
The William Davidson Institute Research Update

In This Edition

1. Global Perspectives third edition released
2. Davidson Institute Forecast Website launched
3. WDI Korea events feature Madeleine Albright, and Professor Han Kim
4. Upcoming Conferences
5. WDI Welcomes Visiting Professor John Sutton
6. WDI Seminar Series visitors
7. Employment Opening: CERGE-EI Director
8. Conference Working Papers
9. New Additions to WDI Working Paper Series

1. Global Perspectives Third Edition

The third edition of the William Davidson Institute Publication *Global Perspectives: A Forum on Business in Transition and Emerging Markets* was recently released. Articles highlighted in this edition are: Accessing Capital; Powering High Performance; Does EU Expansion Shift the Balance of Economic Power; Strengthening Private Enterprise through Educational Reform; and Giving Globalization a Conscience. You can access the latest edition of *Global Perspectives* at

http://www.wdi.bus.umich.edu/publications/gp_pdf/gp_winter03.pdf

2. WDI Forecast Website

You can now access the **Davidson Institute Emerging Market Forecasts (DIEMF)** at <http://www.wdi.bus.umich.edu/research/forecast>. The WDI Forecast in 2002, compared to other forecasts in the EBRD Report, was the most accurate for Inflation across all countries and the third most accurate for GDP growth. The DIEMF is featured in the 2002 EBRD Transition Report along with forecasts from other major data providers such as the IMF, OECD and EIU.

3. Events on Korea: A Forum Featuring Madeleine Albright and Talk by Han Kim

WDI hosted the Forum on North Korea: Issues and Prospects. The event featured WDI Distinguished Scholar Madeleine Albright; Korean Ambassador to the U.S., Yang Sung

Chul; Former U.S. Ambassador to Korea, Donald Gregg and WDI Distinguished Fellow, Kenneth Lieberthal. The purpose of this panel was to produce a thoughtful discussion of developments on the Korean peninsula and related American interests and policy options. This is especially timely, given the importance of those developments and the extent to which the nation and the White House are focused on Iraq. By bringing together a former Secretary of State, a former American ambassador to Korea (who is now the head of the Korea Society) and the current ROK ambassador to the United States, we sought to provide a well-rounded examination of recent and future developments by people with extensive foreign policy experience and hands-on engagement with the issues concerned. This is all in the context of a situation on the peninsula that is escalating rapidly and that has implications for Northeast Asian peace, nuclear proliferation, and the terrorist threat to the United States. For a write up of the event go to <http://www.wdi.bus.umich.edu/news/>

On March 7, Professor E. Han Kim gave an informal presentation on "North Korea: Can It Get Any Worse?" to a group of about 50 guests at a Davidson Institute Wine and Cheese Reception. Professor Kim teaches Finance and International Business as the Fred M. Taylor Professor of Business Administration and also directs the Mitsui Life Financial Research Center at the University of Michigan Business School. A summary of his presentation can be found at <http://www.wdi.bus.umich.edu/news/Han%20Kim%203-7-03.doc>

4. Upcoming Conferences

Share Price Accuracy: WDI and the University of Michigan Law School will be sponsoring this conference in Ann Arbor, MI, May 9-11. The conference, led by WDI Area Directors Michael Heller, Merritt Fox and Bernard Yeung, will focus on recent studies which suggest that share price accuracy promotes growth, and if so, the mechanisms that link the two. It will also look at factors, such as the regulation of corporate insider behavior, that determine share price accuracy. These factors are extremely important for equity markets in transition economies which are largely marked by low share price accuracy and high volatility. More information is available at <http://www.wdi.bus.umich.edu/events/>

Annual International Conference on Transition Economics: The Conference is organized by WDI and the Center for Economic Policy Research (CEPR), and will be hosted by The Institute of Economics of the Hungarian Academy of Science (IEHAS) and the Economics Department of the Central European University. It will provide a forum for leading economists and other social scientists working on transition and on broader issues of development and institutional change to meet, present new research, develop collaborative relationships, and complete ongoing research. The conference will also bring together key policy-makers in the region with these researchers, facilitating discussion and exchange of ideas.

5. WDI Welcomes John Sutton

We are pleased to have Professor John Sutton visiting WDI in March. Professor Sutton is the Sir John Hicks Professor of Economics at the London School of Economics. He was educated at University College Dublin and Trinity College Dublin. He was a Lecturer at Sheffield University from 1973-77; and a Lecturer, Reader, and Professor at the LSE from 1977 until the present. While at WDI, Professor Sutton will give a talk *Competing in Capabilities: Industrial Development and European Union Expansion* on Friday, March 28 from 3:30-5:00 pm in Phelps Lounge at the UM Business School.

6. WDI Seminar Visitors

March has been a busy month at WDI. As part of the WDI initiative to focus on EU Enlargement, we hosted Alastair Newton on March 6. Mr. Newton, a senior UK Diplomat and director of Invest UK US office, spoke on "EU Enlargement: Economic and Investment Implications."

As part of our Comparative Economic Development Series, we hosted Professor Atif Mian, from the University of Chicago Graduate School of Business; Professor Patrick Walsh, from Trinity College Dublin; Professor Ted Miguel from the University of California-Berkeley; and Professor John Strauss from the University of Michigan. Their papers can be accessed at <http://www.wdi.bus.umich.edu/events/ceds.htm>

Further, WDI hosted the Rector of Ural State University Vladimir Tretyakov this month. The William Davidson Institute and Urals State University are working together on establishing the Russian American Economic Institute. We are happy to announce that an agreement for cooperation between the two institutions was signed during Rector Tretyakov's visit.

7. CERGE-EI Director Search

The Rector of Charles University is seeking applications for the position of Director of the Center for Economic Research and Graduate Education (CERGE) in Prague. The Academic Council of the Academy of Sciences of the Czech Republic is seeking applications for the position of Director of the Economics Institute (EI) in Prague. You can also find more about CERGE-EI on its website <http://www.cerge-ei.cz/>. Please forward this information to anyone you think may be interested.

8. Conference Working Papers

You can access WDI Working papers by event on our website, as well as under our entire working paper series. Working papers resulting from the November conference Trusts,

Institutions and Globalization, as well as this Month's follow up can be accessed at http://www.wdi.bus.umich.edu/events/Trust_Globalization.htm. Working Papers produced for the November Corporate Governance and Sustainable Peace conference can be accessed at <http://www.wdi.bus.umich.edu/events/peace2002.htm>

9. New Editions to WDI Working Paper Series

The following are 14 recent additions to the William Davidson Institute **Working Paper Series** dealing with a variety of transition issues. The abstracts can be found below the titles, or click on the http address to go directly to the papers on our web site.

No. 536: Healthy Organizations and the Link to Peaceful Societies: Strategies for Implementing Organizational Change

Jeannette Jackson and Maria Coolican

<http://eres.bus.umich.edu/docs/workpap-dav/wp536.pdf>

No. 535: Workplace Violence and Security: Are there Lessons for Peacemaking?

Frances E. Zollers and Elletta Sangrey Callahan

<http://eres.bus.umich.edu/docs/workpap-dav/wp535.pdf>

No. 534: 700 Families to Feed: The Challenge of Corporate Citizenship

Tara J. Radin

<http://eres.bus.umich.edu/docs/workpap-dav/wp534.pdf>

No. 533: Governing for Genuine Profit

Michael J. O'Hara

<http://eres.bus.umich.edu/docs/workpap-dav/wp533.pdf>

No. 532: Adapting Corporate Governance for Sustainable Peace

Timothy L. Fort and Cindy A. Schipani

<http://eres.bus.umich.edu/docs/workpap-dav/wp532.pdf>

No. 531: Groundings of Voice in Employee Rights

Dana Muir

<http://eres.bus.umich.edu/docs/workpap-dav/wp531.pdf>

No. 530: Gender Voice and Correlations with Peace

Terry Morehead Dworkin and Cindy A. Schipani

<http://eres.bus.umich.edu/docs/workpap-dav/wp530.pdf>

No. 529: The Organizational Model for Workplace Security

Dr. Thomas K. Capozzoli

<http://eres.bus.umich.edu/docs/workpap-dav/wp529.pdf>

No. 528: Nationbuilding 101: Reductionism in Property, Liberty, and Corporate Governance

O. Lee Reed

<http://eres.bus.umich.edu/docs/workpap-dav/wp528.pdf>

No. 527: On Virtue and Peace: Creating a Workplace Where People Can Flourish

Caryn L. Beck-Dudley and Steven H. Hanks

<http://eres.bus.umich.edu/docs/workpap-dav/wp527.pdf>

No. 526: Novartis and the United Nations Global Compact Initiative

Lee A. Tavis

<http://eres.bus.umich.edu/docs/workpap-dav/wp526.pdf>

No. 525: Why Transition Paths Differ: Russian and Chinese Enterprise Performance Compared

Sumon Bhaumik and Saul Estrin

<http://eres.bus.umich.edu/docs/workpap-dav/wp525.pdf>

No. 524: Official Regulations and the Shadow Economy: A Labour Market Approach

Maxim Bouev

<http://eres.bus.umich.edu/docs/workpap-dav/wp524.pdf>

No. 523: Children at Risk: Infant and Child Health in Central Asia

Cynthia Buckley

<http://eres.bus.umich.edu/docs/workpap-dav/wp523.pdf>

Abstracts of Recent Working Papers

No. 536: Healthy Organizations and the Link to Peaceful Societies: Strategies for Implementing Organizational Change

Jeannette Jackson and Maria Coolican

Peace conference paper. *No abstract available.*

No. 535: Workplace Violence and Security: Are there Lessons for Peacemaking?

Frances E. Zollers and Elletta Sangrey Callahan

Workplace violence has captured the attention of commentators, employers, and the public at large. Although statistically the incidents of workplace homicide and assault are decreasing, public awareness of the problem has heightened, largely through media reports of violent incidents. Employers are exhorted to address the problem of workplace violence and are offered a variety of programs and processes to prevent its occurrence. However, many techniques intrude on workers' privacy in the name of making the workplace safer. We review the scope of workplace violence and a number of organizational responses to it. In so doing, we examine each for its potential to compromise privacy interests and attempt to strike a balance between security and privacy. We also examine the processes to determine their prospects for peacemaking. We find that processes that promote trust, participation, and dignity hold the most promise for peacemaking. We submit that such structures and processes can be transportable beyond the workplace to promote peace locally, nationally, and globally.

No. 534: 700 Families to Feed: The Challenge of Corporate Citizenship

Tara J. Radin

When Howard Lutnick, CEO of Cantor Fitzgerald, was first interviewed after September 11, 2001, a tragedy that devastated his firm and stole the life of his brother, Lutnick stated that he now had “700 families to feed.” The view that he expressed was that his firm was responsible to the families of the wage earners lost in the tragedy, even though the firm was not responsible for the events that had occurred. Such assumed corporate responsibility, consistent with a stakeholder-based approach to management, is often considered to conflict with the law. The purpose of this Article is to demonstrate that stakeholder management does not inherently conflict with the law. In fact, principles of stakeholder thinking coincide with our moral intuitions, reflect many demonstrated best business practices, and promote profit-generation as envisioned and advocated by the law. This Article explores the nature of stakeholder relationships and their impact on business enterprises. The interconnected experiences of individuals and organizations in the wake of the events of September 11, while exemplary and perhaps more pronounced, are not isolated. The purpose of this Article is to draw upon such experiences in order to move beyond the traditional hub-and-spoke model of the firm, and to integrate past and present examples in a more dynamic, stakeholder-based model of corporate citizenship that bridges the gap between stakeholder thinking and the law and is both descriptive and normative.

No. 533: Governing for Genuine Profit

Michael J. O'Hara

Business corporations seek profit. That is, after subtracting cost, they maximize net revenue. Spillovers (both costs and benefits) involve trade-offs governing boards should make. Spillovers, especially when coupled with clumsy applications of discounted present value, distort a business' perception of profit. Today, businesses are buffeted by the old risks of recession and the new risks of terrorism. If modern society is to survive, then the seeds of terrorism and their fruit of tremendous loss must be contained. Accordingly, governing boards must propel businesses towards a paradigm of genuine profit. Governing boards must insist that their businesses prospect for positive feedback loops and implement a sustainable profit stream. In short, governing boards must insist that business be entrepreneurial.

No. 532: Adapting Corporate Governance for Sustainable Peace

Timothy L. Fort and Cindy A. Schipani

In previous work, we argued that there is a link between corporate governance and the reduction of violence. In this manuscript, we further explore that link with a focus on how corporations can work toward the goal of reduction of violence in the societies in which they operate. Here, we pose the question of how well suited various corporate governance regimes are to face these complexities, and how they can do so in ways that are consistent with their fundamental principles. We focus on the corporate governance regimes of the United States, Germany and Japan. A common denominator of the political entities addressed is a commitment to a political regime of democracy.

Section I outlines our thesis that corporations are in a position to make contributions to peace in society because of shifting political balances of power. It elaborates with the idea that our contemporary world has shifted from traditional balance of power conceptions in terms of the near universal embrace of parliamentary democracy requiring some reformulated description of the optimal relations among democracy, peace, and globalization. This section establishes the general parameters of the argument that democracy and peace are linked and that there are serious

charges that globalization works against democracy and thereby threatens the sustainability of peace. Section II analyzes comparative models of corporate governance and considers the extent to which contemporary corporate governance models look to peace and workplace security as aims they should achieve. Concluding remarks follow in Section III.

No. 531: Groundings of Voice in Employee Rights

Dana Muir

No abstract available.

No. 530: Gender Voice and Correlations with Peace

Terry Morehead Dworkin and Cindy A. Schipani

The statistics regarding violence in today's society are staggering. A newly released study published by the World Health Organization, making headlines in the Wall Street Journal (Oct. 3, 2002) reports that "Violence Took 1.6 Million Lives in 2000." Notably, this report considers only the data obtained from the seventy countries that report such statistics to the World Health Organization. It does not include reports from many countries whose violence is also high, such as Burundi, Rwanda, Iraq, Liberia and Afghanistan.

This manuscript seeks to address some of these issues of violence by considering issues of gender. We pose the question whether there may be some correlation between violence and the lack meaningful involvement of women in the economy. If the countries that appear more violent are also countries where women are systematically excluded from business opportunities, perhaps one way to curb some of the societal violence would be to improve the opportunities for women in the economy. Multi-national corporations can play an important role in increasing these opportunities.

As has been argued elsewhere, a reduction in poverty promotes stability and leads to a more peaceful society. Studies show that in developing countries, involving women in the economy as wage earners can reduce poverty. As the locus of production shifts away from the home, an initial decline in employment opportunities may occur. However, this eventually disappears and both women and men benefit.

No. 529: The Organizational Model for Workplace Security

Dr. Thomas K. Capozzoli

The definition of workplace violence is a "any act of harassment (including sexual harassment), intimidation, threat, rape or homicide that takes place at a victim's place of employment." When the statistics for workplace violence are looked at, it is easily understood why workplace security is rapidly becoming a problem for many organizations. The situation that provokes workplace violence does not necessarily have to start in the workplace or and the act of violence does not necessarily have to happen in the workplace for organizations to be concerned.

Many organizations are just learning that violence can occur anywhere at anytime and they must be prepared to cope with the situation. This means they must take a look at their preparedness and decide what they need to do to not only increase preparedness but also to understand what procedures they do day to day that might affect a potentially violent situation. Organizations

need to ask tough questions as to their hiring procedures, termination procedures, and security procedures. In today's society, this increases from the aspect of global terrorism and how well are they prepared for the potential of a terrorist attack.

Security in the workplace will continue to be a concern but by following specific procedures and processes the risk of a situation happening can be significantly reduced.

No. 528: Nationbuilding 101: Reductionism in Property, Liberty, and Corporate Governance

O. Lee Reed

Nationbuilders in less developed countries need to understand how Western legal systems with "property" at their center have materially accounted for Western prosperity and liberty, but legal definitions of property are so abstruse that explication of this vital concept is made difficult. This paper finds an historical definitional essence to property in the right to exclude and maintains that liberty and property both share this essential meaning. The problems of corporate governance are then placed in the context of the exclusionary concept of property/liberty.

No. 527: On Virtue and Peace: Creating a Workplace Where People Can Flourish

Caryn L. Beck-Dudley and Steven H. Hanks

This article explores what virtues are necessary for human flourishing to occur in a business organization. In particular it argues that the virtue of peaceableness is missing from the current discussion of business ethics. It further argues that without peaceableness, human flourishing cannot exist. After an exploration of the connection between human flourishing and virtue ethics, the paper will look at the proposed virtue of peaceableness. In so doing, we will examine one dimension of peaceableness, i.e., freedom from conflict. In the discussion of freedom from conflict we will examine the case of Champion Paper Products, Sartel Minnesota Paper Mill, where management and labor, after a protracted labor conflict, jointly chose a proactive path toward peaceableness, resulting in significant improvements in human flourishing and organizational performance.

No. 526: Novartis and the United Nations Global Compact Initiative

Lee A. Tavis

The spirit of the Global Compact found fertile ground and has become an integral part of Novartis corporate strategy since the enterprise was formed by the merger of the two large Swiss pharmaceutical companies, Sandoz and Ciba, in 1996. Following a four-year concentration on economic consolidation and performance, Daniel Vasella (Chairman and CEO) signed the Global Compact. Together, productivity-based economic performance and a proactive approach to the expectations of society are envisioned as the key to long-term corporate success in the rapidly integrating global economic, political, and social environment of today's large multinational corporation.

This paper outlines the Novartis strategy and its implementation including the coalescing role of the Global Compact in the drive for sustainable corporate development. Following a review of extending corporate strategy to incorporate social concerns into the economic business model,

the process of implementing the strategy will be assessed. In part three, specific examples of this strategic positioning will be outlined.

No. 525: Why Transition Paths Differ: Russian and Chinese Enterprise Performance Compared

Sumon Bhaumik and Saul Estrin

We use enterprise data to analyse and compare the determinants of enterprise performance in China and Russia. We find that in China, enterprise growth and efficiency is associated with rapid increases in factor inputs including management, as well as TFP, but not greatly associated with ownership or institutional factors. In contrast, sales growth in Russia is not associated with improvements in factor quantity (except for labor) or quality; TFP is not influenced by competition and privatization to outsiders does not enhance company performance relative to insider ownership. The main determinants of TFP are instead demand and institutional factors at a regional level.

No. 524: Official Regulations and the Shadow Economy: A Labour Market Approach

Maxim Bouev

This work revisits the role of regulations in emergence of the shadow economy. In particular, it supplements the previous theoretical research that mainly ignored the fact that the decision to “go underground” is essentially a result of both employers and employees interacting in the labour market. We adapt a job search approach (see, e.g. Acemoglu 2001) to model a transitional economy with an informal sector. We apply and develop the idea first documented inter alia by Loayaza (1996) that there are two types of regulations that influence the size of the informal labour market through two different channels. Red tape and bureaucratic extortion (bribing) make starting a new business officially a not very attractive option and can lead new firms to the informal sector. On the other hand, taxes and redundancy pay make official firms offer lower wages which drives potential employees away into underground jobs. Depending on various combinations of policy parameters equilibria with different share of the informal economy are possible. The paper draws conclusions regarding the role of unemployment benefits in reducing the size of the informal economy. Policy implications are offered.

No. 523: Children at Risk: Infant and Child Health in Central Asia

Cynthia Buckley

Using Demographic and Health Surveys, government statistics, and field observations I examine trends in infant and child health in Uzbekistan, Kazakstan and the Kyrgyz Republic. Health indicators (anemia and marked low weight for age) for the population under the age of 3 are examined nationally, regionally and by ethnic groups. Findings indicate the risk of compromised child health varies by ethnicity, but the effect is dramatically lessened by the introduction of household and maternal controls such as parental education, residence, and mother’s health status. Findings highlight the social costs of transition, illustrate the importance of maternal health across the region, and assist in the identification of groups at highest risk for poor child health within individual countries.