market value of the median house— built around 1950 with two baths and 1900 square feet of floor space on a 10,000 square foot lot — is lower than the 7% average for EGR as a whole. An average growth rate of about 6% is probably closer to the mark for this kind of house. This still represents a real return on average of about 2% per annum. This average gain reflects the growing demand for the kinds of amenities EGR offers: high quality schools and public services, a convenient location, and solidly-built houses on tree-lined streets in walking neighborhoods. And the variation around the average hasn’t been very big (at least by stock-market standards); perhaps -1% during the recession of the early 1990s to about 4–5% in the later 1990s. Thus, in addition to the obvious consumer benefits the home provides on a daily basis, owning a home in EGR appears to make sense from an investment standpoint.

Some of the price growth reflects improvements made to houses over the study period. How much is due to improvements is a topic for a future study.
The U.S.-Canada Border: Benefits of an “External Perimeter” Strategy

John C. Taylor, Ph.D., and Douglas Robideaux, D.B.A.
Department of Marketing, Seidman School of Business

Introduction

The U.S. and Canada are the world’s two largest trading partners, and both experienced rapid growth in trade volumes over the last decade. And while much of the trade growth can be traced to the NAFTA and predecessor U.S.-Canada FTA, the NAFTA itself did little to liberalize or modernize border crossing or customs processes. In fact, while the border is often referred to as the longest undefended boundary in the world, the customs processes and border crossing strategies that are used to manage the border are still rooted in a system that was originally developed to collect customs duty and control the flow of people. These border processes and strategies have a significant cost impact on the economies of the two countries. At the same time, a number of observers have questioned the degree of security that the current system can provide given the level of trade and personal traveler interaction across the border. This article reports on the results of ongoing research aimed at estimating the cost impacts of the border and explores an approach to gradually opening the border.

U.S.-Canada and Michigan-Canada Trade and Transportation

Trade between the U.S. and Canada is, of course, the largest bilateral trading relationship in the world, with 2000’s total trade in goods and services of US$489 billion being some 52% greater than the trade with the U.S.’s number two trade partner, Japan. U.S.-Canada trade has grown by 152%, or 13.8% per year since implementation of the U.S.-Canada Free Trade Agreement in 1989. U.S. exports of goods to Canada totaled US$178.9 billion in 2000, or some 23% of all U.S. exports. The U.S. market is even more important to Canada’s economy, with exports to the U.S. in 2000 totaling US$230.8 billion and representing 87% of all Canadian exports. Levels of foreign direct investment and personal travel also reflect a high level of integration between the two economies. This trade, investment, and personal travel result in a great deal of border crossing activity. In 2001, 68.3 million personal vehicles crossed the U.S.-Canada border along with 13.4 million trucks. And while personal vehicle travel was down from a peak of 77.5 million units in 1995, commercial traffic grew 29.7% between 1995 and 2001.

Michigan accounts for a major portion of all trade activity between the U.S. and Canada, and the trading relationship is critical to the state’s economy overall and to many regions of the state, such as the Greater Grand Rapids area. In 2000 Michigan-Canada trade totaled US$69.7 billion with two-way trade in finished vehicles and parts totaling US$53 billion. In addition to autos and parts, Michigan exported US$242 million of furniture and fixtures, a good part of which likely originated in the Greater Grand Rapids area. Michigan’s role in cross-border trade is actually far greater than what is reflected in Michigan origin- or destination-based trade because the state also serves as a gateway for other states’ trade with Canada. In 2000 land based trade through the ports of Detroit and Port Huron alone totaled US$154 billion, meaning there was at least another US$84.3 billion of indirect trade that crossed Michigan. This land-based trade included moves on 4.8 million trucks that crossed the border at Detroit and Port Huron.

While trade and truck traffic increased dramatically between 1995 and 2000, the events of 9/11 have spurred a decline in the level of border-wide trade and truck traffic. In addition, personal vehicle traffic, which had been growing in recent years, is down 15.0% since 9/11. Figure 1 shows U.S. economic activity, imports from Canada by land, and inward truck moves for each of nine months pre-9/11 compared to the same nine months post-9/11. On a cumulative level, while the U.S. industrial production index was at the same level at the end of both nine-month periods, and auto production was actually up 4.2% in the U.S., imports of goods by land from Canada fell 10.8%, and truck traffic entering the U.S. fell 2.2%. This fall-off in Canadian exports to the U.S. by land will be of considerable concern in Canada where a number of trade associations expressed fears that post-9/11 perceptions of border delays and uncertainty might have this effect. The fact that Canadian exports fell 10.8% despite flat economic activity may in part be due to U.S. industrial buyers’ concerns about the costs of the border now and in the future. But what are the cost impacts of the border?

Costs of the Border

Figure 2 on page 15, provides a summary of the estimated minimum, midrange, and maximum levels of various border crossing costs. These costs are for the combined economies of Canada and the U.S. and are for a calendar year. In total, costs for all delay, uncertainty, and other border related costs are estimated at a midrange point of US$10.293 billion. This cost estimate was developed following a research project in which numerous border crossing site visits were made, and in which some 173 interviews were conducted, and hundreds of secondary sources were reviewed. Specifically, delay and uncertainty related costs are estimated to total US$4.014 billion. For carriers the total midrange cost impact is estimated at US$1.867 billion. Primary inspection booth delays are estimated to have a cost of US$324.2
million, while secondary yard processing times cost another US$755.4 million. Other major costs included excess time built into route plans, documentation preparation time, and the need for additional equipment and drivers due to reduced cycle times. Another major category of cost impact from delays and uncertainty is on manufacturers who suffer reductions in productivity because of reduced sourcing from Canada. These lost productivity benefits are estimated at US $1.53 billion per year. These reductions in Canadian sourcing are thought to be at least in part due to buyer perceptions about the level of delays and uncertainty on the border.

Other major costs of the border, but not related to delays, are estimated at US$6.279 billion. For carriers the midrange estimate is a cost impact of US$350 million. These costs relate to administration of border crossing processes to “cabotage” costs. U.S. cabotage regulations, in the form of U.S. Customs and Immigration rules, prohibit Canadian drivers from making domestic freight moves in the U.S. Other border related costs include an estimated US$5.358 billion paid by manufacturers for brokerage fees, duty, and managing customs processes. Customs administration and brokerage fees alone are estimated at US$3.752 billion. Duties and fees are estimated at US$1.605 billion including recent softwood lumber duties. A final border cost is for federal inspection services staffs. These costs are estimated at US$571.5 million for personnel costs alone.

**Alternative Border Management Strategies**

Many of the border impact costs described above are a direct result of the border management strategy that has been employed on the U.S. border over the last 75 years. That strategy has involved a relatively wide-open border along most of the 5,500 miles, with relatively few checkpoints and many unguarded roads, trails, and river crossings. At many road crossings in rural areas, checkpoints shut down at night and a red cone is put in the road with a roadside sign instructing that persons should check in at some other point or return during the day. In other more urbanized areas, suburban streets run down the side of the border. Crossing the border in these areas is as easy as stepping out of the backyard into the street. At the same time, traffic crossing the border at some 130 border crossing checkpoints is lined up and each vehicle and its passengers are inspected. However, the volume of vehicles at peak times at some crossings, often exceeding 700 personal vehicles per hour and 400 trucks per hour, makes anything but cursory inspections difficult.

Given the level of cross-border travel and the backups and delays that border checkpoints create, it may be time to rethink the way the border is managed. The current system does very little to enhance security significantly, yet creates chokepoints and a variety of border crossing cost impacts. Is there a better way that can assure security and facilitate trade?

One of the key options is an “external perimeter” strategy that would replace the current border management system with more effective external border checks at the perimeter while reducing controls at the U.S.-Canada border and replacing routine checks with random inspections. This strategy would place the emphasis on border security at the U.S. and Canadian external border and reduce the emphasis on the U.S.-Canada border itself where levels of interaction and commerce make it almost impossible to provide effective security. Such a policy would require Canada and the U.S. to harmonize some immigration policies on the scrutiny and admissibility standards of immigrants, refugees, and foreign visitors. An external perimeter strategy would also require Canada and the U.S. to more closely cooperate on immigration and customs
enforcement offshore and at our external borders—changes that are currently in process to some degree. However, it would not be necessary to harmonize all immigration policies, or to harmonize monetary systems or other domestic policies such as those on gun control, illegal drugs, and the like. Nor would it be necessary to eliminate all remaining trade restrictions between the U.S. and Canada, although such a goal would be beneficial to both economies in the long run. The key to being able to reduce scrutiny at the border without harmonizing all policies is the ability to build a robust system of random inspections and post-audits of the companies that conduct the bulk of trade across the border, and a system of severe penalties for corporate or personal violators of each country’s domestic laws.

An “external perimeter” strategy could have a long-term goal of bringing the U.S.-Canada border to a level of “openness” similar to what is seen on European Union internal borders without the need for total harmonization of all policies. Such a system could be phased in with a ramping up of external border controls and post-audit procedures and a gradual loosening of the U.S.-Canada border with initially high random inspection rates and eventual reduction of inspections to an almost free-flow state. The benefits of such a system would be significant. First, there is the potential to save the US$10.293 billion per year in the costs of the current system. Secondly, there is an opportunity to actually increase security by redeploying the money spent on U.S.-Canada border guards to the external border, to intelligence activities, and to post-audit inspections where a more effective job can be done. While there has been little discussion of such changes in policy on the U.S. side of the border, there has been considerable discussion in Canada about the potential for an external perimeter strategy. In fact, one recent Windsor newspaper editorial suggested the Canadian government should seriously explore a European Union style border arrangement with the U.S.1 Should the U.S. and Canada want to maintain their current levels of integration, while enhancing security efforts against terrorism, it may be time to consider dramatic changes in the way we manage the border.

---


---

**Figure 2**

**Summary of Border Crossing Impacts**

(Millions of U.S. Dollars)

<table>
<thead>
<tr>
<th>Assumption/Scenario</th>
<th>Minimum</th>
<th>Midrange</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Delay/Uncertainty Related</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carrier</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary Delays</td>
<td>275.3</td>
<td>324.2</td>
<td>351.8</td>
</tr>
<tr>
<td>Secondary Delays</td>
<td>602.5</td>
<td>755.4</td>
<td>908.3</td>
</tr>
<tr>
<td>Excess Plan Time</td>
<td>113.7</td>
<td>416.4</td>
<td>515.7</td>
</tr>
<tr>
<td>Reduced Cycles/Other</td>
<td>65.8</td>
<td>120.7</td>
<td>197.4</td>
</tr>
<tr>
<td>Driver Documentation/Fax Time</td>
<td>133.5</td>
<td>250.7</td>
<td>400.9</td>
</tr>
<tr>
<td><strong>Carrier Subtotal</strong></td>
<td><strong>1190.8</strong></td>
<td><strong>1867.4</strong></td>
<td><strong>2374.1</strong></td>
</tr>
<tr>
<td><strong>Manufacturer</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lost Manufacturer Sourcing Benefits</td>
<td>1007.0</td>
<td>1530.0</td>
<td>2000.0</td>
</tr>
<tr>
<td>Extra Inventory Carrying Costs</td>
<td>229.0</td>
<td>458.0</td>
<td>686.0</td>
</tr>
<tr>
<td><strong>Manufacturer Subtotal</strong></td>
<td><strong>1236.0</strong></td>
<td><strong>1988.0</strong></td>
<td><strong>2686.0</strong></td>
</tr>
<tr>
<td>Personal Traveler</td>
<td>96.7</td>
<td>159.0</td>
<td>209.6</td>
</tr>
<tr>
<td><strong>Delay/Uncertainty Subtotal</strong></td>
<td><strong>2523.5</strong></td>
<td><strong>4014.4</strong></td>
<td><strong>5269.7</strong></td>
</tr>
<tr>
<td><strong>General Border Costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carrier</td>
<td>200.0</td>
<td>350.0</td>
<td>583.3</td>
</tr>
<tr>
<td>Manufacturer</td>
<td>4340.4</td>
<td>5358.0</td>
<td>6375.2</td>
</tr>
<tr>
<td>Federal Staff</td>
<td>452.9</td>
<td>571.5</td>
<td>960.9</td>
</tr>
<tr>
<td><strong>General Border Costs</strong></td>
<td><strong>4993.3</strong></td>
<td><strong>6279.5</strong></td>
<td><strong>7919.4</strong></td>
</tr>
<tr>
<td><strong>Total Border Impact Costs</strong></td>
<td><strong>7516.8</strong></td>
<td><strong>10293.9</strong></td>
<td><strong>13189.1</strong></td>
</tr>
</tbody>
</table>
The United States banking system has been undergoing a significant transformation during recent years. This transformation is largely the result of two regulatory changes that the U.S. Congress passed during the 1990s. The first of these changes came with the passage of the Riegle-Neal Interstate Banking and Branching Efficiency Act in 1994, while the second came with the passage of the Gramm-Leach-Bliley Financial Services Modernization Act in 1999. The Riegle-Neal Act changed the scale of banking by giving banks the ability to open interstate branches, while the Gramm-Leach-Bliley Act changed the scope of banking by repealing the Glass-Steagall Act's separation of commercial from investment banking. While the Gramm-Leach-Bliley Act has received more recent attention than the Riegle-Neal Act, the latter has likely had a greater influence on America's banking system since the changes it has prompted have had more time to take effect.

Prior to the passage of the Riegle-Neal Act, American banks' ability to operate branches had been severely limited. Virtually all banks were prohibited from operating branches across state lines and in many states banks were prohibited from operating any branches at all (even within the same county or city). A result of these prohibitions was an American banking system comprised primarily of a large number of relatively small banks.

The Riegle-Neal Act set the stage for a rapid transition of the American banking system from “small banking” into “large banking” by giving banks permission to operate widespread interstate branching networks for basically the first time in U.S. history. Although the Act is only eight years old and only fully went into effect in 1997, it has already caused several significant changes in the U.S. banking system. For example, in January 1994, prior to the passage of the Riegle-Neal Act, there were ten commercial banks operating a total of thirty branches across state lines. As of June 2002, there were 327 commercial banks operating a total of 21,415 interstate branches. The impact of the Act can also be seen in the Greater Grand Rapids metropolitan area (GGR). The most notable impact has been the acquisition of Old Kent Bank by Fifth Third Bank in 2001, but there have been additional changes as well. Since 1994, six banks with headquarters located outside of the State of Michigan have entered the GGR banking market. Although these five banks represent only 17% of all banks in GGR, they hold 58% of all deposits in the GGR market. It is clear that the Riegle-Neal Act is changing the face of both the U.S. banking system as well as our local banking system.

Most of the increase in interstate branching has come as a result of banks acquiring or merging with banks in other states. A result of these mergers and acquisitions has been a substantial decrease in the number of small banks and the total amount of deposits placed with these small banks. In June 1994 there were 8,614 FDIC-insured financial institutions (including commercial banks and savings institutions) with deposits of less than $100 million. By June 2002 the number of institutions with deposits of less than $100 million had fallen to 4,916. As can been seen in Figure One, during this same eight-year span the proportion of deposits at these small financial institutions as a percentage of deposits at all institutions fell from 10.5% to 4.5%. While small institutions have been declining both in number and in influence, the opposite is happening for the largest financial institutions in America. The number of institutions with more than $10 billion in deposits has grown from sixty-four in 1994 to one hundred in 2002. Even more significantly, the total amount of deposits at these largest institutions has increased from 30% of total deposits to almost 60% of total deposits. The trend is obvious, the United States is shifting dramatically away from its traditional system of small financial institutions to a new system where very large institutions are prevalent.

An important question that must be asked is whether this trend toward bank consolidation will reduce or increase competition among banks. The traditional argument against allowing banks to operate widespread branching networks has been the fear of “money trusts.” That is, Americans seem to have had an aversion to allowing financial institutions to become large, at least in part because they feared that large banks would be able to exploit monopoly power and influence over small depositors and businesses. It has been also argued, however, that by limiting the ability of banks to branch, the American banking system was actually less competitive than it would have been with the presence of large branching networks. The rationale behind this argument is that restrictions on branching prevented banks from reaching out to enter new markets and, therefore, protected the banks already in these markets. Without the threat of competition from out-of-town banks, the local banks could exercise market power.
Which argument is correct? Have banking markets become more competitive or less competitive as a result of the elimination of interstate banking restrictions? At first blush it might appear that markets have become less competitive as the number of all financial institutions in the United States has declined from 12,933 in 1994 to 9,455 in 2002. The decline in the number of financial institutions per capita is illustrated in Figure Two. It can be seen that the ratio of persons per financial institution has increased in the United States from one financial institution per 20,000 people to one financial institution per 30,100 persons. These ratios have also increased for the State of Michigan to one institution per 51,800 persons and very slightly for the Greater Grand Rapids metropolitan area to one institution per 30,700 persons.

Although the above figures seem to indicate that the banking system is becoming less competitive, this is not necessarily the case. The mere number of financial institutions does not automatically reflect the market power of these institutions. It is very possible that a market area might have many small banks but be dominated by one or two very large banks. In this case the number of financial institutions would suggest that the market was competitive even though most of the market share was going to the small number of large banks. To control for this situation, economists often use a measure of market concentration called the Herfindahl-Hirschman Index (HHI). This index is derived by taking the sum of the squares of market share for each business in a given market. The higher the HHI, the more concentrated (and hence less competitive) a market is seen to be. The U.S. Department of Justice uses the HHI to evaluate mergers. If the HHI is less than 1000 for a market, the Department of Justice generally considers that market to be competitive. Markets with HHI values between 1000 and 1800 are viewed as moderately concentrated, while markets with an HHI above 1800 are generally considered highly concentrated.

Figure Three presents the HHI values for Michigan’s nine metropolitan areas as of June 2002. It can be seen that the banking market in the Greater Grand Rapids area is exactly at the median in terms of market concentration. It is more concentrated than other comparable areas including Lansing and Kalamazoo/Battle Creek, but it is slightly less concentrated than Detroit and significantly less concentrated than other markets.

To see if the introduction of interstate banking has created significant changes in bank concentration in GGR, I calculated the HHI for GGR from 1994 to 2002. From the results presented in Figure Four, it can be seen that the GGR banking market has been moderately concentrated for the past decade without significant trends upward or downward. It can be observed, however, that the highly publicized acquisition of Old Kent Bank by Fifth Third Bank in 2001 appears to have actually lessened banking market concentration in the Greater Grand Rapids area. This is almost certainly because the Federal Reserve Board stipulated that Fifth Third had to divest several branch offices in order to gain approval for the acquisition.

Overall, the findings indicate that the competitiveness of the Greater Grand Rapids banking system has not been significantly affected either positively or negatively by the introduction of interstate branch-banking networks that was prompted by the Riegle-Neal Act. This negligible effect is likely largely because Michigan, unlike many other states, allowed intrastate branching networks to develop for several decades before the Riegle-Neal Act was enacted.

\(^2\) This argument was promoted by the Popularist movement a century ago, but it can also be traced back as far as Thomas Jefferson. It is interesting that in no other country except America has there seemed to be such an aversion to large-scale banking and that nationwide branch-banking systems existed in all other industrialized nations by the early part of the twentieth century.
Mergers and acquisitions are a key strategic activity reshaping competition in many industries over the last decade. In contrast to the popularity of acquisitions as a mechanism of corporate strategy, most research on M&A shows that in the majority of acquisitions, acquirers fail to achieve positive outcomes. As a result, M&As have often been viewed with skepticism as the press debates whether a particular acquisition is motivated by interest in creating economic value or “empire building.” Research has yet to explore what makes certain acquirers more successful than others in creating value from their acquisitions.

This paper summarizes a research project that examines how different characteristics of acquirers, their competitive strategy, operating efficiency, and size affect the performance of their acquisitions. Based in the U.S. banking industry, this research also examines the competitive strategies, operating effectiveness, and acquisition activity of several West Michigan banks, as well as banks that have entered the West Michigan market through acquisitions, such as Bank One, Fifth Third, and National City.

This research differs from previous studies of M&A by focusing its attention on the acquirer and how the acquirer's strategy, effectiveness, and size influence its ability to create synergies in acquisitions. This study is based on the U.S. banking industry. A single industry setting is necessary to allow benchmarking of the competitive strategies and operational efficiency of individual companies against those of its competitors. It also allows for comparisons between the acquisitions that are similar to each other and determines a common base for post acquisition performance variation. Although based exclusively in the banking industry, the methods used in the study are designed to apply to all industry settings, and the findings are expected to apply to most industry settings.

Much of the existing research in the fields of strategy and finance has focused on whether certain types of acquisitions are in general more successful than others. For example, studies have examined whether horizontal acquisitions (acquisitions involving an acquirer and target from within the same industry) perform better than conglomerate acquisitions (acquisitions involving acquirers and targets with no commonality). Other studies have examined the relative performance of related acquisitions (acquisitions where the acquirer and target are related by having similar customers, production technology, or product markets) versus unrelated acquisitions versus vertical acquisitions (acquisitions where the acquirer purchases a target within its supply or distribution chain). These types of studies have generally resulted in contradictory findings.

**Methodology**

The study identifies the relative competitive strategy position, operating efficiency, and size of each of the 8,340 banks or bank holding companies within the U.S. banking industry. It examines acquisition performance on 230 horizontal acquisitions occurring in the banking industry (banks acquiring other banks) between 1994 and 1995. Based on this data, relationships between acquirer strategy, effectiveness, and size and acquisition performance were tested using regression models. The data used in this analysis are taken from datafiles available from the U.S. Federal Reserve and M&A information drawn from the journal Mergers and Acquisitions.

The relative strategy position for each individual bank is defined by its mix of inputs, its product mix, and its aggregate product pricing. Banks using a mix of inputs (personnel, property, and equipment, funding, and other costs) with low cost relative to competitors and/or those with low product pricing relative to competitors are identified as having low cost strategies. Banks using higher cost inputs, offering premium retail and corporate services, and having high product pricing relative to competitors are identified as having differentiation strategies. Banks using a mix of inputs, products, and pricing are identified as having mixed or combination strategies. Figure 1 shows graphically the range of competitive strategy positions with several West Michigan banks highlighted as examples.

Operational efficiency is not the result of any specific strategy; rather, it reflects the fit between a bank's strategy and its market. For example, a bank using a low cost strategy may or may not achieve high operating efficiency depending on whether its balance of cost and income is sufficient. If its product pricing is too low relative to its costs, its operating efficiency will be low. Similarly, a bank using a differentiation strategy may or may not achieve high operating efficiency depending on whether its balance of income and cost is sufficient. If its operating costs are too high relative to its income, its operating efficiency will be low. This is supported by evidence that shows that both low cost and differentiation strategies are positively correlated with operating efficiency.
Based on this foundational understanding of the relative competitive strategy and operating efficiency positions of all U.S. banks, the study examines how these characteristics affect acquisition activity. Existing theory in M&A suggests a number of relationships between a bank's strategy and efficiency and its ability to produce performance improvements in its acquisitions. First, theory suggests that a bank's competitive strategy reflects the strength of its capabilities for competing within its market. For example, a bank that has achieved a high level of differentiation has developed internal capabilities such as product development, marketing, or customer service that can be utilized in its acquisitions. Similarly, a bank that has achieved a low-cost position has developed low cost products, operations, and low overhead, which can be utilized in its acquisitions.

These existing capabilities are expected to have two effects on acquisition outcomes: 1) both low cost and differentiation strategies are expected to contribute to improved acquisition outcomes, and 2) an acquirer's type of competitive strategy is expected to influence the type of post-acquisition performance improvement realized by an acquirer. For instance, an acquirer with a high level of differentiation is expected to focus on improving the revenue generating capabilities of its targets—improving its products, marketing, and customer service. Low cost acquirers are expected to focus on driving expense out of the acquisition targets—generating post-acquisition performance improvements through reductions in expense. Lastly, an acquirer's operating efficiency is also expected to improve its acquisition performance. It is not expected to be associated with any specific type (revenue increase or cost reduction) since it is argued to be independent of an acquirer's competitive strategy.

The analysis shows a significant relationship between low cost strategies and post-acquisition cost reductions. Thus, acquirers using low cost strategies in day-to-day competition are able to realize significant reductions in costs in the operations of the combined companies. Unexpectedly, the extent of an acquirer's use of a low cost strategy is also associated with decreases in post-acquisition revenues. As a result of the declines in post-acquisition cost and revenue, the net effect of an acquirer's low cost strategy is not significantly related to changes in post-acquisition profitability (changes in ROA).

**Differentiation Strategies:** On their own, differentiation strategies were not found to have significant effects on post-acquisition performance, but when combined with elements of a low cost strategy, the effects become significant.

**Low Cost Strategies:** The analysis shows a significant relationship between low cost strategies and post-acquisition cost reductions. Thus, acquirers using low cost strategies in day-to-day competition are able to realize significant reductions in costs in the operations of the combined companies. Unexpectedly, the extent of an acquirer's use of a low cost strategy is also associated with decreases in post-acquisition revenues. As a result of the declines in post-acquisition cost and revenue, the net effect of an acquirer's low cost strategy is not significantly related to changes in post-acquisition profitability (changes in ROA).

**Mixed Strategies:** Strategies that combine elements of low cost and differentiation were associated with post-acquisition revenue growth. Thus, acquirers using mixed strategies were successful in achieving significantly higher levels of post-acquisition revenue than other acquirers. Mixed strategies were also associated with increases in post-acquisition costs. In the case of mixed strategies, post-acquisition increases in costs exceed the growth in revenue. As a result, acquiring banks with high levels of operating efficiency focus on improving the effectiveness of targets by developing or redesigning products with an emphasis on improving revenue.

**Operating Efficiency:** The analysis shows that acquirers with high levels of operating efficiency are on average more successful in their acquisitions. Operating efficiency is associated with growth in post-acquisition revenues. Recall that operating effectiveness results from a proper alignment between the acquirer's competitive strategy and preferences of its external market. This appears to show that acquiring banks with high levels of operating efficiency focus on improving the effectiveness of targets by developing or redesigning products with an emphasis on improving revenue.

**Asset Size:** Acquirer asset size was also associated with post-acquisition performance improvements. Largers acquirers were more able to reduce costs than other acquirers, and this reduction in costs translated to an improvement in post-acquisition ROA, giving evidence of economies of scale in the banking industry.

**Conclusions**

The net results of this analysis identify operating effectiveness and asset size as the key characteristics contributing to successful acquisitions in the banking industry. Banks with particular competitive strategies appear to be influenced by their strategies to pursue specific types of post-acquisition performance gains.

<table>
<thead>
<tr>
<th>Bank</th>
<th>Level of Operating Efficiency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old Kent</td>
<td>74%</td>
</tr>
<tr>
<td>First of America</td>
<td>76%</td>
</tr>
<tr>
<td>First Michigan Bank</td>
<td>64%</td>
</tr>
<tr>
<td>Michigan National</td>
<td>63%</td>
</tr>
<tr>
<td>Comerica</td>
<td>71%</td>
</tr>
<tr>
<td>NBD</td>
<td>68%</td>
</tr>
<tr>
<td>Bank One</td>
<td>87%</td>
</tr>
<tr>
<td>Fifth Third</td>
<td>80%</td>
</tr>
<tr>
<td>National City</td>
<td>74%</td>
</tr>
</tbody>
</table>
Acquirers using low cost strategies achieve cost reductions in their acquisitions. Acquirers with mixed strategies achieve revenue gains in their acquisition. But, the performance improvement driven by the competitive strategies of acquirers fails to result in overall performance gains from acquisitions.

**Lessons for acquirers:** A number of insights and lessons can be drawn from this research. First, it appears that an acquirer's competitive strategy is important to its acquisition strategy. Acquirers gain partial synergies (cost reductions or revenue gains) from their acquisitions that are consistent with their competitive strategy. Although the net effect of the performance improvements associated with an acquirer’s competitive strategy is not significantly different than zero, acquirers may perceive these acquisitions as more successful than they actually are. Acquirers expecting to reduce costs in their acquisitions may associate realized cost reductions with acquisition success, while ignoring or downplaying the loss of revenue that also occurs. This dynamic may also be true of acquirers with mixed strategies — revenue growth from the acquisition is associated with acquisition success, cost increases are ignored, downplayed, or blamed on other events.

Within the banking industry, there are important characteristics that give acquirers an advantage in making value-creating acquisitions. Acquirers with high operational efficiency and large asset size are able to achieve significant improvements in profitability in their acquisitions. In combination, these two characteristics result in both revenue growth and reduction in costs.

**References**

<table>
<thead>
<tr>
<th>Table 2: Acquirer Characteristics Affecting Acquisition Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effect on Post-acquisition Costs</td>
</tr>
<tr>
<td>---------------------------------</td>
</tr>
<tr>
<td>Low Cost Strategy</td>
</tr>
<tr>
<td>Differentiation Strategy</td>
</tr>
<tr>
<td>Mixed Strategy</td>
</tr>
<tr>
<td>Operating Effectiveness</td>
</tr>
<tr>
<td>Asset Size</td>
</tr>
</tbody>
</table>

Figure 1

**Competitive Strategy Positions of West Michigan Banks**
Job Sharing: Challenges and Opportunities

Suzanne Crampton, Ph.D., Cesare Douglas, Ph.D., John Hodge, Ed.D., Jitendra Mishra, Ph.D.
Department of Management, Seidman School of Business

Job sharing is a concept developed in the 1960s which allowed two people to fulfill the responsibilities of one full-time position. Typically the two individuals involved work opposite shifts or opposite days, depending on the type of flexibility desired. Employers simply must take proactive steps to hire and retain workers. Whether they want to or not, companies have had to implement flexible work arrangements.

According to a survey of 131 companies offering flexible options, 74 percent offer job sharing, mostly on an ad hoc basis (Shley, 1996). The survey indicated that job sharing has significant benefits, such as a broader range of skills brought to the job by the two job incumbents. The survey also discovered that compatibility of job share partners, strong communication skills, trust between job sharers and managers, and dependability are the most important qualities of good job share situations.

Participating in job sharing can involve three approaches to the division of responsibility: shared responsibility, divided responsibility, and unrelated responsibility. Shared responsibility results when two employees equally share all of the responsibilities of one full-time position. In this approach, no formally stated division of responsibilities is stated. The partners of the position are interchangeable and are able to pick up where the other person left off. Divided responsibility is illustrated when two employees share one full-time position with a division of responsibilities by project or client group. Job sharers in this arrangement perform separate tasks and provide backup for each other. In the case of unrelated responsibility, two employees who perform different and unrelated tasks are grouped together for an employee head count. Sharers usually work in the same department, but their duties and responsibilities are not linked, and they do not provide backup for each other.

Advantages of Job Sharing to the Employer

Many organizations have found that employees who job share are appreciative for the job opportunity and, therefore, work harder. Job sharing often results in improved performance appraisals, more participation, and volunteerism from those employees who take advantage of the flexible scheduling and benefits of job sharing. It also seems that companies may be rewarded for allowing employees to balance family and work through job sharing by having focused, appreciative, and highly productive workers. Job sharing allows companies the chance to retain valued employees who do not want to work full-time. In today's work force, many workers suffer from work overload, which can result in burnout. This is especially common with women who have stressful positions at work and a family to care for at home. Job sharing is one solution for women or men who have to juggle the roles of "the executive" and the "family provider." It has been found that job sharing arrangements also may protect workers from burnout while maintaining productivity. Another advantage comes with lower absenteeism levels, which can often delay important projects in which the absent person is participating. For those employees who are often ill because of certain medical problems, job sharing allows them to work part-time and rest on "off" days. Absenteeism can also be reduced with job sharing because job sharers are able to provide greater service by covering for each other on sick days, vacations, etc. Some companies have also found that job sharing can decrease maternity leave time. In some situations, job sharing might also be an alternative to entering a disability program.

Advantages of Job Sharing to the Employee

This alternative work schedule gives highly skilled employees the opportunity to continue developing their skills. Some job sharers feel they have the best of both worlds because they can better balance work and family obligations. It is a beneficial alternative for employees who can afford to work less than full-time.

Another advantage of job sharing is the benefits that are provided, because pay and benefits of a full-time worker are split between the two job sharers—unlike normal part-time workers who typically do not enjoy such benefits as vacation, profit sharing, sick leave, etc. Some also feel that two people are better than one in decision-making and the quality of the work performed. By having more than one individual participate in work tasks, errors and problems are more likely to be identified.

METHOD

A 37-item survey questionnaire was mailed to 470 employees in business organizations in the west Michigan area. Respondents were staff and managerial personnel (32 percent top managers, 28 percent middle managers, and 34 percent staff) who were mostly female (53 percent), between the ages of 20 and 49 (78 percent) and working in branch, divisional, or corporate offices (70 percent). Fifty-seven percent of the respondents reported working for firms with 100–250 employees, with 79 percent of the offices reporting 1–10 persons engaged in job sharing activities. The survey response rate was 43.8 percent (184/420).

The primary purpose of the study was the investigation of the use of job sharing within organizations. All survey items used a five-point scale (from strongly agree to strongly disagree). To determine a generally accepted definition of job sharing and benefit structure, respondents were asked to respond to five items covering the definition of job sharing and the distribution of benefits. Attitudes toward job sharing were measured based on perceived advantages and disadvantages for employers and employees and managerial attitudes. Respondents were asked
five questions in each of the five areas and seven questions to provide demographic information on themselves, their position, and their organization.

RESULTS AND DISCUSSION
Results of the survey indicate that the most widely accepted definition of job sharing is two people sharing the responsibility of one full-time position. Regarding attitudes toward the benefits associated with job sharing, the results indicate that employees more strongly than employers believe that job-sharing benefits should be prorated. Next, we examined differences by position. Based on the survey item of still being able to climb the corporate ladder, non-managerial staff viewed this as an advantage while middle and top managers did not. Responses to the survey item on whether evaluations are treated differently, non-managerial staff believed job sharing would make a difference in evaluations, while middle and upper managers did not. Finally, non-managerial staff believed that employees would give the extra effort needed to make job sharing work, while top and middle managers did not.

Employers and employees hold varying opinions regarding the success of job sharing. The success of the program varies from company to company depending on the commitment from the employees and support from management. It requires two people who can work together in a position that can accommodate two employees.

There are many advantages of the job-sharing program for both employees and their employers. The major advantage seen by most employees is that job sharing allows them to have extra time for themselves and their families while continuing to climb the corporate ladder. Additionally, sharers can enjoy part-time hours while retaining partial fringe benefits of a full-time position. The employer benefits from the contrasting input from each partner. Employers enjoy employees who are more appreciative of their jobs and are often more productive during the hours they are available. Job sharing aids employers by allowing them to retain employees who wish to reduce hours while not being required to hire and train new employees. Job sharing also can reduce absenteeism and assist in covering sick and vacation days between the job-sharing employees.

There are also disadvantages that accompany the job-sharing concept for both employees and their employers. For the job sharer, partial pay and partial benefits may cause financial difficulty. Job sharing also requires extra effort in communication between the pair and their manager(s). In addition, after prolonged periods of job sharing, employees may feel incapable of handling an entire position by themselves.

Problems for the employer are generally caused by the negative attitudes of managers. Many managers see job sharing as a hassle and an added expense to the organization. It can also be a challenge to assess what jobs are capable of being shared. In addition, one of the largest difficulties of human resource managers is matching two employees who are compatible. Some respondents also indicated they believed employees wouldn't be willing to put in the effort needed to make job sharing successful. Managers also fear that allowing some employees to job share may discourage other employees.

CONCLUSION AND RECOMMENDATIONS
As more demands are placed on our labor force, companies need to be flexible and capable of adapting to their employees' needs. The future of job sharing will depend greatly on managers' attitudes and acceptance of this growing trend. As we mentioned earlier, this appears to be one of the biggest obstacles blocking the rapid growth of job sharing. We recommend the following to make job sharing a more acceptable alternative:

- Train managers to be more aware of and accepting of alternative work schedules.
- Develop specific policies and procedures for entering and exiting job-sharing positions.
- Hold seminars with management and employees to openly discuss the advantages and disadvantages of job sharing.
- If employees desire job sharing, place employees who have already worked closely together in job-sharing positions.
- Recruit, interview, and hire personnel specifically for shared jobs.
- Evaluate job positions to determine and ensure that a particular job is compatible with the job-sharing concept.
- Develop a written plan or contract between the job-sharing partners.
- Monitor the effectiveness of the job-sharing positions and terminate the arrangement if necessary.

American companies must respond to their workers' needs, and one available alternative is to implement job sharing. Job sharing helps the organization retain valued employees by allowing employees to work part-time in positions that cannot be reduced in hours or responsibilities. Job sharing enhances organizational flexibility and provides the opportunity to increase the breadth of skills and experience in a single position. Employees are allowed to reduce hours without reducing their benefits or opportunities to advance. While a number of respondents indicated they are aware of job sharing and may have a few employees participating in this work option, it has been slow to catch on as a widely-utilized alternative work schedule.

REFERENCES
Strategy, Time, and Economic Performance

John Nader, M.A.
Department of Economics, Seidman School of Business

“We don’t have a desperate need to grow, we have a desperate desire to grow.” — Milton Friedman

The United States and many other industrialized countries are currently experiencing an economic slowdown. While it is clear that economic slowdowns are difficult periods for most firms and those with interests in the firms, what is less clear is why some firms within the same industries seem to weather the storm better than others. From an economic perspective, these slowdowns present an opportunity for owners/managers (investors) to analyze decisions made both in terms of the reasons for the actions taken and also from an evaluation of the risk(s) the firm now faces for those actions.

Economists like to believe that economic reasoning is involved in most decision-making processes. This reasoning focuses on the changes in benefit and cost resulting from the action under consideration. Choices are often visible in the strategies and actions taken by firms. What makes reality significantly different from elementary blackboard economics is that these decisions are not made with perfect information, or perhaps to state it more clearly, decisions are made in a condition of uncertainty; hence, risk enters into the equation. Couple this with the fact that often these long-term or strategic decisions are critically analyzed within short-term periods given current economic conditions, and the decision may appear unfavorable.

Firms may find it difficult to separate short-term economic performance from long-term considerations. We often see that during periods of rapid growth most firms are anxious to expand capacity to take advantage of current higher demand. That capacity can be added internally or it could be sought in the market by purchasing inputs from suppliers. The option selected impacts the flexibility of the organization and, therefore, can have significantly different long-run outcomes.

We may see an application of economic reasoning leading to different short-term outcomes in local examples. I was recently interested in the financial results of two local firms in the same industry, Steelcase Inc. and Herman Miller Inc. Both firms manufacture office furniture, an industry that is quite cyclical and has been hit particularly hard by the current slowdown. What was interesting was that Herman Miller’s financial results seemed to reflect that the worst might be over, while Steelcases results were still quite disappointing. What can lay behind these seemingly opposing “pictures”? The answer may be past strategic choices, specifically decisions made regarding structure, and even more specifically, the decisions regarding the degree of vertical integration each selected. A glimpse at the balance sheet of both firms may reveal a much larger percentage of total assets in plant and equipment at Steelcase, possibly reflecting a decision to be more vertically integrated than Herman Miller.

I am also finding the recent financial results of Spartan Stores Inc. to be of interest. Spartan Stores was for most of its history a cooperatively owned (by member retailers) supplier of grocery products. Over the past few years, the firm has gone public and has been integrating into the ownership and management of retail stores. Their stock has not been performing well and one has to wonder if the stock price reflects the results and/or expectations of the fruits of this integration strategy.

Economic literature is quite clear in describing the advantages of vertical integration. These include lower transaction costs (negotiating, contracting, etc.); an assurance of a steady supply stream (this may be even more critical in economic slumps if suppliers leave the market); ability to correct for market externalities (assuring quality, etc.), market power gain or, if a victim of it, the elimination of market power; and the protection of proprietary information or processes. Any one of these or a combination can be good reasons to vertically integrate and must be considered in long-term decisions.

There are at least three possible costs of vertical integration. First the cost of supplying or distributing its own product may be higher for a firm that vertically integrates than for one that depends on competitive markets which serve those needs efficiently. This cost can be derived from the fact that a market supplier may be able to better exploit economies of scale (greater gains from a specialized resource due to longer production runs) than an in-house supplier.

Second, as a firm gets larger, the difficulty and cost of managing it increases. These costs can be quite substantial, especially when viewed in traditional economic terms of opportunity cost (the alternatives sacrificed). In addition to the costs we normally associate with managing resources, a firm that seeks to allocate scarce resources across many different departments or subsidiaries may find managers using precious time lobbying for those resources. Also, in all likelihood, a manager of an internal division or department will perform differently than an owner/manager of his or her own company. They are insulated from the market, and inefficiencies can be spread (hidden?) by other divisions/departments. The advantage of dealing with a competitive market is that someone else supervises production, and the market disciplines the inefficient producer while rewarding the efficient one. You would certainly have to wonder where the lower costs for Spartan would
be in managing stores versus the market discipline that an on-site owner would be faced with. Who is going to be more efficient?

Third, the firm may face substantial legal fees to arrange to merge with another or to structure the integrated firm.

When we consider these benefits/costs of vertical integration what could we expect? We may expect an integrated firm to perform well during industry expansions but have weaker overall results during slowdowns. The integrated firm may perform close to ideal economic scale during growth cycles as it supplies itself with inputs. A less integrated firm may be more flexible, may be able to exploit the capacity of suppliers, and may take advantage of lower market prices during slowdowns, but it may find itself struggling for inputs when the economy is doing well.

What can we learn?
Strategic decisions are long-term and, as a result, are made under a high degree of uncertainty. Toward the end of the 1990s and into 2000, financial and business articles were reminding us that there is a new economy and there may be an end to business cycles, as we knew them. We have seen that business cycles remain and if there is a new (whatever that means) economy, it cycles like the old one. Maybe we should develop a rule-of-thumb that as the numbers of pundits that begin to espouse the end of the business cycle increase, the closer we are to the next downturn.

We also need to be reminded that uncertainty is constant. No one knows what the future looks like, and if you should ever find yourself listening to individuals who contend they do, ask yourself why they are sharing this information with you. Be assured that they would not share that knowledge with anyone, but would seek to keep this information to themselves and profit from it.

Strategic choices which require a long-term or forward view are by definition risky and will not always work out as we'd like. Trying to estimate the discounted present value of a decision with long-term implications is difficult under ideal conditions. It is perhaps one step removed from a guess in an economy subject to cycles.

We hear often, but perhaps not often enough, that short-term economic conditions can make long-term strategic decisions look bad. As it could be with the case of vertical integration, a highly integrated firm will find it a challenge to steer through a slowdown while a less integrated firm will move a little easier. This does not imply that one structure is right or the other is wrong. They will perform differently under different conditions. The highly integrated firms may lay off many workers when the economy slows; the less integrated firm may find that suppliers lay off many workers. It may be that in either case similar numbers are out of work, or the market supplier was able to diversify across different buyers or industries, reducing risk, and does not have to lay off as many.

Perhaps we should be reminded that markets often work. The idea that we can always do it better than someone else is something we should continually question. It may be that a company will find that by integrating into a process may be profit enhancing in the short-run, but the discipline of the market is a powerful tool that more often than not brings about efficient outcomes. That efficiency can be lost when a firm is insulated from the market.

Finally, for the following reasons and more, we learn that as investors we need to consider the strategies that managers formulate:

- By definition strategies are formulated under uncertainty.
- Strategic decisions cover a long time span. Decisions made ex ante with less than perfect information (uncertainty) could be the best decisions given the available data. These same choices, however, can lead to ex post bad outcomes over the business cycle.
- When it comes to organizational structure, one size does not fit all. Industries face different risks to varying degrees. The structure that fits the furniture industry may not be the best for grocery retailing. We also see that as technology continues to improve and our knowledge grows, structures will evolve, but again at different rates and in different ways, across industries.
If you know someone with big ideas, put them in the spotlight!
To nominate a candidate for the West Michigan Ernst & Young LLP Entrepreneur of the Year® Award, call Kristie Burns at (616) 336-8392 or visit www.ey.com/us/eoy for more information.

<table>
<thead>
<tr>
<th>Name(s)</th>
<th>Name(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title</td>
<td>Title</td>
</tr>
<tr>
<td>Company/Organization</td>
<td>Company/Organization</td>
</tr>
<tr>
<td>Address</td>
<td>Address</td>
</tr>
<tr>
<td>City/State/Zip</td>
<td>City/State/Zip</td>
</tr>
<tr>
<td>Phone</td>
<td>Phone</td>
</tr>
<tr>
<td>Fax</td>
<td>Fax</td>
</tr>
<tr>
<td>E-mail</td>
<td>E-mail</td>
</tr>
<tr>
<td>Primary Industry</td>
<td>Primary Industry</td>
</tr>
</tbody>
</table>

Please complete and return form by April 4, 2003 to: Kristie Burns
Entrepreneur Of The Year® Program
171 Monroe Ave. NW, Suite 1000
Grand Rapids, MI 49503

Or—fax form to (616)-774-0190. Upon receipt of this nomination form, a complete kit will be sent directly to your nominee. Thank you for your nomination!
Suzeanne Benet, Ph.D.  
- Advertising to the Elderly  
- Not-for-Profit Advertising  
- Social Marketing

Laurence Blose, Ph.D.  
- Market Efficiency  
- Option and Futures Pricing  
- Valuation

Barry Castro, Ph.D.  
- Business Ethics- “Broadly Defined”

Michael Cotter, D.B.A.  
- Japanese Marketing Strategy  
- Market Forecasting  
- Negotiation

Sonia Dalmia, Ph.D.  
- Applied Economics  
- Implicit Markets  
- Matching Models

Gregg Dimkoff, Ph.D.  
- Corporate Finance  
- Investing  
- Personal Finance

David Good, Ph.D.  
- Sales/Sales Management  
- Strategic Use of Technology  
- Marketing Strategy

Joe Godwin, Ph.D.  
- Financial Reporting  
- SEC Practice  
- International

Paul Isely, Ph.D.  
- Industrial Organization  
- Macroeconomic Forecasts

Saski R. Magal, Ph.D.  
- Electronic Commerce  
- Information Systems

Steve Margulis, Ph.D.  
- Privacy

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

Jai deep Motwani, Ph.D.  
- Project Management  
- Service Strategy and Competitiveness  
- TQM and Customer Service

J ohn Reifel, Ph.D.  
- Economic Loss Estimates for Litigation  
- Housing Market Discrimination

Douglas Robideaux, D.B.A.  
- Consumer Research  
- Promotional Strategy  
- E-Commerce Development

Bennett Rudolph, Ph.D.  
- Distributor Relations  
- Marketing Strategy  
- International Marketing

Carol Sánchez, D.B.A.  
- Strategic Planning and Management  
- International Management  
- Not-for-Profit Organizations

Paul Isely, Ph.D.  
- Industrial Organization  
- Macroeconomic Forecasts

Simha R. Magal, Ph.D.  
- Electronic Commerce  
- Information Systems
Invest in Yourself

DEGREES:

- MBA
- MSA
- MST
- JD/MBA*
- MSN/MBA
- JD/MST*

* dual program MSU-DCL

- Recognized business school that does business
- Optional off-campus in Washington D.C., Grenoble and beyond
- Geared to working professionals
- E-Commerce

Your colleagues and friends will be from many professions including:
- Business
- Education
- Engineering
- Government
- Health Care
- Liberal Arts
- Manufacturing
- Science
- Social Services

Financial Planning Certificate

Seidman School of Business
Contact Claudia Bajema, Director, Graduate Business Programs
616.331.7400 • Go2gvmBA@gvsu.edu • www.grMBA.com

Grand Valley State University
SEIDMAN SCHOOL OF BUSINESS
FIFTH FLOOR, DEVOS CENTER
401 WEST FULTON STREET
GRAND RAPIDS, MICHIGAN
49504-6431

CHANGE SERVICE REQUESTED