Translating research for the practice of management

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Praxis

Translating Research for the Practice of Management

Praxis is a biannual publication that translates research conducted by faculty of the Nance College of Business at Cleveland State University to provide business leaders in Northeast Ohio with knowledge that increases their capacity to impact their organizations' effectiveness.

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To request a copy of this publication or to update your contact information, please contact Ann Csongei at a.csongei@csuohio.edu or call 216.687.2027.

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Dear Business Leader:

It is my sincere pleasure to bring you the first issue of *Praxis*, a new publication by the Nance College of Business Administration at Cleveland State University. "Praxis" is defined as: practice, as distinguished from theory; the exercise or practice of an art, science, or skill. The information provided in *Praxis* is insightful, but more importantly, it's practical.

Twice each year, we'll deliver this publication, with useful knowledge on various topics or with multi-disciplinary perspectives on a particularly timely matter. You'll get to know our faculty and their areas of expertise, which they have developed through research and professional experience. We encourage you to reach out to these experts for collaboration on the business issues you face.

We think you will find *Praxis* to be a valuable tool for enhancing your effectiveness as a business leader.

Cordially,

Robert F. Scherer, Dean

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High-Level Leaders

The importance of higher-order leadership in today's businesses

Harry J. Martin and
Dennis F. Lekan

To meet the current and future challenges, business leaders must strive to make decisions that not only benefit the company, but also their employees' personal growth.

What makes you an effective leader in today's highly competitive business world? Is it intelligence? Experience? Education? Talent? Or, are your qualities only as good as your employees? With the influx of entrepreneurs and startups in Northeast Ohio, higher-order leaders are crucial to the growth and vitality of these enterprises by their ability to take actions that advance the objectives of the business, as well as promote the intellectual, emotional and ethical growth of the organization's employees.

This concept of higher-order leadership — one who knows leadership is not about himself or herself, it's about others — was coined by Harry J. Martin, associate professor of management at Cleveland State University, and Dennis F. Lekan, a Cleveland-based executive consultant, in their book, "The Best and the Worst of Leadership."

A.G. Lafley, CEO of Procter & Gamble Co. is an example of a higher-order leader, according to Martin and Lekan. During a speech he gave at Tuskegee University, Lafley didn't talk about how he led the world's largest consumer product company to new growth and higher profits. Instead, he focused his speech on Proctor & Gamble's employees and how they leverage the company's values to drive success.

"What's more important, I think, is I'm from a company that is highly dependent on people — particularly, young university graduates — for its success," Lafley told the audience. "We believe very deeply that our brands, and especially our employees, are our two most valuable assets."

Then, Lafley asked his employees in the audience to stand up and be recognized.

"A CEO who respects and recognizes his or her employees first before anything else is a quality that embodies a higher-order leader such as Lafley," says Martin.

The higher-order leadership model is similar to a custodial leadership model, which states leaders should be concerned about employees, but only in ways that will benefit the company. However, higher-order leaders take the additional step of helping their employees grow personally.

"You can look your employees as being instruments for achieving business goals. But if you take the idea that you have the responsibility as a leader to help your employees grow personally, then you will have employees who are really committed and who will want to go the extra mile for you," Martin says.

So, what are the qualities of a higher-order leader? Martin and Lekan define six characteristics:

Respect people. Higher-order leadership demands that those in positions of responsibility not violate the inherent worth and dignity of those they lead. As Martin explains, "You don't have to like the people who work for you. However, you must treat them with understanding and compassion. This is, perhaps, one of the most difficult things a leader must do."

Live by standards. Personal values, ethical and moral principles, professional codes of conduct and the needs and objectives of your team and organization are crucial to higher-order leaders. They often make decisions by asking, "Is this the right thing to do?" "Is this ethical?" "Is this something I'm comfortable doing?" "Why do I favor this alternative?" "Is this going to be good for the team?" "How is this going to help us reach our goals?"

> "When we talk of creating a world-class organization, we're asking employees to add value through creativity by taking risks and by doing things differently — and that's inherently uncomfortable for people." — Harry J. Martin

Exercise prudence and self-restraint. A top position and its prominence can often distort your judgment and promote fatal overconfidence. Higher-order leaders fight this tendency. "You must retain a sense of proportion and stay grounded in reality," Martin says. "By practicing humility, a leader is less likely to be blinded by delusions of grandeur."

Expect the best. Optimism, enthusiasm and confidence help drive superior employee performance. But too often, leaders communicate negative expectations of doubt, suspicion, annoyance and constraint, says Martin.

"Whether consciously or unconsciously, ineffective leaders communicate in ways that create employee insecurity and self-doubt in an effort to control and manipulate their employees," he explains. "As a result, many employees respond with a flight to safety and familiar tasks, less risk taking and mediocre performance."

Lead by example. Simply put: High-order leaders are willing to do things they ask their subordinates to do. "You must embody your values to be credible," Martin says. "Even though many managers think that others can't see what they're doing and that they're fooling their employees, the 'troops' are always the first to know."

What's more, by setting an example for your employees, you will also build trust and empower others. "We are no longer asking employees to simply come to work, punch a clock, do what they are told and go home," explains Martin. "When we talk of creating a world-class organization, we're asking employees to add value through creativity by taking risks and by doing things differently — and that's inherently uncomfortable for people. That is why now, more than ever, we need leaders who are credible and trustworthy."

Don't take yourself too seriously. Despite the challenges and pressures they face, higher-order leaders have the capacity to refill their well of energy and enthusiasm, especially at those times when the situation may have sucked them dry, says Martin. They do this by not only keeping themselves healthy and physically fit, but also by staying lighthearted.

Whether you're the CEO of a *Fortune* 500 corporation or a manager in a 25-employee firm, effective leadership skills are crucial to your role within the company. But by understanding that you are only as successful as the people you manage and maintaining a culture that encourages personal and professional growth, you and your company are on the path to exponential success.

The Best and the Worst of Leadership: Essential Learning for Emerging Leaders. Harry J. Martin and Dennis F. Lekan, Minneapolis, MN: Adams Business & Professional, 2008.

Harry J. Martin, Ph.D., is an associate professor of management in the Nance College of Business Administration. He is a member of both the graduate and Executive MBA faculties. Dr. Martin is also a frequent consultant to public and private organizations and has provided professional services to organizations in the manufacturing, health care, and financial services sectors. Dr. Martin has published over 25 articles on leadership, group process, management development, and psychometrics.

Dennis F. Lekan, Ed.D., CMF, is an adjunct graduate business faculty member in the Nance College of Business Administration. He is the president of Corporate Leadership Associates LLC – OI Partners, a firm that specializes in leadership development, succession planning, outplacement, assessment, and executive coaching. He has worked with over three hundred organizations and a thousand individuals in the areas of career transition counseling, executive coaching, and organization development consulting.

Better Together?

Merging banking and real estate

James R. Webb

The real estate industry has fought for years to keep banks out of the real estate brokerage business, but could the current housing crisis lead to a change of heart?

The housing crisis has led to a new U.S. and worldwide economic downturn that may take a long time to mend. Further, no one is immune to the effects of an economic slump. Small business owners are finding it more difficult to get loans. Homeowners have seen the value of their houses decline. Real estate companies are watching home sales plummet. Banks are stuck with foreclosed properties. And school systems, as well as cities, are losing tax revenues.

Government leaders are taking different approaches to prevent the crisis from getting worse, such as the federal government's economic rescue plan as a way to pump billions of dollars back into the economy and create stabilization.

But some experts believe relief from the ailing market could come from the banking industry. According to research by Cleveland State University professor James R. Webb and Danielle Lewis, associate professor of finance at Southeastern Louisiana University of Hammond, La., if national banks were allowed to buy real estate companies, the mergers would create new cost savings and efficiencies.

Federal law currently bans banks from entering the real estate business, but both sides of the fence have debated the issue for decades. The National Association of Realtors and a chorus of consumer and community advocates contend that allowing banks to enter the real estate market, would leave homebuyers and sellers with fewer choices, higher loan fees and less customer service. The banking industry argues, however, that if banks were permitted to sell real estate, it would create more competition and new cost efficiencies, which would benefit consumers. What's more, federal thrifts, credit unions and state-chartered banks in 26 states already may sell real estate

Because of the housing crisis, banks control more foreclosed properties than ever before — and managing and selling those properties is costly. Lewis asserts that if banks were allowed to act as real estate brokers — even in a temporary way — it could reduce the cost of unloading those properties. This, in turn, could speed up the process of removing these properties from the banks' balance sheets. In addition, removing these properties from the market would allow all home prices to recover and increase in value. "More importantly, when the housing market improves so does the economy," she says. "And that benefits everyone, especially small business owners."

What's more, while many are quick to blame the entire banking industry for a market downturn and credit crisis, Lewis

points out that most commercial banks were not involved in such matters. It was often large investment banks and insurance companies that sold securities backed by subprime mortgage loans. "And when those loans defaulted, it contributed to the dramatic credit freeze and other economic problems," she says.

"If one looks at the failures that have happened recently, they are investment banks (Lehman Brothers), insurance (AIG) and thrifts (savings and loans such as Indy Mac and Washington Mutual)," Lewis says. "Commercial banks are under distress, but they are not failing in a big way. Wachovia is the only major commercial bank failure. Their specific case is due to terrible timing when they entered the mortgage markets in 2006."

"Real estate brokerage is another service that banks could offer to expand their relationships with their customers." — James Webb

Nevertheless, Webb and Lewis conducted research to find out if allowing the mergers of banks and real estate companies would produce new cost savings and efficiencies.

"This research was the first attempt to estimate the impact on the cost structure of banks if real estate brokerage was included as a bank service," says Lewis.

A sophisticated mathematical model — Stochastic Frontier Analysis — was used to simulate the merging of banks with real estate firms. Webb and Lewis also used a list of national banks from the Federal Deposit Insurance Corp. and a list of 276 residential real estate companies from the National Association of Realtors.

Taking the cost structure and revenue figures from every bank and real estate firm, Webb and Lewis plugged those numbers into the mathematical model. They combined the banks and real estate firms into 78,660 different hypothetical mergers. Some of those hypothetical mergers paired large banks with small or mid-sized real estate companies, and large real estate companies with small and mid-sized banks.

"We wanted to know by making all of these hypothetical mergers what would be the outcome," explains Webb. "By outcomes we mean whether the mergers would create less efficiencies, more efficiencies or neither. When we started this research we really didn't know what to expect."

But in fact, Webb and Lewis found that merging banks and real estate companies could produce new cost savings and efficiencies.

"After a merger, it's likely the bank would integrate the acquired real estate agency operations and, while there could be some job cuts due to overlapping, the banks would need to keep the real estate agents to list, market and negotiate the buying and selling of properties in their local markets," Webb predicts.

Such a merger could also create one-stop shopping conveniences. In addition to real estate agencies, banks may consider buying title insurance companies and other companies that serve real estate businesses to provide a bundle of services under one roof — a trend already seen in banks that offer personal financial planning, trust services and investments.

"Real estate brokerage is another service that banks could offer to expand their relationships with their customers," Webb says. "Generally speaking, the more financial products the customer has, the more money banks can make."

Lewis and Webb agree that more research needs to be done to determine if banks would pass any cost savings over to customers as a result of a merger with a real estate agency, or whether their market power would allow them to keep their cost savings and widen their profit margins. Further, as long as the credit crunch and economic downturn continue to top news headlines, Webb believes we are still years away from any type of legislation that would allow banks to enter the real estate business. "But if and when the economy improves, I wouldn't rule it out," he says.

Cost Synergies from Banking Conglomerates Entering the Real Estate Brokerage Market. James R. Webb and Danielle Lewis, *Journal of Banking and Finance,* 2007.

James R. Webb, Ph.D., is a professor of finance and the director of the Paul J. Everson Center for the Study of Real Estate Brokerage/Agency and Markets in the Nance College of Business Administration. During his career, he has influenced the research directions, teaching and practice of the real estate discipline. He has served as a visiting scholar in Australia, Hong Kong, and the United Kingdom. He continues to remain active as a consultant serving in many capacities.

Health Care for the Homebound

Could the house call make a comeback in Northeast Ohio?

Georgia J. Anetzberger

With a growing elderly and disabled population in Northeast Ohio, along with the rest of the U.S., the need for primary medical care programs in the home will inevitably increase. Although in-home programs are well received by the people they serve, the challenge often lies in properly funding and staffing.

Decades ago, doctors made house calls to sick patients at all hours of the day. In fact, prior to World War II, about 40 percent of all patient-physician encounters took place in the home. But by 1980, that number had fallen to less than 1 percent. As the elderly and disabled population in Northeast Ohio continues to grow along with the rest of the country, the house call may make a comeback.

Today, many public and not-for-profit service organizations have instituted programs to make care easier for the family members and friends of the patients. But to maintain their strength, many organizations depend on outside assistance that can assess the effectiveness of their services both viably and financially.

Visiting Nurse Association's (VNA) HouseCalls of Greater Cleveland is one example of a program that has made a significant impact on the homebound population in the region. VNA HouseCalls provide primary care and medical consultations to elderly and disabled patients who are unable to get to a physician's office by themselves, or who have been recently discharged from the hospital and need follow-up care. Physicians and advanced practice nurses treat patients in their homes, senior housing complexes, group homes or other assisted living facilities.

The reasoning behind the program was twofold, says Georgia Anetzberger, assistant professor of the Health Care Administration Program at Cleveland State University, who evaluated the program during its first year in operation in 2002. "More than 80 percent of older people prefer to stay in their homes as opposed to any other type of housing arrangement, including assisted living," she says. "And for many older adults on a fixed income, a nursing home or other facility is not a financially viable option. So, if they can be managed at home, it's not only their preferred option, it's the least expensive one."

What's more, because VNA HouseCall patients are being cared for regularly, their health does not deteriorate and they are not forced to rely on costly 911 or EMS services. In fact, about 20 percent of patients see improvements in their health year to year as a result of their participation in the program.

During its first year of operation, the program clocked more than 1,600 visits and served 343 patients, most of whom resided in the city of Cleveland where access to health care facilities has become scarce over the past few years due to closings of many clinics and hospital emergency departments. Today, the VNA provides HouseCall services to more than 720 people in Cuyahoga and Lorain counties. It's highest concentration of patients still remains in the inner-city and

inner-ring suburbs such as Parma and Lakewood.

Although many patients are referred by the Visiting Nurse Association Healthcare Partners of Ohio physicians, adult home care personnel, nursing facility staff, family and friends, more often it is the patients themselves who register for the program. That, says Anetzberger, is evidence that there is significant demand for in-home care programs that will only continue to grow.

To keep such a program up and running, the VNA needs adequate staffing and financing — two factors difficult to solve considering the current economic conditions and a nationwide nursing shortage. The VNA often reaches out to foundations and nonprofits for assistance. In fact, funding to expand VNA HouseCalls into Lorain County in 2005 was provided by The Nord Family Foundation, Community Foundation of Greater Lorain County and The Stocker Foundation.

"More than 80 percent of older people prefer to stay in their homes as opposed to any other type of housing arrangement, including assisted living." — Georgia Anetzberger

In addition, the VNA receives much-needed funds from members of the community through events such as the Distinguished Women in Healthcare Awards Dinner and Reception, as well as charitable annuities, bequests, appreciated stocks and honor gifts.

"Funding is crucial for the program to hire adequate staff and improve technology, which would contribute to the program's efficiency," Anetzberger says. "With time spent traveling between homes, having the right technology and communication available can streamline record keeping and communication for patients, as well as add to the program's cost effectiveness."

Overall, Anetzberger says that her work in evaluating the VNA HouseCalls program represents one of the valuable services a local university such as Cleveland State can offer. "Often, without donated or partially donated research services from a university, programs such as this would not be possible," she says. "As an urban university, we must have a strong interface with a variety of public and not-for-profit service organizations. We have an obligation to give back to the community."

VNA HouseCalls of Greater Cleveland, OH: Development and Pilot Evaluation of a Program for High-Risk Older Adults Offering Primary Medical Care in the Home. Georgia J. Anetzberger, Mary Lou Stricklin, Daniel Gauntner, Richard Banozic, and Roberta Laurie, *Home Health Care Services Quarterly,* 2006.

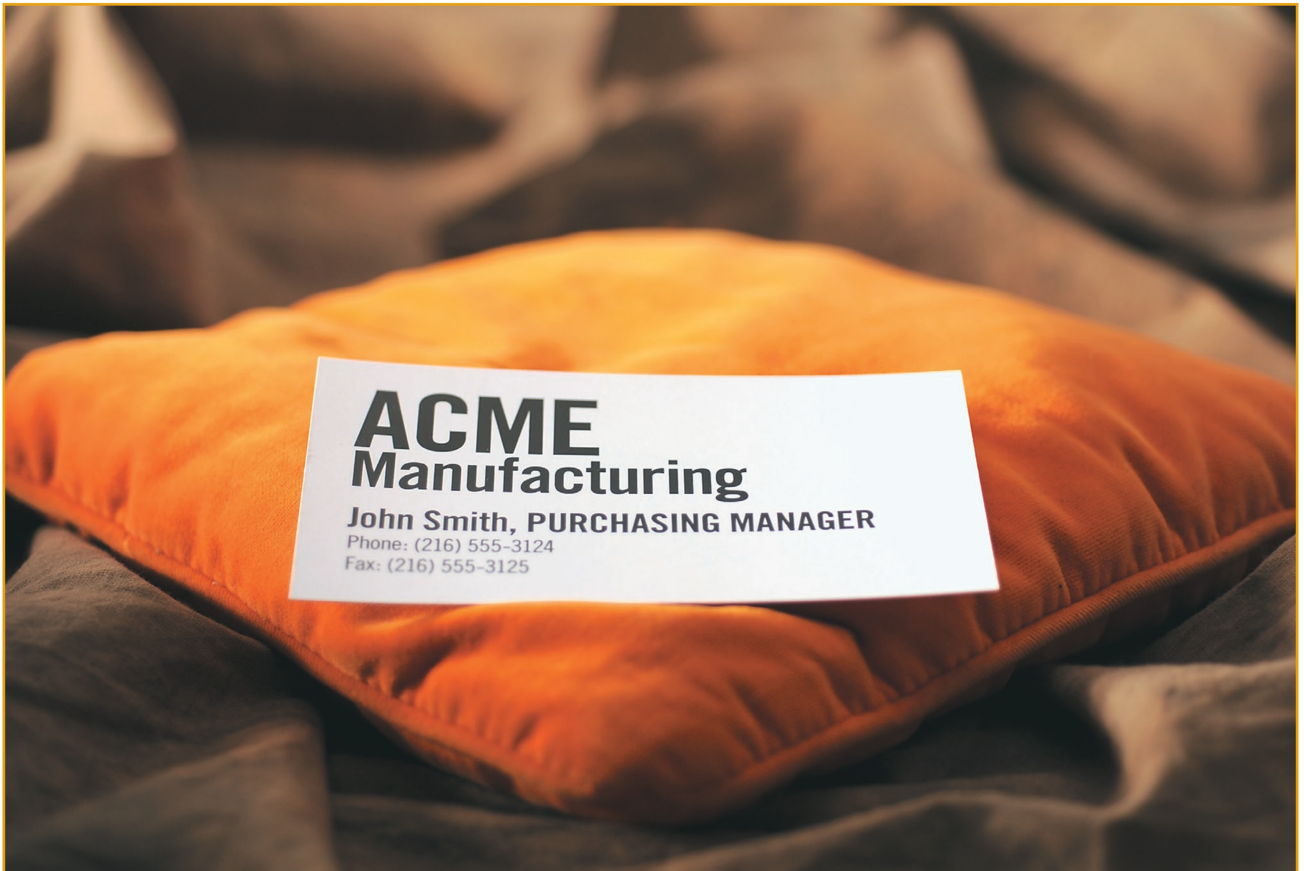
Georgia J. Anetzberger, Ph.D., ACSW, LISW is an assistant professor in the Health Care Administration program in the Nance College of Business Administration, a consultant in private practice, and a fellow of the Gerontological Society of America. Dr. Anetzberger has been active in the field of aging and human services for over thirty years as a planner, administrator, and educator. Dr. Anetzberger's expertise is the area of elder abuse, in which she conducted pioneering research on physically abusing perpetrators. She has authored more than forty scholarly publications, as well as two books on the topic of Elder Abuse.

Because VNA HouseCall patients are being cared for regularly, their health does not deteriorate and they are not forced to rely on costly 911 or EMS services.

Purchasing Performance

The impact strategic purchasing may have on your supply chain

Injazz J. Chen and
James O. Flynn



The growing importance of supply chain management in today's companies has increased the need for purchasing as a strategic function of business to stay competitive in the current economy.

In today's global economy, companies from Northeast Ohio must be on the hunt for every possible competitive advantage. They look to squeeze costs out of one side of the balance sheet, while increasing revenue on the other side. It's not always easy, but for companies looking to grow their market share amid tight margins, it is a necessity.

Often one of a company's biggest cost factors is purchasing. Between 60 percent and 80 percent of the cost of finished goods comes from purchased parts and materials in the manufacturing industry. In the service industry, it is more than 90 percent of the costs.

Yet, most companies treat purchasing as a clerical rather than a strategic function that can have a direct effect on their bottom lines.

Injazz. J. Chen, professor of operations management at the Nance College of Business Administration at Cleveland State University, describes the time-honored role of purchasing this way: A company needs to buy some parts and components and goes to its two or three buyers to find the best deal.

"In that case, purchasing is not part of your strategic plan," he says.

In the world of global procurement, however, where suppliers can be around the corner or around the world, companies don't have to settle for that type of purchasing, Chen notes. A company that establishes a supply chain management initiative to improve purchasing can take thousands of dollars out of procurement. "You don't have to settle for mediocre suppliers," he points out.

The role of purchasing is the basis of a research paper, "Levels of Strategic Purchasing: Impact on Supply Chain Integration and Performance," co-written by Chen, Dr. James Flynn, professor and chair of the Operations Management and Business Statistics Department of the Nance College of Business Administration, and Dr. Antony Paulraj, assistant professor of operations management at the Coggin College of Business at the University of North Florida in Jacksonville. The paper's main thesis is that companies that have a more advanced supply chain initiative stand a better chance of being able to reduce purchasing costs.

Strategic purchasing can have a significant impact on supply chain performance that can eventually create a win-win situation for the company and its suppliers. Today, purchasing is often seen as a strategic function of a company. For example, more purchasing professionals are trained in cross-functional

areas and purchasing performance is measured in terms of its contributions to a company's bottom line. Studies have illustrated that an increased involvement of the purchasing department in the strategic planning process is indicative of purchasing being considered a strategic function.

The status of purchasing professionals signifies how management views the purchasing function. A concept has emerged that purchasing should be considered as equally important to other strategic functions of a company, including marketing, finance and production.

Companies that view purchasing as a strategic function share their information with suppliers. One example is made-to-order computer manufacturer Dell, which shares its 52-week demand forecast with overseas suppliers every two hours.

"Dell has uninterrupted supplies," Chen notes. "On the other hand, suppliers benefit from information because they can reduce the amount of inventory carried and enjoy a smoother production schedule."

This type of information sharing can take costs right out of the supply chain — revenue that can go toward other initiatives or be reinvested back into the company.

"We found that companies that treat their buying and purchasing decisions strategically instead of a clerically can help improve their business performance," Chen says. "Taking strategic purchasing to a higher level engenders firms' distinctive advantages."

Reducing the cost of purchasing is critical for Northeast Ohio companies. "If you want to be more competitive, this is one of the best areas for improvement," Chen points out.

As with any new initiative, chances of success lie with top management. If executives won't support a new supply chain project that reduces the cost of purchasing and enhance buyer-supplier relationships, employees won't lend their support either, Chen says. It is sometimes difficult for management and employees alike to change their behavior after so many years of doing something the same way.

"Management needs to have the knowledge of the potential benefits of strategic supply chain management," Chen points out. "If they don't have that knowledge, then it is very unlikely that employees will buy into the idea. They need to have a new way of thinking. After all, supply chain management represents one of the most significant paradigm shifts of modern business management by recognizing that individual businesses no longer compete as solely autonomous entities, but rather as supply chains."

Northeast Ohio company executives striving to make their companies world class in nature can benefit greatly from the research, Chen says. These companies can re-examine their purchasing function and work with their suppliers to achieve collaborative advantages.

> "We found that companies that treat their buying and purchasing decisions strategically instead of clerically can help improve their business performance." — Injazz. J. Chen

It's up to executives as to whether they want their companies to excel or stay with the status quo, he stresses.

"Companies can benefit from the research results," Chen says. "You can take purchasing to the next level, looking at it as a strategic weapon rather than just a traditional supporting function. You can encompass purchasing into your strategic planning and expect it to bring your company a competitive advantage."

Levels of Strategic Purchasing: Impact on Supply Integration and Performance. Antony Paulraj, Injazz J. Chen and James O. Flynn, *Journal of Purchasing and Supply Management,* 2006.

Injazz J. Chen, D.B.A., is a Nance professor of research in operations and supply chain management in the Nance College of Business. His current research interests involve field research in the areas of supply chain management, strategic purchasing and supply management, management of advanced manufacturing technology, quality and productivity, and e-commerce. Recently Dr. Chen and his co-authors Anthony Paulraj and James Flynn were awarded the 2007 *Journal of Purchasing and Supply Management* Best Paper Award, for their publication, "Levels of strategic purchasing: Impact on supply integration and performance."

James Flynn, Ph.D., is a professor and chair of the Department of Operations Management and Business Statistics in the Nance College of Business. He received an A.B. in mathematics from UCLA and a Ph.D. in statistics from Berkeley. He has published extensively in academic journals. His current research interests include inventory control, supply chain management, reliability, dynamic programming, branch and bound algorithms, and genetic algorithms.

A World Apart

Does the gender of your top executive impact your ability to do business in China?

Raj G. Javalgi and
Robert F. Scherer

Understanding cultural gender differences are crucial for U.S. companies that wish to take their business into China, as well as other countries.

Today, more and more Northeast Ohio companies are looking for new business opportunities in China's high-growth economy. Sending one of your best managers to China to lay the groundwork for a new venture may be a good start. But what if your top manager happens to be a woman?

While we know female managers perform just as well as male managers in the U.S. workplace, the obstacle of gender bias in the Chinese workplace could stifle positive results for your high-performing women expatriate managers.

In China, female expatriate managers face entrenched gender stereotypes that could limit their success, according to research conducted by Robert F. Scherer, dean and professor of management of the Cleveland State University Nance College of Business Administration, and Raj G. Javalgi, associate dean and professor of marketing and international business. However, both agree this gender bias can be dealt with effectively by educating, training and preparing your women managers before they break new business ground in China.

China's history, culture and the country's late start in the global market economy have all contributed to the innate bias against female managers. In fact, China didn't open its doors to international trade until the late 1970s, which has led to its unprecedented economic boom that is expected to continue for years. What's more, Chinese women often have less education and training than Chinese men, which often results in job segregation and limited access to Communist party membership, a key path to managerial positions in China.

"Even though the Chinese government recognizes men and women as equals, the country's culture has perpetuated gender-specific roles," Scherer says. This indigenous bias also creates problems for female expatriate managers because Asians see them as foreigners who happen to be women, not as women who happen to be foreigners.

Scherer and Javalgi surveyed 285 Chinese employees of the People's Bank of China, the country's central bank that regulates financial markets and sets monetary policies. The survey scientifically assessed their perceptions of women as managers. Sixty-one percent surveyed were men and 39 percent were women.

The survey results found that as a group, male and female Chinese employees hold a negative perception of women as managers. Nevertheless, the survey also revealed Chinese women have a more positive perception of woman as managers than do Chinese men.

"If you are going into a situation where women traditionally are perceived not to be as effective as men in management and executive roles, then you are going to have problems," warns Scherer. "Expatriate women managers from the U.S. are going to have to overcome the bias that goes on even more so in China than in the U.S. where the social roles of women are more broadly defined."

> "Even though the Chinese government recognizes men and women as equals, the country's culture has perpetuated gender-specific roles." — Robert F. Scherer

Overcoming this bias is essential for expatriate women managers because trust is the foundation of Chinese business relationships, as well as the culture, says Javalgi. "If you don't build trust it won't matter how good your product or service may be."

To help companies prepare female managers for gender bias issues and enhance their effectiveness, Scherer and Javalgi have identified six gender bias-related issues. They also provide strategies that could help companies prepare their female managers for the realities of the Chinese business world.

Building trust. Take time to develop long-term relationships because they are valued in Chinese society. From the early stages of the project, make sure you and your Chinese business partner understand each other's objectives, and demonstrate a commitment to the project.

Stereotypical perceptions. U.S. women managers need to project an image of competency consistent with Chinese values and perceptions. This can be accomplished in part by sending women managers to China before their assignment begins. A short visit can help them become familiar with Chinese values, norms and beliefs. U.S. companies also should consider inviting Chinese managers to America where they can meet with women managers prior to her arrival in China.

Contradictory business practices. Provide women managers with training in Chinese business practices and develop scenarios illustrating the kinds of challenges they will encounter when working with Chinese managers.

Cross-cultural training. Chinese business managers never rush to negotiate a deal. Take time to learn the negotiation process, format and style. It's also important to know the verbal and non-verbal communication gestures of Chinese managers, as well as how and when to communicate with them and focus on project-related topics.

Hands-on knowledge. Allow women managers to spend time with other female managers who have successfully completed assignments in China. This can equip them with insights and guidance for dealing with difficult situations and conflicts.

Exposure to the firm. Give U.S. women managers exposure to the Chinese firm's culture, business practices and policies.

China's booming economy is good news to U.S. businesses, but it doesn't mean the country's centuries-old culture and customs have fallen to the wayside. To successfully compete globally, business owners must be sensitive to all cultures.

Success Strategies for Expatriate Women Managers in China. Crystal L. Owen, Raj G. Javalgi, and Robert F. Scherer, *Review of Business,* 2007.

Raj Javalgi, Ph.D., is associate dean for strategic affairs and research and a professor of marketing and international business. He is also director of the Doctor of Business Administration program. Javalgi has assisted SMEs in developing international marketing plans, export plans, country analyses, and in cultural issues of doing business in developed and emerging economies.

Robert F. Scherer, Ph.D., serves as dean and professor of management in the Nance College of Business Administration. He is certified as a Senior Professional in Human Resources (SPHR). He has taught extensively on leadership, teamwork, and organizational development and has consulted with over 50 private, public, and nonprofit organizations on a variety of organizational and performance issues.

Faculty Perspective

The Perfect Financial Storm

Alan Reichert

A financial tsunami of historic proportions, which started in the U.S. but quickly spread to encircle the globe, is upon us. The result has been to flood the financial markets with doubt and uncertainty. The genesis of the tsunami goes back a number of years.

Between 1993 and 2008, U.S. nominal GDP increased by 110 percent from $6.8 to $14.4 trillion, while the household savings rate had declined from 6.0 percent to 0.2 percent. During this same period, household debt increased by 240 percent, while the aggregate level of financial derivatives increased by 6,100 percent! Seventy-five percent of the increase in household debt was mortgage related. One of the main sources of derivative growth was the newly created credit default swap (CDS)[1]. These contracts started in 2001 and by the end of 2007 their global value reached $60 trillion. These developments produced a perfect storm scenario as U.S. households stopped saving and dived into debt, while uncontrolled derivative growth both facilitated and fed off this frenzy of debt.

Let's look at several of the key causes of the crisis and then briefly summarize the current and likely future policy responses. Beginning at the bottom of the financial food chain is the homebuyer, who stretched the household budget by taking on an adjustable variable rate mortgage (ARM) at a low introductory "teaser" rate to qualify for the largest possible zero-down payment loan. Eager participants were lulled by the siren song of rising housing prices and large underwriting fees. Substantial regulatory and political pressure was placed on commercial banks and quasi-public lenders, such as Fannie Mae and Freddie Mac, to promote homeownership. Not surprisingly, speculators entered the market with borrowed funds to buy and flip houses. Mortgage funds were abundant at relatively low rates thanks to the financial innovation called loan securitization[2]. All these factors fed the growing bubble in the housing market that led to the current financial tsunami.

Loan securitization began in the mortgage sectors during 1980s and quickly spread to the auto and credit cards sectors. Securitization has transformed the lending process and has substantially increased the flow of funds into these markets. Lenders had little incentive to worry about making bad loans if they intended to sell them, and many buyers of these derivatives had little appreciation for the risks imbedded in them. Many of these instruments, which were designed to spread risk across different sectors, turned out to be heavily concentrated in a few large financial institutions producing high levels of counter party risk. Greasing the growth in derivatives and securitization was the high level of liquidity the Federal Reserve injected into the financial system following 9/11 and the burst of the dot.com bubble in 2001. Short-term interest rates remained low for years, encouraging investors and lenders to borrow short and invest long, a sure recipe for disaster when rates rise. In addition, outright corruption was widespread among many largely unregulated lenders.

Where were the regulators during this process? Good question! While many were running to catch up to the runaway growth and increasing complexity of these mortgage instruments, others put greater emphasis on "self-regulation." The fear was over — not under — regulation. The federal bailout of the relatively small loosely regulated hedge fund, Long-Term Capital Management, 10 years ago should have been a wake-up call. The private sector monitoring and risk rating performed by so-called "independent" rating agencies proved ineffective and outright misleading. The market relied upon their ratings to evaluate the creditworthiness of a wide range of CMOs, CDSs, and other derivative instruments. As is turned out, they often employed credit risk models which were based upon faulty assumptions and which ignored certain types of risk.

To tame the tsunami, the federal policy response has focused on instilling both capital and confidence into the financial markets. Policy tools have included massive liquidity injections, security purchases, and inter-market guarantees by the Federal Reserve, while the FDIC has increased deposit insurance coverage and assisted several troubled bank mergers. The Treasury initially introduced the $700 billion Troubled Asset Recovery Program (TARP) to help purchase illiquid risky assets but has instead used the funds to make direct capital infusions into key financial institutions. On a global basis, central banks around the world have cut short-term interest rates and guaranteed bank deposits. The recent G20 meeting in Washington highlighted the importance of a global approach. Clearly, a lot has been done and more new initiatives will be forthcoming. For example, restructuring the U.S. financial regulatory system to minimize systemic risk is a high priority. Furthermore, both the spot and their associated derivatives markets may end up having a common regulator.

The financial tsunami has spread into the auto, credit card and the student loan markets. Investors are understandably skeptical about buying consumer loan paper, especially as consumers face a major recession. GMAC's and American Express's request and recent approval by the Federal Reserve System to become bank holding companies reflects the changing nature of the crisis. Direct pubic and private capital infusion was designed to encourage banks to lend. But banks prudently become cautious about lending during recessions when credit risks rise. On the other hand, there is concern that legitimate commercial and consumer borrowers' funding needs may not be adequately met. This could lead to an intensified and prolonged recession.

I advocate a system for tracking the growth, structure, and counter-party risk associated with derivatives on a worldwide basis. This would allow regulators and financial market participants to determine the level and types of risk associated with each specific derivative. If such a system had been in place, the global impact of Lehman Brothers' collapse might have been foreseen. Furthermore, the historical separation of commerce and banking in the U.S. may possibly be revised to allow financial firms greater access to capital and broader management skills found in the commercial and industrial sector.[3] Important changes in accounting laws are likely to be forthcoming. At present, firms are generally required to value their long-term financial assets at current market prices, a process called "mark to market." With few sales market participants have had to estimate what market prices should be using questionable assumptions.

While continued financial innovation is beneficial to the economy, there remains an increasingly important role for effective regulation. I am referring to the kind of regulation that both highlights and rewards accountability at all levels and across all sectors to include borrowers, lenders, investors, auditors, and regulators. We need to look beyond naïve and overly optimist assumptions and ask some serious "what if"-type questions. What do the fundamental assets look like and who is accountable if they should fail? We need to stop playing "musical chairs" where the loser is the one left owning the asset when it fails. When this happens we all get hurt. To tame the current financial tsunami and to prevent others, a fundamental adjustment in priorities will be needed. Hence, I view these efforts as more of a collective workout, rather than simply a short-term bailout.

A more detailed version of this paper with supporting data is available online at: www.csuohio.edu/business/praxis

[1]Credit default swaps act like insurance contracts designed to protect the value of other financial contracts. The holder of a risky asset gives up the higher yield on that asset in exchange for a lower return plus protection should the issuer experience a downgrade or default.

[2]Securitization involves bundling large numbers of loans, such as residential mortgages. This bundle is then sold to an intermediary who then issues derivative securities (collateralized mortgage obligations) against these loans. The interest and principal payments on the loan package are then used to pay the interest payments on the derivative securities. Over time, these derivatives have become exceedingly complex, with risk and liquidity that are difficult to measure.

[3]Reichert, A., Liang, H., Wall, L. The Integration of Banking and Commerce: Part I - The Likely Outcome of Eliminating the Barrier, and Part II – Risk And Return Using Efficient Portfolio Analysis. Economic Review, Federal Reserve Bank of Atlanta, Vol 93(1), 323.

Alan K. Reichert is a professor of finance. His academic interests are financial institutions and markets, and real estate valuation. He is a Fulbright Scholar, KeyBank Applied Business Scholar, and a Senior Research Fellow at the Swedish School of Business and Economics in Finland. He has served as an economist with the Federal Reserve Bank of Chicago and as an expert witness on a number of prominent legal cases

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