



International Business Center Provides Research Support for Important Paper (continued)

As hypothesized, Patton and Makhija found that the extent of voluntary disclosure of financial information was positively related to investment fund ownership at low levels of fund ownership, but was negatively related to investment fund ownership at high levels of fund ownership. That is, when a fund only owns a small part of the firm, the individual owners' interests are maximized by greater financial disclosure that improves the stock price, but when a fund owns a larger share of the firm, its private benefits of control are better served by less complete financial disclosure. But perhaps the most important aspect of the paper was that Patton and Makhija were able to examine the effects of ownership on financial reporting in a relatively "pure" way: that is, that ownership levels and financial reporting for the period and study group examined were not co-determined, as they are in the United States with its more stable body of reporting rules and regulations.

About the Authors

Anil K. Makhija is professor and Chair, Department of Finance, and Associate Dean at the Fisher College of Business, The Ohio State University. On the Katz faculty from 1979 until 1998, he participated in several programmatic and research activities with support from the IBC and the Institute for Industrial Competitiveness.

James M. Patton is professor of business administration at the Katz School and is also a Board Member of the Federal Accounting Standards Advisory Board. Patton received a second International Business Center grant in 2001 during which he spent a month working with a colleague at the University of Birmingham, England, to compare national government principles and practices in the U.S. and the U.K. ■

IBC UPDATE NOTES

IBC Hits the GAP

For 2002-03, the Katz School GAP (Global Academic Partnership) research project will be "Global Knowledge Agents and the State of Globalization in the Steel Industry" led by Professors Madhavan and Prescott from the Katz School and Professor Giarratani from the Pitt Economics Department. This GAP project, part of the University Center for International Studies GAP series, is funded by the IBC. ■

Semester at Sea Global Studies Class

The IBC is making plans to sail. Through the help of IBC funding, IBC is helping infuse the global studies theme into the core course required of all students who participate in Semester at Sea, approximately 1,700 students each year. The four thematic concentrations of University of Pittsburgh's Global Studies Certificate for undergraduates include:

*Sustainable Development
Globalized Economy and Global Governance
Changing Identities in a Global World: Race, Religion, Ethnicity, and Gender
Communication, Technology, and Society*

In part, the funding will be used to purchase resources for the course. These resources may include guest speakers aboard ship, updated databases, video documentaries, etc. ■

International Business Center Director Named President-Elect of AIBER

Lawrence Feick, professor of business administration at the Katz School and director of the International Business Center, has been named president-elect of the Association for International Business Education and Research. AIBER is a thirty-member consortium of the federally funded Title VI programs known as Centers for International Business Education and Research. Feick will serve as president from June of 2003 to June of 2004. ■

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IBC-Funded Research to Be Published in Journal of Business

James Patton, professor of accounting at the Joseph M. Katz Graduate School of Business and Anil K. Makhija, professor of finance at The Ohio State University, are pleased to announce that their paper, "The Impact of Firm Ownership Structure on Voluntary Disclosure: Empirical Evidence From Czech Annual Reports," will appear shortly in the *Journal of Business*, published by the University of Chicago. The research for this important paper was funded in part by the International Business Center and by the Institute for Industrial Competitiveness at the Katz School, University of Pittsburgh.

"This paper represents a perfect synergy of accounting and finance—neither Anil nor I could have written it alone," says Patton. "Furthermore, the International Business Center was critical in supporting our research—not just the monetary assistance of buying the plane tickets to the Czech Republic, but intangible assistance such as setting up meetings for us with key government and business representatives, obtaining the companies' annual reports, or finding a Czech translator, since I don't read Czech."

Patton and Makhija were intrigued by the unique natural experiment of privatization seen in the Czech Republic in the early 1990s. They examined the effects of the impact of ownership on the

voluntary financial disclosures contained in the 1993 annual reports of a sample of newly privatized, non-financial businesses included in the Prague Stock Exchange 50 Index. At the time that these businesses were privatized, individuals received vouchers that represented, in effect, shares of ownership. Over time, some investment funds accumulated high levels of ownership in some companies. While the government had established some basic financial reporting rules—for example, a requirement that companies issue an annual report—many of these rules were in flux and the penalties for non-compliance were indeterminate. In response to this lack of structure, the newly fledged companies could follow their own economic preferences in deciding what or how much financial information to disclose.

Patton and Makhija compared the voluntary disclosures in the 1993 annual reports of their sample group to a checklist of items that companies were required to disclose to the government, but not to the public. Their conceptual model suggested that owners would derive benefits both directly from the firm (so-called "private benefits of control"—an example being that a Czech bank with a significant ownership interest in a company might be able to lend it money at favorable rates and terms) as well as from changes in the values of the shares in the capital markets. Both of these benefits are affected in differing ways by the extent of public disclosure made by the firm. The team formulated a testable hypothesis regarding the effects of varying levels of fund ownership on the extent of this voluntary disclosure.

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What is the International Business Center?

The University of Pittsburgh's Center for International Business Education and Research, known since its inception as the International Business Center or simply "IBC," was launched in January 1990 as a joint venture of the Joseph M. Katz Graduate School of Business and the University Center for International Studies (UCIS). The University of Pittsburgh was one of the five original universities in the U.S. (and the first in Pennsylvania) to receive the grant. Since then, the IBC has been funded continuously under Title VI-B. This section of the Education America Bill is dedicated to improving and increasing international education throughout America.

The goal of the International Business Center is to serve the region's business and academic communities. The IBC draws on the multidisciplinary talents and the international expertise of the University's faculty to enrich management education and research and to help regional businesses meet the challenge of competing in the global marketplace. Over the years, the International Business Center has used the grant to fund faculty and doctoral research; undergraduate study-abroad scholarships; faculty and staff foreign language instruction; conferences on international business; programming for regional businesses; and programs for faculty and students at regional colleges and universities.

There are now 30 Centers for International Business and Education Research (CIBERs) throughout the country. Every four years these institutions compete for the Title VI funding, and the International Business Center has always been successful. But in 2002, the IBC was especially fortunate to receive more than a 25% increase in funding compared to the previous grant cycle. The \$355,000 award is the highest in the International Business Center's history. It will fund the activities of the Center for the four years from October 1, 2002 through September 30, 2006.

During the new funding period, one focus of the IBC will be on the theme of Economic Integration—examining how economic markets within world regions connect to each other, and to the global economy. The focus of the International Business Center is thus directly aligned with the University of Pittsburgh's focus on four world regions: Western Europe, Russia and Eastern Europe, Asia, Latin America and global studies. The theme will expand the International Business Center's audience and tighten the regional network of organizations and individuals involved in international business research, education, support, and promotion. ■

MCE + 2 = Student Success

"MCE + 2" is not a physics equation, but it is a formula for personal growth. This spring, the International Business Center helped to develop, operate, and fund a new, two-credit optional program added to the College of Business Administration's required undergraduate course, "Managing in Complex Environments"—hence, "MCE + 2." The new program is an international research trip lasting two weeks that is targeted to undergraduate business students between their freshman and sophomore years.

"Our goal is to 'internationalize' the young people of today who will be the business leaders of tomorrow," says Lawrence Feick, Director of the International Business Center, who led a group of twelve students to Augsburg, Germany. "All but one of the students had had little or no experience in traveling or with foreign cultures. We wanted to expose them to the excitement of international travel and to cultural and language differences, with a view to increasing their interest in learning a foreign language and taking more classes on international issues."

While one group went to Augsburg, fourteen undergraduate students spent two weeks in Prague, Czech Republic. In both locations, the students attended lectures on the country's history, language, and culture, as well as lectures on cross-cultural management, the state of the European Union, and the industries that the groups were researching. These industries included automotive, brewing, computer, glass manufacturing, and cosmetics. The students visited production facilities as well as major cultural sites.

Sophomore Laura Ripo is enthusiastic about her two weeks in Prague. "The whole experience of being outside the country for the first time, of being in a situation where I didn't speak the language, made me more aware of how people feel when they come to the U.S. and don't speak English. I now have a better realization of just how difficult it is for them."

Long-time associates of the Katz School and the IBC, the Business School of the University of



MCE + 2: Germany 2002

Augsburg and the Czech Management Center set up guest lecturers and organized the factory tours. Ripo was particularly impressed and touched at how proud the Czech people were of every aspect of their newly privatized businesses.

Ripo's trip to the Czech Republic may make her more inclined to study international finance. But one of the things that also impressed her about the experience was the effort made to encourage her by the staff of the University's Study Abroad Office. Study Abroad has a satellite office that focuses on business and engineering and this office works closely with the IBC in program design and implementation. "When they first told us about the trip I thought it sounded interesting, but I knew I didn't have the funds, so I didn't give it any further consideration," says Ripo. "But Study Abroad contacted me, and, because of my grades, encouraged me to apply for an IBC scholarship. The scholarship made it possible for me to go. Their effort to encourage me really reflects well on the whole University."

Sophomore Vaishali Rao agrees that the experience was an important one, particularly the opportunities to visit the computer chip and automobile manufacturing plants. "I'm thinking of majoring in marketing. Seeing the factories made me realize that when I actually have a job and am marketing a product, I will have to understand exactly how the product is made, from the ground up, to be able to sell it well."

IBC UPDATE

Rao adds that for all study abroad programs it is important that the student be flexible and open-minded. "You must be able to embrace the experience and the culture. You have to want to know, and you have to keep a positive attitude. And if you do, the results are rewarding!"

Supported by IBC funding, the College of Business Administration will offer the program again in early May of 2003, adding a third location: Valpariso, Chile.

The success of the MCE + 2 program represents an important addition to the undergraduate curriculum of the College of Business Administration, and other departments at the University are evaluating this model that integrates a field trip abroad with the curriculum. Currently, three new Integrated Fieldtrips Abroad (IFTA) are being developed by Faculty of Arts and Sciences Professors. MCE + 2 and IFTA serve as an effective first time experience abroad, an introduction to a particular culture that will inspire students to return for a longer duration. ■



MCE + 2: Prague 2002