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**The William Davidson Institute (WDI) Research Update**  
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You can subscribe to the WDI Research Newsletter at <http://listserver.itd.umich.edu/cgi-bin/lyris.pl?enter=wdi-friends>. Please also feel free to contact Kelly Janiga at [janigak@umich.edu](mailto:janigak@umich.edu) with comments or submissions for future updates. Instructions to unsubscribe are located at the bottom of the report.

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**1. WDI Partners with WRI for conference *Eradicating Poverty Through Profit: Making Business Work for the Poor***  
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WDI is a partner for The World Resources Institute's (WRI) December 12-14 conference *Eradicating Poverty through Profit – Making Business Work for the Poor*. The conference, to be held in San Francisco, will bring together business leaders, entrepreneurs and senior policymakers to share hands-on experience of proven, profitable, and innovative approaches for a more active and beneficial presence at the "bottom of the pyramid". The conference will discuss the importance of engaging the poor – the world's largest untapped market for business innovation, partnership, and profits - and how this engagement will change how companies do business worldwide. For more information on this initiative please see <http://www.wdi.bus.umich.edu/events/default.htm>

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**2. Call for Papers: Rethinking the Way in Which NGOs Do Business**  
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The William Davidson Institute invites NGO leaders from Central and Eastern Europe (CEE) and Eurasia to submit a policy brief for inclusion in the conference "Rethinking the Way in Which NGOs Do Business." The conference will be held in Bratislava, Slovakia, March 4-6, 2005. Submitted briefs should focus on the following topics:

Strategies for developing corporate – NGO partnerships; methods through which NGOs can achieve long-term sustainability; innovative, commercially-sustainable and sound business approaches to addressing social problems (i.e., microfinance, the NGO's role in organizing production and distribution networks, and the third sector's role in providing access to information and technology); and creative fundraising techniques including the creation of "for fee" services. All conference expenses will be covered by WDI. The Application deadline is December 10, 2004. Please inform your colleagues of this opportunity.

More information is available at <http://www.wdi.bus.umich.edu/research/call/ngo.htm>

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### **3. Requests for Research Proposals on CEE and Eurasia**

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The Davidson Institute is pleased to announce that we will again support research by U.S. scholars on business development and public policies which positively affect the development of free markets in Eurasia and the Balkans, thanks to generous support from the *U.S. Department of State's Program for the Study of Eastern Europe and the Independent States of the Former Soviet Union (Title VIII)*. Collaborative projects are also encouraged, but only if the non-U.S. collaborator is funded from other sources. Up to 15 grants not exceeding \$50,000 will be awarded. The full request for proposals and application form and guidelines are available at:

<http://www.wdi.bus.umich.edu/research/call/CEE&Eurasia.1.htm>

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### **4. WDI to Host Roundtable on Gender and Development**

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On November 19, WDI will host a roundtable discussion on gender issues relating to women and the ways in which they obtain power in business organizations and government. The roundtable, hosted by UM Professor of Business Law, Cindy Schipani, and funded by the Ford Foundation, will bring together several top scholars in the field of gender and development to begin developing a research strategy for continued work in this field.

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### **5. AT Kearney's Laudicina Talks Risks and Benefits of Globalization**

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On October 27, Paul Laudicina, Managing Director of *AT Kearney's Global Business Policy Council*, spoke to an audience of business school students and faculty regarding the pros and cons of globalization. He posed that to be successful business must engage in the international arena by developing a scenario-based strategic planning process to forecast the future and understand where the world is going. This is one of the topics

central to his soon-to-be-released book *World Out of Balance*. A full write up on his talk is available at [http://www.wdi.bus.umich.edu/events/laudicina\\_speech.htm](http://www.wdi.bus.umich.edu/events/laudicina_speech.htm)

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## 6. Recent and Upcoming Seminars

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Upcoming talks as part of the WDI co-sponsored *Corporate Strategy and International Business Seminar Series* include:

- **11/5 Matthew Bothner** (University of Chicago), "Social Constraint and the Rate of Reciprocal Exchange Among Venture Capital Firms" ;
- **11/12 Bharat Anand** (Harvard), Subject: TBD;
- **11/19 Jane Zhao** (Ross School of Business at the University of Michigan), "Towards a Multilevel Perspective of Organizational Knowledge and Learning: Acquiring Engineering Capabilities in the Chinese Automotive Industry";
- **12/3 Ben Esty** (Harvard), Subject: TBD;
- **12/10 Ronald Bert** (University of Chicago), "Structural Holes and Good Ideas"

For more information on the series, see <http://www.wdi.bus.umich.edu/events/csib.htm>

The WDI sponsored *Research Luncheon Seminar Series* provides a forum for UM PhD students to present their current research and works in progress. The first seminar featured **Radhakrishnan Gopalan and Amit Seru** presenting "Dividends and Business Groups". More information regarding this seminar series is available at [http://www.wdi.bus.umich.edu/events/research\\_luncheon.htm](http://www.wdi.bus.umich.edu/events/research_luncheon.htm)

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## 7. New Additions to WDI Working Paper Series

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The following are seven recent additions to the WDI **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 paper on our web site.

***WP723: Which entrepreneurs expect to expand their businesses? Evidence from survey data in Lithuania***

*Ruta Aidis and Tomasz Mickiewicz*

<http://www.bus.umich.edu/KresgeLibrary/Collections/Workingpapers/wdi/wp723.pdf>

***WP 722: Russia from Bust to Boom: Oil, Politics or the Ruble?***

*Bruno Merlevede, Bas van Aarle and Koen Schoors*

<http://www.bus.umich.edu/KresgeLibrary/Collections/Workingpapers/wdi/wp722.pdf>

***WP 721: Distance to the Efficiency Frontier and FDI Spillovers***

*Klara Sabirianova Peter, Jan Svejnar, and Katherine Terrell*

<http://www.bus.umich.edu/KresgeLibrary/Collections/Workingpapers/wdi/wp721.pdf>

***WP 720: An Analysis of Gender Wage Differentials in Russia from 1996-2002***

*Rita Hansberry*

<http://www.bus.umich.edu/KresgeLibrary/Collections/Workingpapers/wdi/wp720.pdf>

***WP 719: Returns to Schooling in Russia and Ukraine: A Semiparametric Approach to Cross-Country Comparative Analysis***

*Klara Sabirianova Peter and Yuriy Gorodnichenko*

<http://www.bus.umich.edu/KresgeLibrary/Collections/Workingpapers/wdi/wp719.pdf>

***WP 718: The emergence of large shareholders in mass privatized firms: Evidence from Poland and the Czech Republic***

*Irena Grosfeld and Iraj Hashi*

<http://www.bus.umich.edu/KresgeLibrary/Collections/Workingpapers/wdi/wp721.pdf>

***WP 717: Wage Determination Under Communism and In Transition: Evidence from Central Europe***

*Swati Basu, Saul Estrin and Jan Svejnar*

<http://www.bus.umich.edu/KresgeLibrary/Collections/Workingpapers/wdi/wp717.pdf>

## **Abstracts of Recent Working Papers**

***WP723: Which entrepreneurs expect to expand their businesses? Evidence from survey data in Lithuania***

*Ruta Aidis and Tomasz Mickiewicz*

### **Abstract**

This paper presents an empirical study based on a survey of 399 small and medium sized companies in Lithuania. Applying bivariate and ordered profit estimators, we investigate why some business owners intend to expand their firms, while others do not. Our main findings provide evidence that the characteristics of the owners matter. Those with higher education and ‘learning by doing’ attributes either through previous job experience or additional entrepreneurial experience are more likely to expand their businesses. In addition, the model implications include that the intentions to expand are correlated with exporting and with size of the enterprise: medium and small size companies are more likely to grow than micro enterprises and self-employed entrepreneurs. We also analyze the link between the main perceptions of constraints to business activities and growth expectations and find that the factors, which are perceived as main business barriers, are not necessary those, which are associated with low growth expectations. In particular, perceptions of both corruption and of inadequate tax systems are main barriers to growth.

***WP 722: Russia from Bust to Boom: Oil, Politics or the Ruble?***

*Bruno Merlevede, Bas van Aarle and Koen Schoors*

### **Abstract**

This paper develops and estimates a small macroeconomic model of the Russian economy. The model is tailored to analyze the impact of the oil price, the exchange rate, and political stability on economic performance. The model does very well in explaining Russia's economic history in the period 1995-2002. We then use the model to simulate two sets of scenarios, one with various oil price scenarios and one with various adverse shocks. The simulations suggest that the Russian economy is still very vulnerable to oil price swings, and that these swings have asymmetric effects. Indeed the cost of a downward swing of oil prices seems to be larger than the benefit of an upward swing. We also find that the aggregate effects of an oil price collapse are comparable to these of renewed political instability. Although their propagation mechanism is quite different, both adverse shocks do have a similar effect on real GDP. A real exchange rate appreciation on the other hand has relatively mild effects on real GDP. All in all, it is suggested that Russia should reduce its vulnerability to adverse oil price shocks and maintain political stability.

***WP 721: Distance to the Efficiency Frontier and FDI Spillovers***

*Klara Sabirianova Peter, Jan Svejnar, and Katherine Terrell*

**Abstract**

We establish that domestically owned firms in two alternative models of emerging market economies, the Czech Republic and Russia, have not been converging to the technological frontier set by foreign owned firms. In both countries, the distance of domestic firms to the frontier grew (in all parts of the distribution) from 1992-1994 to 1995-1997 and did not change from 1995-1997 to 1998-2000. However, the distance to the frontier is orders of magnitude greater in Russia than in the Czech Republic throughout 1992-2000. We also find in both countries that domestic firms in industries with a greater share of foreign firms are falling behind more than domestic firms in industries with a smaller foreign presence. However, in the Czech Republic this "negative spillover" effect is diminished over time, whereas in Russia it continues to cause domestic firms to fall further behind. On the other hand, we find in both countries that foreign firms experience positive spillovers from other foreign firms operating in the same product market. This evidence on the dynamics of efficiency is consistent with the view that economies (firms) need to be more technologically advanced and open to competition in order to be able to gain from foreign presence.

***WP 720: An Analysis of Gender Wage Differentials in Russia from 1996-2002***

*Rita Hansberry*

**Abstract:**

This paper examined the male-female differentials in hourly earnings in Russia from 1996 to 2002. The gender wage gap did not alter significantly in the earlier years, a period characterized by economic instability, but as the economy recovered, the differential in earnings increased initially. This trend reversed in 2002 and while the gender wage gap in mean earnings fell to its previous level the differential increased at the lower percentiles. Throughout all years, most of the gender wage differential is accounted for by differences in rewards rather than differences in observable characteristics. Occupational segregation continues to be a salient feature of the labor

market with women clustered in professional, clerical and service occupations while men are more predominantly employed in blue-collar jobs.

***WP 719: Returns to Schooling in Russia and Ukraine: A Semiparametric Approach to Cross-Country Comparative Analysis***

*Klara Sabirianova Peter and Yuriy Gorodnichenko*

**Abstract**

This study provides the first set of estimates of the returns to schooling over an extended period in Russia and Ukraine (1985-2002). There has been an increase in returns to schooling in both countries but the increase is much bigger in Russia than in Ukraine. The intriguing question is why returns to schooling in Russia and Ukraine diverged so much over the transition period while the skill composition of employment did not. Our approach in analyzing the sources of cross-country differences in returns to schooling is to compare the Mincerian earnings functions between the two countries and then to employ decomposition techniques. Using semiparametric methods, we construct counterfactual wage distributions for university and secondary school graduates for Ukraine using the distributions of Russian characteristics, returns to characteristics, and unobservables. This allows us to decompose differences in returns to schooling between the two countries due to differences in the labor market returns (price effect), differences in unobservables (residual effect), and differences in the labor force composition (composition effect). We conclude that of these three effects the price effect makes a major contribution to the observed differences in the returns to schooling.

***WP 718: The emergence of large shareholders in mass privatized firms: Evidence from Poland and the Czech Republic***

*Irena Grosfeld and Iraj Hashi*

**Abstract**

Mass privatization offers a particularly suitable framework to study the change in ownership concentration as the extent of change is unusual for a stable market economy. Focusing on two different mass privatization schemes in two transition economies, Poland and the Czech Republic, we find that despite important differences in the design of the two programmes and despite different quality of legal and regulatory framework, ownership structure in the two countries has rapidly evolved and the emerging ownership patterns are remarkably similar. This suggests that private benefits of control are large and the quality of investor protection regime is low in both countries. However, looking at the relationship between the change in ownership concentration and firm performance, we find an interesting difference between the two countries: in the Czech Republic the increase in ownership concentration seems to be less likely in poorly performing firms while in Poland the quality of past performance does not affect investors' willingness to increase their holdings. This effect may be interpreted in the light of the theory stressing the importance of the quality of investors' protection. It could be argued that if Czech investors are more risk averse and more concerned with diversification this is largely due to the weakness of the legal protection they face.

***WP 717: Wage Determination Under Communism and In Transition: Evidence from Central Europe***

*Swati Basu, Saul Estrin and Jan Svejnar*

**Abstract**

Using large firm-level data sets from the Czech Republic, Slovakia, Poland and Hungary,

we show that the wage behavior of firms changed considerably as these economies launched their transitions to a market system. We find evidence of worker sharing in their enterprise rents and losses at the end of the communist period in some economies and within a year after the launching of the transition, we find rent sharing in all of them. Using the Czech and Slovak data we show that the state-owned enterprises (SOEs) that existed under communism and survived allow for less worker rent-sharing than other firms. We also test for the presence of a wage curve and with the exception of Slovakia we do not find a significant association between local unemployment and wages. Finally, we do not find significant effects of firm ownership on wages.