

The Director's View

George J. Papaioannou, Ph.D.

An important component of the financial system is the primary market through which corporations and other entities raise fresh capital. In the United States, the separation of commercial banking from securities business had sealed securities firms from the acquisitive activities of commercial banks and had confined competition for underwriting business within the ranks of securities firms. It was not until November 1999 that Congress finally repealed the Glass-Steagall Act of 1933 and allowed commercial bank entry into the U.S. securities business. Nonetheless, about 10 years before the 1999 reform, the Fed had already allowed commercial banks to underwrite securities through Section 20 subsidiaries. Together, these reforms gave further impetus to the trend toward the diversified "one-stop" financial firm that is supposed to thrive on the strength of complementarities and synergies. **While the topic of many press reports, the combination of investment banking and commercial banking still needs a more comprehensive analysis.**

Here are some issues of interest:

How successful have commercial banks been in establishing investment banking activities?

The success has come mostly through acquisitions [e.g., Travelers (Salomon Shearson Smith Barney) merging with Citicorp; Deutsche Bank with Alex Brown (via Bankers Trust); UBS with Paine Webber]. Organic growth of investment banking operations has been met with lackluster success at best (e.g., J. P. Morgan and Chase before their merger, and Deutsche before the Bankers Trust acquisition). **This attests to the enduring competitive advantage of established market leadership and power for origination and placement.**

How have the reforms affected market structure in underwriting and M&A advisement?

The evidence suggests that the notoriously concentrated investment banking business remains so today. Analysis of rankings from league tables shows that between 1985 and 2003, the bulge bracket investment banks [Merrill Lynch, Morgan Stanley, Goldman Sachs, Citigroup (Salomon Shearson Smith Barney), First Boston, and Lehman Brothers] have managed to maintain their preeminence in the top

six positions in such major categories as "IPOs," Global Debt and Equity Offerings," and "Domestic All Issues." The same pattern is noticeable with respect to M&A deals. In general, once firms establish themselves in the top 15 positions, it is difficult to be dislodged. Nonetheless, measured by the four-firm concentration ratio, there are signs of competition improvement. In 1997, before the major consolidation wave took effect, the four-firm concentration ratios in the "Domestic All Issues" and "Global Debt and Equity Offerings" were, respectively, 50 and 42 percent. In 2003 these concentration ratios stood at 39 and 31 percent. For "IPOs," however, the concentration ratio had risen from 46 to 52 percent.

Have the traditional securities firms lost ground to commercial-cum-investment banking firms?

No doubt, yes. In 1997 securities firms, unaffiliated with commercial banks, occupied nine, eight, and 10 of the top 15 spots in rankings for All Domestic Issues, Global Debt and Equity and IPOs, respectively. In 2003 these numbers had dropped to five, five, and seven. Securities firms have also lost ground in U.S. and globally completed M&A deals. **There is evidence, however, that acquiring securities firms to increase market share in underwriting does not necessarily bring higher rankings to commercial banks.** The strategy seems to work when the merger involves dominant securities and commercial banks (e.g., Salomon Shearson Smith Barney and Citicorp) but not when the securities firm target is not a top player.

How has the commercial bank entry into underwriting affected the flotation costs, i.e., gross spreads and underpricing?

The evidence is mixed. Research on debt offerings shows a beneficial impact on bond yields and gross spreads. **However, the greatest scope for capital market efficiency gains is in the market for IPOs and gross spreads, where both gross spreads and underpricing are comparatively large.** The evidence so far shows that IPO gross spreads are statistically the same whether the underwriter is a securities firm or a commercial bank. Some studies show that commercial bank underwritten IPOs carry lower underpricing whereas the opposite is true in at least one other study. Meanwhile, the average

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The Merrill Lynch Center Mission Statement:

"Established to promote and facilitate faculty and student study in the field of international financial services and markets and to communicate knowledge to the academic and business communities."

IPO underpricing has trended upward from 7 percent in 1980-89, to 15 percent in 1990-1998, and 65 percent in 1999-2000, before dropping to 12 percent in 2001-03. These numbers indicate that new issue underpricing (a major component of the cost of raising new capital by young firms) is very much affected by forces other than free entry in the new issues underwriting market.

How well can financial conglomerates manage the conflicts of interest generated when commercial banking, investment banking and securities business (in secondary markets) are combined under the same roof?

The power to lend can generate underwriting and M&A business; it can also burden the loan

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portfolio with bad credit risks. Outstanding loans with high default risk can tempt banks to bring "lemon" new issues of client firms to the market in an effort to recoup their capital. Or the investment banking arm of a bank may become the eager advisers of a target firm that has shaky loans with the parent bank.

As the scope of negative synergies and reputational risk expands, so does the need and cost to manage them. It may very well be the cost of these negative effects, resulting in value destruction, that will determine how far financial institutions can go as they combine commercial banking with investment banking business.

A Message from the Editor

Professor Gioia P. Bales, Merrill Lynch Center Administrator

This issue of the *Merrill Lynch Center Newsletter* highlights our activities during the 2003/2004 academic year as we continue to disseminate knowledge on international financial services and markets to our constituents: faculty, students and the business community.

Our third annual business conference on the design, development and marketing of financial services and products explored the timely topic of credit and interest rate risk. More than 200 students, faculty and business professionals listened to three consecutive panels, consisting of 10 industry experts, explore such topics as: the Basel Accord: Issues and Implementation; VAR and Negative Gamma Implication in Managing Credit Risk; and Interest Rate Risk Measures for Fixed-Income Portfolios. For a complete description of the conference, see article on page 5. The conference was preceded by an executive breakfast at the Hofstra University Club featuring a keynote address by Thomas P. Gibbons, executive vice president and chief risk policy officer of The Bank of New York. Plans are well underway for the 2005 business conference, scheduled for Monday, May 9.

The Merrill Lynch Center plans to further explore the area of risk management when we host a three-day conference on April 27-29, 2006. "Managing Risk in Financial Institutions: From Theory to Practice" will bring together academicians and practitioners to discuss risk management in a changing economic and regulatory environment. For more information, see box to the right.

The Merrill Lynch Center benefits greatly from the support of its academic and business advisory boards as well as other entities in the Hofstra community. Therefore, we are pleased to include reflections by Dr. Walter T. Molano, managing partner of BCP Securities and member of our Business Advisory Board in this issue of our newsletter. Dr. Molano discusses the role of a boutique securities firm in the dynamic area of emerging markets. In addition, the newsletter reports on the very valuable activities of Hofstra's Scott Skodnek Business Development Center, which offers a wide array of services to the business community.

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Merrill Lynch Center Awards

One of the primary objectives of the Merrill Lynch Center is to facilitate faculty and student research in the area of international financial services and markets. We also endeavor to include students in our activities, including participation in conferences and round-table discussions. Continuing this tradition, the Merrill Lynch Center bestowed the following awards during the 2003-2004 academic year:

Best Undergraduate Honors Essay Award was presented to Victoria Danilevskaia, a Hofstra University graduating senior, for her study "An Analysis of Optimal Capital Structure in Eastern European Countries."

Best M.B.A./M.S. Thesis or Paper Award was presented to Carol Tsay, a Hofstra University graduate student, for her study "Underpricing and Long-Term Performance of IPOs in China and Other Asian Countries."

Faculty Research Grant was awarded to Dr. James Neelankavil, professor of marketing and international business at Hofstra University, for his paper "An Investigation Into the Cultural, Educational and Family Influence on the High Ethical Standards of the Scandinavian Businesses and Government Agencies."

MARK YOUR CALENDAR

April 27-29, 2006

**HOFSTRA CULTURAL CENTER and THE MERRILL LYNCH CENTER FOR THE STUDY OF
INTERNATIONAL FINANCIAL SERVICES AND MARKETS
of THE FRANK G. ZARB SCHOOL OF BUSINESS
present**

Managing Risk in Financial Institutions: From Theory to Practice

In response to changes in the economic and regulatory environment, the theory and practice of risk management have evolved significantly during the last 15 years. The purpose of this conference is to bring together academicians and practitioners to explore current theoretical and practical aspects of risk management within financial institutions. Topics will include:

- Interest rate risk
- Credit risk
- Market risk
- Operational risk
- Technology risk
- Capital adequacy
- Regulations and compliance
- Downside risks, including Value at Risk (VAR)

Visit our Web site at www.hofstra.edu/MLC for more details.

Academic Research in an International/Global Business Environment

Reflections by Dr. James Neelankavil, Professor of Marketing and International Business, Merrill Lynch Center Associate



As a discipline, international business is relatively new. Though companies have conducted business in foreign countries for centuries, the academic involvement has been sparse and fragmented. Theories such as *mercantilism* and Adam Smith's theory of *absolute advantage* laid the grounds/foundations of international business. The idea that governments should promote exports to increase national wealth and that market forces should determine the direction, volume and composition of trade provided businesses the freedom to pursue foreign markets.

As the study of management took roots in the early 20th century, courses such as *export management* and topics such as *foreign exchange* were discussed in some business courses, but the area of international business itself was not seen as an academic concentration worth pursuing. This came much later. Not until the early pioneers of the field of international business such as Jack N. Behrman of University of North Carolina, John Fayerweather of New York University, Richard D. Robinson of Massachusetts Institute of Technology, and Raymond Vernon of Harvard proposed and pushed for the development of a core group of interdisciplinary courses that formed the basis for the area of international business, did the field become a legitimate area of study as well as a discipline for academic research.

Two other factors also contributed to the growth of the discipline: 1) the world order of business was changing with the growth of multinational corporations (MNC) with operations in multiple countries with greater focus on developing international markets for increased revenues and profits; and 2) the academic community organized the Academy of International Business (AIB) in 1960, with John Fayerweather of New York University as its first president.

My interest in international business was tweaked while completing the M.B.A. when I happened to come across an article by Raymond Vernon, "International Product Life Cycle Theory" (*Quarterly Journal of Economics*, May 1966), in which he postulated that the location of production to serve the world markets would shift internationally depending on the stage of the product life cycle. In fact, I was observing these shifts where some international companies were manufacturing products in Asia that were then exported back to the industrialized countries of the West. Thus began my interest in a doctoral program that was strong in international business and where I had the opportunity to study under Professor John Fayerweather.

In 1975, as I was looking around for a dissertation topic, I was fascinated by the theory of economic integration and specifically in the European Union (EU). Unfortunately, by the time I embarked on a proposal, there were no real opportunities for me to explore and unearth anything new. (If I had known then that the EU would really push through a single currency, it would have been an excellent topic to investigate.) I did the next best thing; I decided to study the newly formed Association of Southeast Nations (ASEAN), an attempt for economic integration among five Southeast Asian countries – Indonesia, Malaysia, Philippines, Singapore and Thailand. My adviser, Dr. Ingo Walter, then the associate dean at the Graduate School of Business at NYU and an expert on the EU, was supportive of this idea. At that time we both felt that this experiment at integration among the Asian developing countries might be a model for developing countries in similar regions of the world.

Once I completed my dissertation in 1975, I realized that the ASEAN was doomed from the start. These countries were actually in competition with each other; there was no collective benefit for each country unless some of them were ready to sacrifice their manufacturing sector, which was in its infancy. Year after year they pledged their support for the union and signed treaties of cultural exchange, but never addressed the central economic issues that were necessary for a successful economic integration among the five countries. It was also evident that Singapore would do extremely well on its own, and Indonesia and Philippines had many unresolved economic and political issues that would hold them back.

If one tracks the international topics that were researched during the '70s, one would find articles on personnel management, international cash management, export theories, strategic operations of MNCs, and foreign exchange related topics. By the time the '80s came along, there were possibly 10 or so good international journals and the topics covered were broader, including interest in foreign direct investment, international marketing related topics, cross-cultural studies, and so on. In my research attempts, I became an eclectic researcher pursuing whatever presented itself. This approach led me to investigate regulation and self-regulation in international advertising, research methodology for conducting marketing research, managerial performance studies, cross-cultural management studies, and effects of R&D intensity on investments and costs.

My research (with co-authors Anil Mathur and Yong Zhang) on determinants of managerial performance across four countries revealed that in a global environment recruiting and training business executives is complicated by cultural influences. These influences are unique to each country, and any attempt to group managers in a region into homogeneous categories is bound to fail. For example, managers in Asian countries are not necessarily similar, despite cultural relatedness. In investigating R&D intensity across three industrialized countries of Japan, the UK, and the United States (co-authored with V.T. Alagandar), we found that the highest R&D intensity is among the U.S. firms in comparison to firms from Japan and the UK. Also, American firms maintain R&D intensity at a stable level with an elasticity of one, but the Japanese firms have the highest R&D elasticity. Finally, contrary to our expectations, in a global environment, the R&D efforts are less globally integrated.

My current research interest is in the area of globalization, outsourcing and its impact on developing countries. Outsourcing is here to stay in spite of the negative backlash in the United States and Europe. More and more manufacturing and service companies are using a technically qualified but lower wage workforce to remain competitive. Just recently two of the largest companies in Germany, Siemens and Daimler Benz, were able to extract unprecedented concessions from their unions on the threat of these companies outsourcing much of their parts manufacturing to Asia. From a research point of view, the concept of global outsourcing provides researchers with a wealth of ideas to explore, from effects on employment in parent and host countries, to flow of foreign direct investments, price effects on consumer products, growth of the middle class in recipient countries, and policy issues.

As the global expansion process continues, the interlocking of economies and markets will continue as well. The interlocking of countries and markets would result in chaos through economic downturns, changes in inflation rates, interest rate fluctuations, unpredictability of exchange rates, and rise and fall of stock markets like a contagion. The rise of the euro, the flow of investments into Europe and the emergence of new superpowers like China would change the balance of power. Global interdependence will mean a new direction for global businesses and the creation of a new market force.

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BCP's Walter T. Molano Shares His Views on Changes in the Securities Industry



Dr. Walter T. Molano is a managing partner and the head of research at BCP Securities, LLC. Prior to joining BCP Securities, he was the executive director of economic and financial research at Warburg Dillon Read. In 1995 and 1996, he

was a senior economist for Latin America at CS First Boston. Dr. Molano completed a Ph.D. at Duke University, and he holds a master of business administration from Hofstra University as well as a master of arts in international relations and a certificate in international law. He is a 1983 graduate of the U.S. Naval Academy. Dr. Molano is the author of The Logic of Privatization, a book published by Praeger/Greenwood Press. Since 1997, he has consistently been ranked among the top Latin American economists in the annual ranking by Latin Finance. He holds more than 27 medals in the annual contest. He has testified in front of the House Banking Committee and is regularly cited in various newspapers, magazines and television shows, including Business Week, Wall Street Journal, Financial Times, CNBC and CNN. Dr. Molano is a member of the Council of Foreign Relations and is an adjunct professor at Columbia University. He is also a member of the Trinity Board of Duke University and Beta Gamma Sigma. The Merrill Lynch Center at Hofstra University is proud to have Dr. Molano as a member of its Business Advisory Board.

The Merrill Lynch Center asked Dr. Molano to share his thoughts about the nature of business at a boutique securities firm like BCP and how such a specialized firm like BCP has taken advantage of changes in the securities industry. His thoughts shed light on the role mid-sized independent securities firms can play in the global financial system.

Q. What kind of firm is BCP Securities?

A. BCP Securities is an emerging markets boutique that specializes in trading Latin American bonds and issuing Euro Commercial Paper (ECP) for mid-sized Latin American companies.

Q. When did you join BCP Securities?

A. I joined BCP Securities in the midst of the Russian crisis of 1998. This was a period when many of the large Wall Street investment banks retreated from the emerging markets. The partial default of Russian sovereign debt and the spread of the crisis to the rest of the emerging markets forced huge trading losses on many financial institutions. It also forced many investment banks to reconsider the viability of this segment of the financial marketplace. These large firms returned to the emerging markets several years later, but it

allowed BCP Securities a long period to gestate and establish our presence. As a boutique, BCP Securities seeks the niche spaces where the large investment banks do not operate.

Q. What have been the main effects of consolidation in the global financial marketplace?

A. The consolidation of the global financial sector created several curious phenomena. First, given the enormous operating costs associated with such mega-institutions, they were forced to focus on activities where the gross revenues were high. The fixed costs at many of these institutions soared to almost a million dollars per employee per year. Hence, large investment banks could no longer afford to allow bankers to work on deals where the net margins were enormous (100, 200 or 10,000 percent), but the gross revenues were in the hundreds of thousands of dollars. The minimum hurdle rate for many investment banks soared above \$5 million per deal, opening a huge range of business activities to lower-cost competitors.

Second, the proliferation of low-cost information and computer technologies opened the market to smaller competitors. The availability of real-time information on the Internet obviated the need for expensive research departments. The digitization of financial data eliminated the cost of data entry departments. The universality of e-mail eliminated the enormous costs associated with bulk mailing and faxing. All of these factors allowed analysts at small firms to have the same access to information as their bulge bracket counterparts. It also allowed them to have equal access to the global client base, providing them with a chance to provide competitive services.

Third, the amalgamation of financial institutions into mega-investment banks also reduced the ability of these institutions to respond rapidly to changes in the global marketplace. The inherent layers of bureaucracy associated with these financial behemoths embedded them with a lethargy that allowed nimbler institutions to move in early and establish market share.

Q. How has BCP Securities taken advantage of these changes?

A. These three factors allowed BCP Securities to grow from a small trading operation in Greenwich, Connecticut, with six employees in 1998, to an established market participant with 32 employees in the United States, Europe and Latin America, with an annual trading volume turnover of \$12 billion. BCP Securities underwrote and placed more than \$500 million in ECP Programs for more than 10 Latin American corporations. BCP Securities also led the league tables for Latin American Research, since 2000, beating out most

of the large bulge bracket firms. It remains a boutique, but it is a competitor that provides some of the most independent and timely research in the marketplace. BCP Securities also focuses on trading illiquid securities, providing hedge funds and global asset managers with timely execution. BCP Securities also provides short-term fixed income investments that are sought by global private banking institutions.

Q. What challenges does your firm face in the future?

A. Although BCP Securities is established, the environment is dynamic. New competitors and products constantly enter the marketplace. The proliferation of credit-linked notes is changing the landscape. Trading screens provide more transparency to pricing. The changes in technology, which allowed BCP Securities to flourish, are also allowing new players to emerge. Smaller financial boutiques from developing countries are competing with lower costs and better local information. Consequently, BCP Securities is being pushed into a mid-sized position. The firm's objective is to deepen existing relationships, given the firm's long standing in the marketplace. BCP Securities' objective is to focus on higher-margin services, distinguishing itself as an up-market financial boutique.

The global marketplace is dynamic and challenging. Constant changes in ideas, technologies, techniques and products force financial firms to constantly mutate to preserve their market positions.

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"Credit and Interest Rate Risk: Issues, Trends and Models" Conference Held at Hofstra University, May 5, 2004

Article by Dr. Nancy White Huckins, Associate Professor of Finance, Merrill Lynch Center Associate

On May 5, 2004, the Merrill Lynch Center presented its third annual business conference on the Design, Development and Marketing of Financial Services. This year's conference, "Credit and Interest Rate Risk: Issues, Trends and Models," was co-directed by Dr. Ehsan Nikbakht, professor of finance, and Dr. Nancy White Huckins, associate professor of finance, both of the Frank G. Zarb School of Business (ZSOB), Hofstra University. Throughout the day, an impressive array of academics and industry professionals shared their expertise in credit and interest rate risk management with conference participants.

The conference was preceded by an Executive Breakfast at the University Club. Dr. George J. Papaioannou, professor of finance, ZSOB and director of the Merrill Lynch Center, introduced the keynote speaker, Thomas Gibbons, executive vice president and chief risk policy officer of The Bank of New York. Mr. Gibbons spoke to local business professionals, and to Hofstra faculty and administrators. In his talk, "Risk Managing a Perfect World," Mr. Gibbons touched on many issues currently faced by risk managers, thereby setting the stage for the three conference sessions and a luncheon speaker who addressed industry professionals, academics and students.

The day's first session, *Issues and Challenges in Credit and Interest Rate Risk Management*, was moderated by Dr. A. Sinan Cebenoyan, professor of finance, ZSOB. Session speakers provided an overview of the risk management industry's evolution, the organizational environment encountered by risk managers and the challenge of implementing the Basel Accords.

Panelists in this session included Nick Barcia, Ph.D., of the Culbert Group, whose talk was titled "Risk Management: Where We Are and How We Got Here"; Susan Mangiero, Ph.D., CFA, FRM of Mangiero Associates, who presented "A Comparative View of Credit Risk Models"; and Donald MacKinnon, FRM, senior vice president and senior risk manager, Bank of America



Theresa Schnepf (left), managing director at JP Morgan Chase, and Dr. Nancy Huckins.



Dr. Nick Barcia (left), of the Culbert Group and Dr. A. Sinan Cebenoyan of Hofstra.

whose presentation was titled "Basel Accord: Issues and Implementation."

Session II, *Managing Credit and Interest Rate Risk*, was moderated by Dr. Anoop Rai, professor of finance at the Zarb School. In this session, speakers considered measurement and analytical techniques applied to manage credit and interest rate risk. In addition, specific financial instruments used to manage risk were introduced. Three speakers participated in this session. George Koo, CFA, CPA, of Dahlman Rose Weiss LLC, presented "VAR and Negative Gamma Implication in Managing Credit Risk." Sidney Hardee, from Thomson Financial, spoke about "Today's Environment for Asset Swaps and Credit Default Swaps." The session was completed by Giuseppe Castellacci, Ph.D., risk and analytics researcher at OpenLink Financial, whose talk was titled "Incorporating Credit Risk Into VAR."

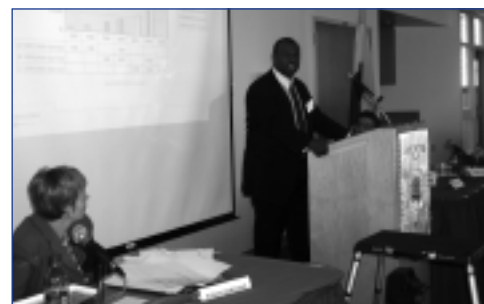
The day's final session, *Modeling Interest Rate and Credit Risk*, was moderated by Dr. Ahmet Karagozoglu, assistant professor of finance, ZSOB. During this session, Mr. Raphael Douady, research director, RiskData, presented "The Anatomy of a Risk Model." Anne Hitchman, vice president, Market Risk Management, JPMorgan Chase, illustrated interest rate risk analysis for fixed income portfolios in her discussion talk titled "Interest Rate Risk Measures for Fixed Income Portfolios."

At a luncheon preceding the third session, Theresa Schnepf, managing director, global risk management, JPMorgan Chase, discussed operational risk. In her presentation, "Beyond Interest Rate and Credit Risk: An Introduction to Operational Risk," Ms. Schnepf emphasized the need to develop integrated systems so that the myriad risks organizations face can be identified and effectively managed.

The conference successfully highlighted the critical importance of risk management in financial institutions. Not only is there an ongoing need to identify, measure, model and manage risk, but we must also assess the effectiveness of what has been accomplished, and determine how to face new challenges. Consequently, the Merrill Lynch Center will sponsor a three-day conference on risk management in April 2006.



Seated: George Koo of Dahlman Rose Weiss and Dr. Susan Mangiero of Mangiero Associates. Standing: Dr. Anoop Rai of Hofstra.



Dr. Susan Mangiero and Sidney Hardee of Thomson Financial.



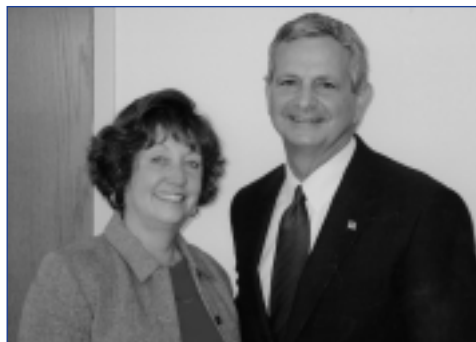
Dr. George Papaioannou (left) presents Thomas Gibbons, breakfast keynote speaker, with a plaque.



Dr. George Papaioannou (right) presents certificates to Drs. Ehsan Nikbakht and Nancy Huckins.

Scott Skodnek Business Development Center Expands Assistance for Economic Development Projects

Richard V. Guardino, Jr., Vice President for Business Development and Executive Dean, Center for Suburban Studies
Judith Tyne, Assistant Dean, Scott Skodnek Business Development Center



Judith Tyne and Richard V. Guardino, Jr.

The Scott Skodnek Business Development Center (BDC) continues to expand its services to Long Island businesses and government entities. In this issue of the newsletter, we are pleased to highlight several new projects:

- A strategic marketing plan will be developed for the revitalization of Syosset's downtown business area. Business owner and resident surveys provided data for analysis and development of the plan.
- A regional economic impact study of Long Island Mac Arthur Airport will be conducted to determine the direct and induced impacts on the surrounding areas.
- *Operation Downtown* seminars will provide management skills to business owners during 2004/2005. Senator Charles J. Fuschillo, Jr. facilitated funding through a Legislative Member Item with a grant from the Empire State Development Corporation. On October 27, Stuart R. Levine was the keynote speaker and discussed "The Fundamentals of Success."
- More than 200 Winthrop University Hospital employees will participate in on-site customized training for the 2004/2005 Leadership Development Certificate Program. Modules were developed in leadership, communication, strategic planning, time management, marketing and competitive strategies. Funds were awarded to Winthrop by *HempsteadWorks*, the Town of Hempstead's One-Stop Employment System.
- Eighteen Hempstead High School students participated in the Leadership Development Certificate Program developed by Winthrop University Hospital and Hofstra University. President Rabinowitz welcomed students to Hofstra, and Kate Murray, supervisor, Town of Hempstead, presented certificates. The agenda

included viewing a Hofstra video, a campus tour, attending the Jets practice in the VIP section, meeting Herman Edwards and Terry Bradway, and listening to their strategies for leadership training.

- The Entrepreneurship Certificate Program provides assistance to persons interested in starting and expanding businesses and improving their likelihood for success. *QuickBooks for Recordkeeping* will be introduced in the fall session. In addition, the complete *QuickBooks* program will be offered in February 2005.
- The *Entrepreneurial Assistance Program Award for Excellence*, which recognizes outstanding program performance, achievement and dedication to entrepreneurs, was presented to the Scott Skodnek Business Development Center at the annual conference in Utica, New York. Judith Tyne, assistant dean and program coordinator, accepted the award on September 13, 2004.

Highlights of existing programs at the BDC include:

- The Town of Hempstead Industrial Development Agency is a new sponsor of the *Distinguished Lecture Series*, joining sponsors Citibank/Citigroup, Price WaterhouseCoopers, Ruskin Moscou Faltischek, P.C. and American International Group Inc. (AIG). Six lectures are presented each year, bringing together the elite of Long Island's business community.
- Under the direction of Dr. Elaine Sherman, Hofstra students conduct public opinion polls five times a year to measure the attitudes of Nassau and Suffolk County residents toward public issues selected by News 12.
- Business seminars are coordinated for: Brown Raysman Millstein Felder & Steiner, LLP, providing attorneys with continuing legal education; U.S. Department of Housing and Urban Development, providing businesses with government contracting opportunities; and The Merrill Lynch Center, providing support for the Executive Breakfast.
- The BDC also sponsors the *Economic Report* by Dr. Irwin Kellner. Published six times a year, the publication explores economic trends and global issues.

For additional information on the Scott Skodnek Business Development Center, call Judith Tyne, assistant dean, at (516) 463-5285.

The following Hofstra faculty serve as Merrill Lynch Center associates for the 2004-2005 period:

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Tao Gao, Ph.D.
Marketing and International Business

Nancy Huckins, Ph.D.
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Richard Jones, Ph.D.
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Ahmet Karagozoglu, Ph.D.
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Finance

Merrill Lynch Center Hosts Round-table Discussions at Hofstra University

Beginning in the 2002-2003 academic year, the Merrill Lynch Center began a series of round-table discussions featuring a panel of Hofstra University faculty sharing their viewpoints on two very timely topics: corporate responsibility and the state of economic globalization. To maximize participation by Hofstra students, especially those at the graduate level, we have coordinated these programs with the Hofstra University Career Center. The following round-tables have been scheduled for the 2004-2005 academic year:

- On Wednesday, December 1, 2004, the Merrill Lynch Center will host its third annual round-table discussion on "Corporate Governance and Responsibility" from 6 to 8:30 p.m. in the Greenhouse, Sondra and David S. Mack Student Center, North Campus.
- On Wednesday, February 23, 2005, the Merrill Lynch Center will host its third annual round-table discussion on "The State of Economic Globalization" from 6 to 8:30 p.m. at the Scott Skodnek Business Development Center.

For further information on these events, please contact the Merrill Lynch Center.

IF YOU WOULD LIKE FURTHER INFORMATION REGARDING THE MERRILL LYNCH CENTER, PLEASE CONTACT US AT:

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134 Hofstra University
Hempstead, NY 11549-1340**

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Fax: (516) 463-4834
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**For an updated list of our programs, please visit
www.hofstra.edu/MLC.**

The associates of the Merrill Lynch Center represent Hofstra faculty from a wide range of disciplines. Each of our 21 associates is committed to contributing to the study of one specialization within the field of international financial services and markets. Their responsibilities include: maintaining current familiarity within their area; moderating round-table discussions; and initiating and organizing programs – such as seminars and symposiums – that enhance the understanding and expand the knowledge base in their areas.

Specialization include:

- Emerging Markets
- International Investments
- Derivatives
- Law and Regulation
- Information Technology
- International Economics
- Marketing of Financial Services
- International Banking
- Accounting for International Markets and Services
- Management and Organization of Financial Services
- International Investment Banking

Spotlight on Research by Merrill Lynch Center Associates

TAO (TONY) GAO Assistant Professor, Marketing and International Business

"Important Decision Factors Considered by MNCs in Their Reevaluation and/or Modification of Foreign Entry Modes During the Argentine Financial Crisis," with Talin S. Eshaghoff, *Latin American Business Review*, 5 (2), in press.

"MNCs' Preferred Responses to the Argentine Financial Crisis: A Classification and Empirical Investigation," with Talin S. Eshaghoff, *Latin American Business Review*, 5 (1), in press.

"Organizational Buyers' Choices Among Independent Suppliers: A Transaction Governance Perspective," Kenneth L. Bernhardt, James S. Boles, and Pam Scholder Ellen (editors) in *Proceedings of the 2004 AMA Summer Educators' Conference*. American Marketing Association: Chicago, IL, forthcoming.

"A Foreign Employee's Observation of Mitsubishi Corporation." Proceedings (CD format) of the 2004 *Annual Conference of the Association of Japanese Business Studies (AJBS)*, Stockholm, Sweden, forthcoming.

"The Contingency Framework of Foreign Entry Mode Decisions: Locating and Reinforcing the Weakest Link," *Multinational Business Review*, 12 (1), 1-32, forthcoming.

"Enriching Customer Value Research With a Relational Perspective: Evidence From an Empirical Investigation of Organizational Buyers' Value Perceptions," with M. Joseph Sirgy, *Journal of Relationship Marketing*, in press.

"Revisiting Sirgy's Corporate Performance Measurement Model: Towards a Management Audit That Captures CSR and Beyond," with M. Joseph Sirgy, in Pr. Jose Allouche (editor), *Corporate Social Responsibility*. London: Palgrave MacMillan, forthcoming.

"Important Decision Factors Considered by MNCs in Their Reevaluation and/or Modification of Foreign Entry Modes During the Argentine Financial Crisis," with Talin S. Eshaghoff. Presented at the 2004 *Annual Conference of the Academy of International Business (AIB)*, Stockholm, Sweden, forthcoming.

WI SAENG KIM Special Associate Professor, Finance

"The Wealth of Capital Investment Decisions: An Empirical Comparison of Korean Chaebol-affiliated and Non-Chaebol Firms," with Tae-Jun Park, Esmeralda Lyn, and Edward Zychowicz, *Journal of Business Finance and Accounting*, forthcoming 2004.

"Can Stock Market Liberalization in Emerging Economies Mitigate Legal System Deficiencies?" with

Esmeralda Lyn and Edward Zychowicz, *Journal of Financial Research*, forthcoming.

"Is the Source of Foreign Direct Investments Important to Emerging Market Economies? Evidence From Japanese and U.S. FDI," with Esmeralda Lyn and Edward Zychowicz, *Multinational Finance Journal*, forthcoming 2004.

"What Is So Special About KOSPI 200 Index Futures Contract? Analysis of Trading Volume and Liquidity," with Cetin Ciner and Ahmet Karagozoglu. Presented at the 14th Annual Asia-Pacific Futures Research Symposium held in Hong Kong, February 26-27, 2004.

"Cross-Listing, Firm Characteristics and the Legal Protection of Shareholders," with K. G. Viswanathan and Edward J. Zychowicz. Presented at the 2004 Global Business Development Institute Conference held in Chennai, India, January 1-3, 2004.

"The Impact of Organizational Structure on the Wealth Effects of Firm Investment Decisions: Evidence From Korean FDI and Domestic Investments," with Esmeralda Lyn, Tae Park, and Edward Zychowicz. Presented at the *Financial Management Association Meetings*, October 2003.

"Foreign Direct Investment as a Measure of American Business Interests in the Korean

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THE MERRILL LYNCH CENTER FOR THE STUDY OF INTERNATIONAL FINANCIAL SERVICES AND MARKETS

ACTIVITIES REPORT: 2003-2004 ACADEMIC YEAR

OCTOBER 15, 2003

Lunch & Learn

Topic: "The Basel Accord II"

Moderator: Dr. Sinan Cebenoyan, Zarb School of Business.

NOVEMBER 19, 2003

Lunch & Learn

Topic: "Globalization of the Steel Industry"

Moderator: Dr. Rusty Mae Moore, Zarb School of Business.

DECEMBER 3, 2003

Second Annual Round-table Discussion on Corporate Governance and Responsibility

Topic: "Moving Toward New Institutions and Rules: An Appraisal of the Post-Enron World"

Moderator: Dr. James Neelankavil, Zarb School of Business.

Panelists: Professor Susan Martin, Dr. Elizabeth Venuti, Dr. Sinan Cebenoyan (Zarb School of Business), Professor Jeffrey Seltzer (Hofstra Law School).

APRIL 2, 2004

Lunch & Learn

Topic: "IT Security"

Moderator: Dr. Laura Lally, Zarb School of Business.

APRIL 21, 2004

Second Annual Round-table Discussion on The State of Economic Globalization

Topic: "New Forces in the Global Capital and Labor Markets: The Case of China and India"

Moderator: Dr. George Papaioannou, Zarb School of Business.

Panelists: Dr. K.G. Viswanathan, Dr. Edward Zychowicz, Dr. James Neelankavil and Dr. David Flynn, Zarb School of Business.

MAY 5, 2004

Third Annual Conference on The Design, Development and Marketing of Financial Services and Products

Topic: "Credit and Interest Rate Risk: Issues, Trends and Models"

Co-Directors: Dr. Ehsan Nikbakht and Dr. Nancy Huckins, Zarb School of Business.

Executive Breakfast Keynote Speaker: Thomas P. Gibbons, Executive Vice President & Chief Risk Policy Officer, The Bank of New York.

Speakers: Nick Barcia, The Culbert Group; Susan Mangiero, Mangiero Associates; Donald McKinnon, Senior Vice President and Senior Risk Manager, The Bank of America; George Koo, Dahlman Rose Weiss, LLC; Sidney Hardee, Thomson Financial; Giuseppe Castellacci, Risk and Analytics Researcher, OpenLink Financial; Theresa Schnepf, Managing Director, Global Risk Management, JP Morgan Chase; Narashimha R. Bonda, I-Flex Solutions; Raphael Douady, Research Director, RiskData; Anne Hitchman, Vice President Market Risk Management, JP Morgan Chase.

Spotlight on Research by Merrill Lynch Center Associates *(continued from page 7)*

Peninsular." Presented at the Asia Economic Interest Conference Celebrating the Centennial of Korean Settlement & 50 Years of Alliance: Century of Ups and Downs in Korea-U.S. Relations & Re-illuminating, September 2003.

RICHARD JONES

Assistant Professor, Accounting, Taxation, and Legal Studies in Business

"Developments in International Standard Setting: Share Payments," with Elizabeth K. Venuti, *The CPA Journal* (accepted for publication; date to be determined).

"The PCAOB and Convergence of the Global Auditing Profession," with Jill P. Giles and Elizabeth K. Venuti, *The CPA Journal*, September 2004.

ESMERALDA LYN Professor, Finance

"The Wealth Effects of Capital Investment Decisions: An Empirical Comparison of Korean Chaebol and Non-Chaebol Firms," with W.S. Kim, T. Park, and E. Zychowicz, *Journal of Business Finance and Accounting*, forthcoming.

"Can Stock Market Liberalization in Emerging Economies Mitigate Legal Systems Deficiencies?" with W.S. Kim and E. Zychowicz, *Journal of Financial Research*, forthcoming.

"Is the Source of FDI Important to Emerging Market Economies? Evidence from Japanese and U.S. FDI," with W.S. Kim and E. Zychowicz, *Multinational Finance Journal*, forthcoming.

"Predicting Stock Returns in Developing Markets of Eastern Europe," with E. Zychowicz, *Journal of Investing*, Summer 2004.

SUSAN MARTIN

Professor, Accounting, Taxation, and Legal Studies in Business

"The Litigation Financing Industry: The Wild West of Finance Should Be Tamed, Not Outlawed," *Fordham Journal of Corporate and Financial Law*, October 2004.

"Corporate-Owned Life Insurance: Another Financial Scheme That Takes Advantage of Employees and Shareholders," *University of Miami Law Review*, vol. 58, pp. 653-678, 2004.

"Rules for Multijurisdictional Practice: A Time for Change." Presented at North East Academy of Legal Studies in Business Annual Meeting, West Point, New York, April 2004.

GEORGE PAPAIOANNOU Professor, Finance

"Stock Listing Changes: Timing or Signaling?" with K.G. Viswanathan and Nick Travlos. Presented at the Eastern Finance Association meeting, Mystic, CT, April 2004, and at the Financial Management Association meeting, New Orleans, LA, October 2004.

"Stock Splits on the Athens Stock Exchange," with G. Leledakis, N. Travlos and N. Tsagarakis. Presented at the Multinational Finance Society meeting, Istanbul, Turkey, July 2004, and at the Financial Management Association meeting, New Orleans, LA, October 2004.

ELIZABETH VENUTI

Assistant Professor, Accounting, Taxation, and Legal Studies in Business

"Developments in International Standard Setting: Share-Based Payments," with R.C. Jones, *The CPA Journal*, forthcoming.

"The PCAOB and Convergence of the Global Accounting and Auditing Profession," with J.P. Giles and R.C. Jones, *The CPA Journal*, Volume LXXIV, Number 9: forthcoming.

"Revisiting the Going Concern Assumption," *The CPA Journal*, Volume LXXIV, Number 5 (May 2004): 40-43.