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**MIDWESTERN  
BUSINESS AND ECONOMIC  
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**OUTSIDE OWNERSHIP OF TEXAS BANKS: SOME FINDINGS AND OBSERVATIONS**

Louis J. Rodriguez, President and Professor of Economics, Midwestern State University  
Michael A. Preda, Professor of Political Science, Midwestern State University  
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**PERSONNEL RESOURCE PRACTICES IN AREA WHOLESALING FIRMS\***

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**DENTIST WHO ADVERTISE: THE EFFECT OF DIFFERING  
ADVERTISING MEDIA ON CONSUMER/PATIENT PERCEPTIONS**

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**THE 150-HOUR EDUCATION REQUIREMENT: A SURVEY OF STUDENT ATTITUDES**

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BASE FOR THE SOUTHWEST OKLAHOMA ECONOMY**

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**A STUDY OF THE PROBLEMS OF SMALL BUSINESS PERSONS IN SOUTHEAST TEXAS**

Dr. Bob Wooten, Professor of Management, Lamar University  
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Dr. Charles McCullough, Professor of Marketing, Midwestern University

Bureau of Business and Government Research  
Midwestern State University  
Wichita Falls, Texas

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# FOREWORD

Warren E. Moeller, Editor  
Bureau of Business and Government Research  
Midwestern State University

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In this issue of the Business and Government Review, readers will find a wide issue of topics which are of interest both for regions of Texas and statewide.

Eight articles are featured in this issue:

Drs. Louis Rodriguez, Michael Preda and David Martin give us some insights into outside ownership of Texas banks. As more bank consolidations occur, this topic becomes more timely .

Dr. Charles Ramser and Mr. James Buie review personnel practices of wholesale firms in North Central Texas.

Drs. Robert Swerdlow, Larry Patterson and Marleen Swerdlow survey consumer/patient perceptions of advertising by dentists.

Dr. Garland Hadley and Mrs. Carol Dean provide us with some relevant arguments for a state personal income tax in Texas.

Dr. Neal Vanzant and Mrs. Kathleen Bauer have called to our attention some substantial tax changes that were made in the Revenue Reconciliation Act of 1990.

Drs. Annette Hebble and Lucille Montondon survey student attitudes about the 150-hour education requirement for all new members of the American Institute of Certified Public Accountants. This change will become effective in the year 2000.

Drs. Jim Horner and Garland Hadley analyze the economic impact of Altus Air Force Base on the economy of Southwest Oklahoma.

Drs. Bob Wooten, Lynn Godkin and Charles McCullough study the problems of small business in Southeast Texas. These problems are probably relevant to other sections of the state.

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# OUTSIDE OWNERSHIP OF TEXAS BANKS: SOME FINDINGS AND OBSERVATIONS

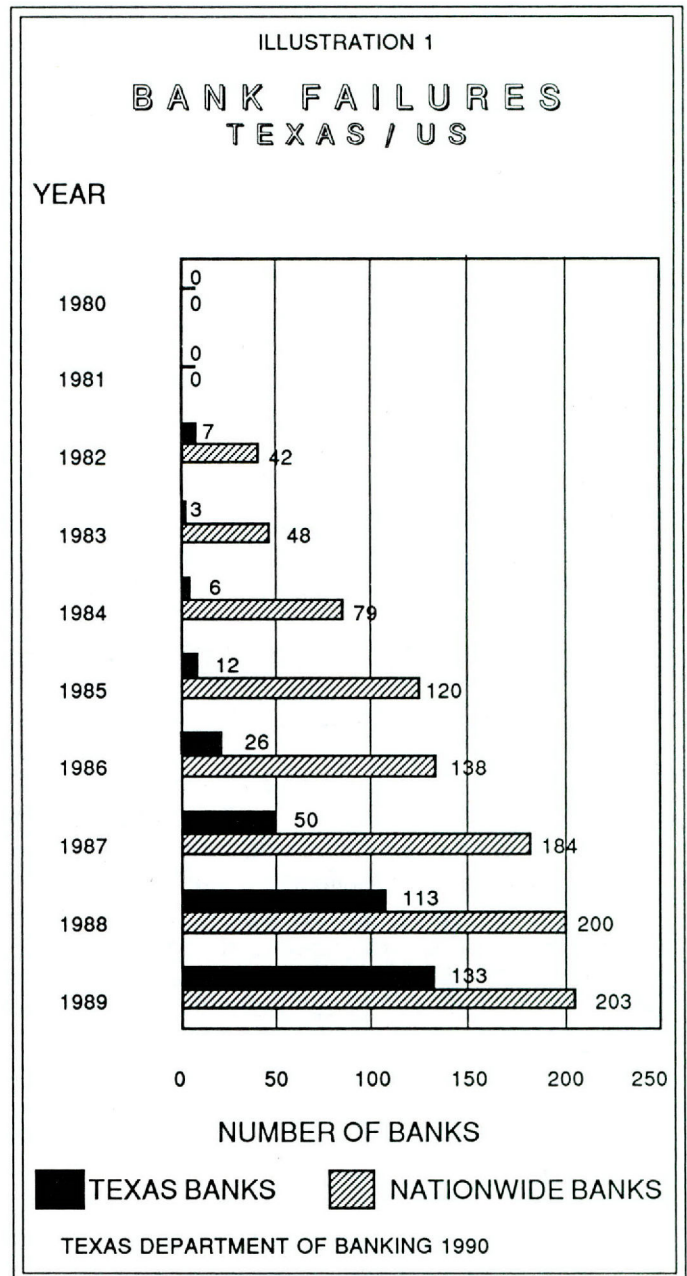
**LOUIS J. RODRIGUEZ**, President and Professor of Economics, Midwestern State University  
**MICHAEL A. PREDA**, Professor of Political Science, Midwestern State University  
**J. DAVID MARTIN**, Professor of Political Science, Midwestern State University

The banking industry in Texas has undergone dramatic changes during the past decade. The most noticeable characteristics have been the large number of bank failures and the obtaining of control of Texas banks by owners located outside the state. During the 1980-89 years, 350 banks failed in Texas. This represents 35 percent of the 1,014 bank failures in our nation in the decade of the 1980's. Illustration 1 presents this data for each year 1989-89. Illustration 2 summarizes the yearly bank failures in a different graphic form. As can be noted, the Texas data closely tracks that of the United States as a whole.

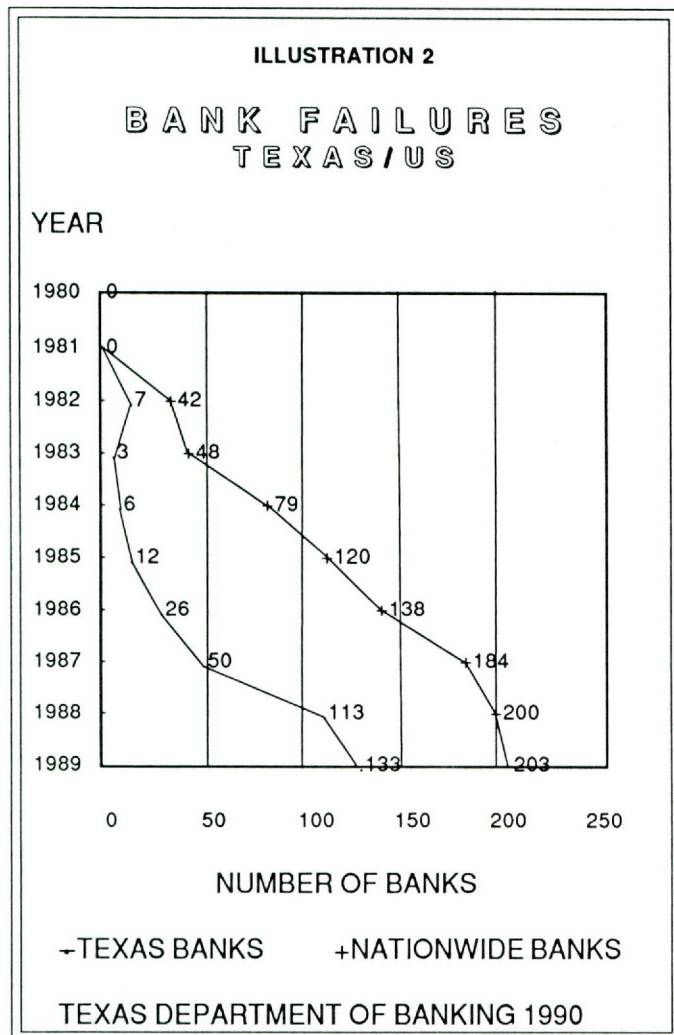
Currently in Texas, it appears that 84 percent of all Texas bank assets/capital are considered to be in the problem category compared with the national average of 30 percent. This category is defined as "the amount of problem loans and repossessed property as the percentage of capital and reserves set-aside for loan losses." The higher the number, the greater is the bank's problem with delinquent loans and repossessed property. The primary causes for this development have been the decline of the oil industry, as well as extensive investments in real estate projects which have not developed as expected.<sup>1</sup>

Accompanying a large number of bankruptcies in the Texas banking industry has been a rapid increase in the ownership of Texas banks by interests based outside the state. In 1980, it was unlawful for Texas banks to be owned by outside institutions. By the end of the decade, over half of the banks in Texas were owned by outside institutions. There has also been a rapid change in those occupying the presidency of the various banking institutions in Texas. By 1990 a large percentage of Chief Executive Officers in Texas banks have been in their position less than five years. The result has been the bringing in of new individuals into the mainstream of decision making in the Texas banking industry. This has disrupted many long-term lender/borrower relationships in Texas.

Historically, Texas banks have been a source of capital, both long-term and short-term. They have been providers of venture capital and have helped fuel entrepreneurial endeavors. International trade, which is of much importance to Texas, has been primarily financed by the large banking institutions in the state. At the local



level, banks have been the source of funds for numerous civic programs. The personal relationship that existed in many communities between the local banker and the community made this an important role of banks in many areas. Banks were often at the forefront in providing leadership in economic development ventures.<sup>2</sup>



### IMPACT OF OUTSIDE OWNERSHIP

In an effort to ascertain the impact on economic development in Texas resulting from increased ownership of Texas banks by interests outside the state, a survey was undertaken. The questionnaire was read over the telephone to 401 individuals in Texas, representing a cross section of heads of Chambers of Commerce, bank presidents, state officials, and investment firms. The 401 individuals, representing 87 percent of those contacted, replied to the inquiries.

The respondents were aware of the bank failure situation in Texas with 98 percent indicating in the affirmative to this question. Knowledge of the purchases of many Texas banks by out-of-state interests, was affirmed by 92 percent of those surveyed. In response to the question, "Do you view the control of Texas banks by the state groups as a favorable or unfavorable development?", sixty-six percent indicated "unfavorable", thirteen percent felt that the external control was "favorable" and twenty-one percent did not have an opinion.

When asked if the changing of control of Texas banks from in-state to out-of-state ownership had a negative impact on their business activities, sixty-three percent indicated that it did not, twenty-seven percent responded that it did, and seven percent did not know. Of the twenty-seven percent who replied that the change to outside ownership had negatively impacted their business activities, seventy-eight percent responded that they did not know how this had taken place. Fifteen percent indicated a negative aspect to the reduced ability to obtain loans and to finance short-term borrowing. An additional seven percent said that reduced financial security was a negative.

When asked if recent developments in Texas banks had a negative impact on the overall development of the Texas economy, 65 percent replied in the affirmative and 22 percent in the negative. An additional 13 percent conveyed that they did not know whether this indeed was the case. The 65 percent who indicated that recent developments in Texas banks had a negative impact on the economic development of the state were asked in what ways the impact had been felt. Of this group, forty-three percent stated that the reduced availability of loan funds for capital investment was a major negative consideration. Reduced faith in the Texas economy was listed by 121 percent of the respondents. A combined 3 percent listed reduced support for civic programs, difficulty in obtaining financing for international trade, and other as problems. Of this overall group, 43 percent indicated they did not know how the negative impact had been felt.

An open-ended question was submitted to the sample group. They were asked to make any overall comments concerning the recent developments in the Texas banking industry as they might relate to economic development needs in Texas. There were 132 responses. Of these, fifty-nine, or 45 percent can be classified into negative or concerned categories. There were 30 favorable (23%) who indicated that out-of-state bankers saved the banking system and will be beneficial to the state's economy.

The following are some examples of the negative replies. "No venture capital available for small and mid-size companies. I have lost business because of the inability to obtain short-term financing. I have lost business because of the 'tighter' supply of money specifically in obtaining financing for long-term projects - capital financing for the longer term projects. I believe that out-of-state banks are stifling the Texas economy." "I hate the thought of losing local control." "Outside ownership has taken capital out of the state." "Out-of-state takeovers reduce confidence of local business." "Money too tight." "Notice the dry up of funds for business and real estate. Bad effect for small towns." "Losing one to one contact with bankers. The gobbling up of the small - small not treated with respect." "These developments are keeping industry from moving into Texas." "Closing small banks, being bought by larger banks, is a problem of not having small banks to take care of small business people."

Positive narrative responses were in the minority, including such statements as, "Out-of-state banks coming



in are better than losing the banks." "This is beneficial because it has provided stability to our banking industry." "Outside help is welcomed." "The out-of state banks have not been that much of a burden to our city." "Cannot tell the difference." "Out-of-state banks have kept economy stable." "Out-of-state banks good-people in Texas did not want to bail out their own banks." "It is good if out-of state banks can help our economy." "Feel like the out-of-state banks are a good asset for the state and local economy." "Out-of-state banks have helped." "Out-of-state banks have brought an influx of money into the economy." "It is a shame that we cannot control it ourselves, but out-of-staters are not doing a bad job."

Perhaps one of the best overall responses to the open-ended question is the following. "It is obvious to people 'close' to Texas banking that the advent of significant 'outside' ownership has funneled very meaningful amounts of Texas capital to the Carolinas, Ohio and New York. I feel the 'quick' cure, 'trade 'em at any price' approach by the government has damaged the Texas banking industry and in fact, made an economic rebound more difficult. Economic development requires capital --- it always has, it always will. With our banks on the defensive, insurance companies will have to come into play. Accomplishments of such an event will most likely require some new style of packaging --- equity positions may become commonplace, creativity will be a necessity --- foreign sources must be attracted as well. It all sounds difficult, but the alternative would be far less attractive indeed."

In summary, the respondents to the survey were very aware of the current bank failure situation. They were also informed about the out-of-state takeover of Texas banks. Over 66 percent of the group believe that the changes that have taken place in the Texas banking structure during the 1980's have been detrimental to the Texas economy. Specifically, they felt that there had been reduced ability to make loans, there was less personalized customer service and capital was leaving Texas, all of which damaged the state economy. However, 63 percent did not feel that the takeovers have had a negative effect on their own individual businesses. Over 78 percent of those who responded in the negative concerning the impact of these changes on their business activities and 43 percent of those who replied that the changes were adverse to the state economy, "did not know" how these negative impacts had taken place.

The majority of respondents who were interested in providing additional statements during the survey made negative comments about the takeover development. Respondents who felt that out-of-state ownership was beneficial, on the other hand, indicated that new ownership has provided needed financial stability and new sources of funds.

## CONCLUSION

The survey of Texans' opinions of the impact on the Texas economy by out-of-state bank takeovers provides interesting conclusions. The majority of respondents were not pleased with the development because they felt that it adversely affected the state's economy. The out-of-state takeovers were prompted by bank failures resulting from banks which could not continue to function soundly. Failing oil industry accounts and defaults on real estate loans forced many banks to collapse. Although out-of-state bank purchases may have saved the Texas banking industry, it did not signal a return to liberal lending policies and business decisions. The cautious policy of the out-of-state owners had a mixed effect on the economic mood in Texas. It provided stability but not stimulus, although the policy is consistent with the conservative national trend in banking.

Takeovers have had an adverse impact on the morale of Texas economic decision makers. Based on the responses to the open-ended questions in this survey, it can be concluded that the takeovers have had an emotional impact. It appears that the new owners have developed a more conservative loan policy which should help stabilize the state's economy in the short-run. Such a cautious financial policy is seen by Texas business leaders as good for the economy as a whole, but is detrimental to some of them individually. It is natural to expect persons to be dismayed by such policies when there is a negative effect on their own businesses.

Over the long-run, out-of-state bank ownership will likely be detrimental to Texas' economic recovery. Because corporate decision making is out of the state, and since there have been so many failures in recent years, the out-of-state owners are not expected to serve in a proactive manner to show confidence in Texas' business growth. They likely will tend to follow very conservative loan policies. Many of this survey's respondents felt that the new bank owners will not be their business allies in the years to come. Such an attitude is based on personal emotions as well as on rejection of loan applications during the past two years.

This survey's findings show more than the desire of Texas business leaders to deal with "hometown" bankers. Businessmen are aware of the shortcomings of the economy and have been sobered by the realization that economic conditions will not necessarily improve when new owners take over their financial institutions. Businessmen would like the new owners to demonstrate greater confidence in the state's business. This would contribute to an improved relationship in the short-term and long-term.

## NOTES

<sup>1</sup>USA Today, May 29, 1990, p. 2b.

<sup>2</sup>Data supplied by Texas Department of Banking, July, 1990.



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# PERSONNEL RESOURCE PRACTICES IN AREA WHOLESALE FIRMS\*

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JAMES T. BUIE, City of Garland, Texas

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## ABSTRACT

Small businesses have long neglected personnel/human resource functions. With today's complex and dynamic setting, managers and owners of small businesses can no longer afford to slight the needs of their employees. This paper attempts to point out how a random sample of small wholesaling businesses, for the most part, do not utilize significant personnel practices necessary to meet the challenges of the 1990's. The larger gap is in the very small sub-group. Specifically, while they do tend to utilize formal hiring and training approaches, they do not adequately focus or professionalize the human resource function and they do not offer an employee policy handbook. There are smaller gaps in practice in the larger sub-groups.

## THE SMALL BUSINESS DILEMMA

One of the more neglected areas in small business is the personnel/human resource management function. Managers and owners of small businesses regularly face the same decision making problems and personnel challenges as large corporations. However, big businesses have huge advantages when faced with complex problems and challenges, for they have the resources and the various specialized departments to meet their needs. The small business owner is at a distinct disadvantage when dealing with personnel. Often times small businesses do not feel they can afford or justify having a full-time personnel professional. Yet, regardless of size, the needs are still there.<sup>1</sup> All organizations are involved in personnel activities: the "hiring", "firing", "training", "maintaining", and "paying" aspects of dealing with employees.<sup>2</sup> Small business personnel practices are not as systematic and careful as believed and failures in ventures have roots, often times, in weak personnel practices.<sup>3</sup> Human resources management in small business is no small task, but the best strategies do not have to cost considerably more money.<sup>4</sup>

This paper, after briefly defining small business, reports on a survey done of North Texas wholesaling businesses on human resource management

professionalism, organizational responsibility, hiring and training practices, and the use of employee handbooks as a communications tool. It is hypothesized that HRM responsibility is not focused in a single organizational position and that, while formal hiring and training practices are present in about 50% of the businesses, employee handbooks are present in far fewer.

## DEFINITIONS

Small businesses have been defined in various ways over the years--at times with respect to assets or revenues or sales, but more often by the number of employees. Businesses with 500 or fewer employees are considered "small businesses".<sup>5</sup>

Employment figures in small business currently represent 55.5 percent of the total employment of the United States. Including the self-employed, 6 out of every 10 workers are employed in the small business category<sup>6</sup> and around 90 percent of U.S. businesses (including wholesaling) employ 20 or fewer workers.<sup>7</sup> In this study, we are focusing on wholesaling activities which represent some of the very smallest of small businesses.

## SURVEY

A questionnaire was designed, tested, and used as the basis of an analytical study of small wholesaling businesses in North Central Texas. This survey represents the first study of its type in the North Central Texas area, and due to the survey's intensity of coverage of North Texas wholesaling and the rather typical nature of the region, probably speaks of many small businesses throughout the nation. In December of 1989, two hundred questionnaires were randomly sent to wholesale businesses listed in the Great Western Directories. Of those sent out, forty-two businesses fully responded, representing a 21% return. Establishment size categories are refined to differentiate between minute variations in employee size; "Very small," meaning under 15 people; "small," 16 to 40 people; "larger," over 40 people. (One limitation of this research is the fact that a small statistical imbalance exists in the cells of the sample.)

## HUMAN RESOURCE PROFESSIONALISM

Four questions were in-depth as to the personnel professionalism of the small business, and the degree of focus of human resource management responsibility:

1. a. Do you currently employ someone who is solely in charge of personnel aspects of your business?
- b. Is that person professionally knowledgeable in personnel?
- c. Is that person granted respect and stature in company decision making?

It was apparent from responses from the entire sample taken as a whole that over three-fourths (77%) do not employ someone to be solely in charge of human resources/personnel functions. When broken into sub-categories, 96% of the "very small," 37% of the "small," and 32% of the "larger" businesses did not focus the responsibilities in one person or position.

The "personnel" function of the small business is often handled by an employee or employees who are responsible for a wide range of duties. Those employees handling personnel responsibilities were from a wide spectrum of job titles. They included the following:

**TABLE 1**  
**Most Prevalent Job Titles**

JOB TITLE	NUMBER
Owner/President	13
General Manager	6
Secretary	4
Office Manager	3
Treasurer	3
Personnel Director	2
Other Titles (All Mentioned Once)	11

This is not to imply that these employees are not capable people who make sound decisions, just that it is doubtful they keep up with the latest concepts and trends in the personnel profession. Responses show 70% believe that the person in charge of personnel is not professionally knowledgeable, yet 92% said the person was granted respect and stature within the company. It is obvious that some of the job titles imply respect and stature in the overall decision making process. Yet, even when a person is granted respect in a business, that does not necessarily mean stature for the personnel/human resources function or viewpoint.

A professional human resource manager is potentially a significant executive offering experience, theoretical knowledge, and an ethical perspective to businesses, large and small.<sup>8</sup> This benefit accrues as managers begin to focus directly on HRM. The flip-side of

the present analysis is that 63% of the "small" (16-40 employee) and 68% of the "larger" (40 + employees) businesses did, in fact, focus HRM responsibilities. We believe it is challenging and significant that only 1 of the "very small" businesses has the vital personnel function focused in an individual who can employ a greater degree of the needed professional knowledge, experience, and perspective.

## HIRING AND TRAINING

Application blanks, interviews, tests and formal training process have long been traditional personnel functions for larger businesses. Questions 3 and 4 were specifically created to evaluate the personnel hiring and training processes of small wholesalers in the North Texas Area. Question 2 and 3 are stated as follows:

2. Is there a formal hiring process consisting of application blanks, interviews, etc?
3. Is there a formalized training process?
  - a. If yes: On-the-job training? Otherwise?

Thirty-four of the overall group of 42 respondents (85%) answered "yes" to question two. When broken into sub-categories, 100% of the businesses in the "small" and "larger" categories (16+ employees) indicated an affirmative reply to question two. And 79% of the businesses in the "very small" category even indicated an affirmative response.

This is of significant importance. It is often stated that application blanks and interviews are universal tools of the hiring process. Perhaps it should be surprising that 21% of the very small businesses do not use application blanks. Whether or not pre-employment inquiries met today's guidelines of fairness and non-discrimination was not addressed, but would make for interesting further research. Field and Gatewood<sup>9</sup> have presented a careful employee selection program for small businesses which adheres to the trends of fairness and professionalism.

In analyzing question 3 on training practices, 72% responded "YES." Of those respondents answering affirmatively, 92% used "on-the-job-training" (OJT) as the "formalized" training process for their employees. In terms of the stratified sub-groups, the numbers are 88% for the "small" category and 80% for the "larger" one. A large drop is registered when we go to the "very small" category: Only 50% use formal training, essentially OJT.

In more general terms, it is apparent that the majority of the overall wholesale sector of small businesses in North Texas use a "quasi-formalized" training process in developing the skills and talents of employees. Employee development is an integral part of any size organization.<sup>10</sup> Small businesses recognize the need and importance of well-trained employees in the overall success of their organizations.<sup>11</sup> In our sample, OJT was deemed to be of good caliber, a notch above the haphazard, careless process it sometimes is.

By having at least a somewhat formalized hiring and training process, most surveyed businesses indicate a future orientation and increase their changes of success through carefully hired and well-trained employees who are efficient and productive in the workplace. Yet, a large group of the "very small" businesses did not practice formalized hiring (21%) and training (50%) processes. The need for sound human resource procurement and development practices is today more vital than ever.

## EMPLOYEE RELATIONS/EMPLOYEE HANDBOOKS

Employee relations is another important function for any business or organization, regardless of its size or business classification.

Employee handbooks and personnel policies have long played a major role in employee relations in large and medium sized businesses. Employee handbooks can avoid inconsistent employment practices and conflicts that often arise in a business environment. Having a written employee handbook demonstrates to employees that the employer is concerned and interested in good communication and impartial, fair supervision. Furthermore, employee handbooks can introduce employees to benefits and health plans and be used as a motivational tool. Employee confidence in (management) policy can result in a greater sense of job security, increased morale, and higher levels of productivity and quality workmanship.

Studer<sup>12</sup> indicates that employee policy handbooks are not a costly measure, but one that really makes a big difference. Information is valuable for numerous reasons for all stakeholders of business. Being "in the know" has repeatedly ranked as a vital factor in employee priorities. It was number two in importance to workers in an original multi-industry study in the 1950's. According to Yankelovich and Immevahr<sup>13</sup>, "being informed" is a major factor making the job more "agreeable" and significant in the enhancement of productivity.

Several questions were developed to examine and address the small business employer/employee relationship along these lines. In fact, this area is a focal contribution and key motivation behind this study.

4. Do you currently have an employee handbook or a set of personnel policies or policy manual?
5. If yes, is it reasonably current and up to date as to the latest laws and practices?
6. Is it distributed to employees?
  - a. How is it distributed?
7. Do you feel that an employee handbook would be beneficial to your business and to your employees?

Statistics show that almost half of the respondents (44%) do not have an employee handbook or set of

personnel policies. 56% do have one, but the challenge is that only 14% of the "very small" businesses have one. 88% of the "small" category have one, as does 100% of the "larger" category.

Of those businesses that do have an employee handbook (56%), only 73 percent keep it well maintained and up to date with the latest laws and practices. For the most part, employee handbooks are distributed at the time of hiring. It seems the businesses that maintain an up-to-date employee handbook would have an "edge" over others in two ways: One, they have their policies together and communicated; and two, they are perceived by new employees as having a positive human resource perspective.

When those without policy handbooks were asked whether or not employee handbooks or personnel policies would be beneficial to their business and to their employees, (54%) fifty-four percent answered "yes". This was an encouraging statistic because many of the respondents fell into the "very small" category. These businesses, while small, still regard employee relations as an important and worthwhile function, an important finding, yet not one which is yet manifested in the reality of practice.

## SYNTHESIS AND CONCLUSIONS

All small businesses have an important personnel/human resources function to perform. HRM in small business is no small task, but the better strategies do not cost considerably more money. In this paper, the relative prevalence of formal hiring and training practices is shown in a sample of wholesaling firms, yet lack of focus of the personnel function into one person's job description is evidenced. Non-personnel managers and staff members perform many of the functions of human resource management. Others, while having stature in their organizations, perform human resource functions without total professional perspective. (Added questions were asked to measure professional perspective through comments about current personnel challenges.) The lack of an employee handbook is evidenced in these firms even though they are viewed as important.

Breaking the sample into employee-size categories (unevenly from a statistical standpoint, but close to real frequencies) and subsequent preparation of a contingency table shed further light on the variables of HRM focus, hiring, training, and employee handbook. Table Two presents this.

**TABLE 2**  
**Personnel Strategies by Employee Size**  
**In Per Cent**  
**(n=42)**

Variable	Very small (1-15,n=28)	Small (16-40,n=8)	Larger (40+,n=6)
Sole HRM charge	4	63	68
Formal hiring	79	100	100
Formal training	50	88	80
Employee handbook	14	88	100

Chi square  $\chi^2 = 2.61, p < .05$

The true tap is in the "very small" category. Statistically, human resource variables are dependent upon organizational size. A more global indication of HRM sophistication, gained by combining, firm by firm, our four factors and correlating their relative presence with a slightly more refined size designation of four groups, shows this connection with size even more profoundly. There is a very significant positive correlation between employee size category and HRM sophistication (defined here by the relative presence of our four research variables). The r value is .763 (t = 7.46, p < .0001).

We, in a sense, recommend breaking this link. The correctable problems involve formal training, and more profoundly, the employee handbook. Focusing HRM here into one job description is perhaps more questionable as a practical recommendation, but theoretically the most necessary. We are hopeful that "very small" wholesaling businesses will match the effort they seem to put into hiring and training with equal effort in preparation of employee handbooks and consideration of more attention to HRM responsibilities.

Efforts are more even in nature as we consider the "small" and the "larger" businesses. HRM sophistication (balanced efforts in each sub-function) increases, yet there are gaps in training efforts, employee handbooks, and especially in HRM focus. One qualification and suggestion for further research is that hiring efforts can be more carefully defined by looking at application blanks adherence to EEO laws and the training effort more closely evidenced by analyzing the catch-all designation, OJT, more closely.

As we head through the 1990s into the next century, personnel/human resource management will gain in importance and small businesses in all industries--the fastest growth area in the economy--will need more than ever to link-up with the human resources profession.

## NOTES

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<sup>8</sup>"The Human Resource Manager; A New Force at the Top," Small Business Reports, Vol 12, (July, 1987), p. 28.

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\*Our thanks to the Bureau of Business and Government Research at Midwestern State University for its support and assistance in the study.

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# DENTIST WHO ADVERTISE: THE EFFECT OF DIFFERING ADVERTISING MEDIA ON CONSUMER/PATIENT PERCEPTIONS

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## INTRODUCTION

Advertising by professionals is a relatively new concept in today's market. While it may seem both startling and unethical to many, others view it as a needed progression in the field of services marketing. Many feel that professional services and other nontraditional firms have the same needs, to be marketed and promoted, as other traditional businesses. The same problems exist for the "learned professions" as for other businesses, such as increasing demands by consumers, a continuously changing environment, and constant competition. Marketing can offer the professional the aid needed to profitably manage the dynamic market place of the 1990's.

The marketing mix offers the "learned professions" valuable tools to utilize to their advantage. One valuable tool is promotion. While promotion can be used to inform or persuade certain groups of potential customers/patients/clients<sup>1</sup>, it must be done very cautiously. Caution must be used by the marketing professional to avoid reoccurrences of past allegations of unethical practices.

## PREVIOUS LEGAL BARRIERS

In the past, barriers thwarted marketing attempts and the "desired response" was met with negativism and said to be unethical. The legal profession was the first of the "learned professions" to challenge these barriers.

A precedent was set for the legal profession in the 1975 case of *Goldfarb V. Virginia State Bar*.<sup>2</sup> In this landmark case, the U.S. Supreme Court found that "minimum fee" schedules enforced by the Virginia County and State Bar violated the Sherman Anti-trust Act by setting prices for legal services. While this court case did eliminate anticompetitive price fixing, it did not eliminate barriers against professionals advertising.

It was the 1977 Supreme Court decision in the case of *Bates vs. the State Bar of Arizona*<sup>3</sup> that opened the doors to those who wished to use promotion "learned professions". In this decision, the U.S. Supreme Court ruled that bans by the State Bar on advertising certain routine legal services violated the First Amendment's guarantee of freedom of speech. This decision started a

chain reaction of events that are still being felt in the field of marketing by professionals.

## IMPACT OF LEGAL DECISIONS

Soon after the *Bates* decision, evidence of its impact began appearing in forms of advertisements. While the precedents have evolved from the legal profession, the Supreme Court's rulings have also greatly impacted other professions. One such profession is the dental profession. This profession at one time abided by the Principle of Ethics established by the American Dental Association (ADA) which included restraints against advertising. Complaints issued by the Federal Trade Commission lead to a series of additional complaints which were finalized in a resolution adopted by the ADA stating "that if dentists advertise services and fees in a manner consistent with the Supreme Court decision in *Bates vs. State Bar of Arizona*, they could not be barred from membership in the ADA."<sup>4</sup> Therefore, the precedent set forth by the *Bates* decision widened the avenues of marketing and opened the way for other professions.

Several articles have been written that depict the consumer's viewpoint toward professional advertising. One study was conducted on a sample of 520 adult residents of a metropolitan city.<sup>5</sup> An equal number of black and white respondents, with a slightly less number of Mexican-Americans, were asked to respond to a questionnaire. The data reflected their feelings towards the issue of advertising by professionals. This study differed from previous studies because it used visual aids along with the questionnaire. Each respondent was shown an ad for a dentist, a lawyer, and a CPA, and then answered the questionnaire by comparing their perceptions of the professional who placed the ad with the "typical" or "average" professional.

The results suggested that there are major implications for professionals considering the use of advertising. One of the major results of the study concluded that advertising affects the image of the professional who advertises. He is perceived as being younger, less experienced, and less established in the profession. Some positive results also appeared. Younger professionals

were also perceived by the consumer as being slightly more competent, more concerned with the clients or patients welfare, and less expensive than the average practitioner. The authors suggest that some of the negative aspects, such as less experience, may be overcome by stressing positive and desired data in the advertising medium. Overall, the data provided by this study can provide a good starting point for dentists to question whether advertising would be beneficial, what type of media should be used, and the effects of differing advertising strategies on patient perceptions of dentists.

## RESEARCH OBJECTIVES

While in the past many have deemed it unethical for professionals to advertise, the concern of this study is how this view is perceived today. Since the "consumer is king", it is their opinion toward dentists who advertise that is the basis of this research.

The basic purpose of this study was to investigate the effects, if any, of different advertising strategies on the image consumers develop of dentists who advertise. Specifically, the study sought to:

1. Measure the impact of different types of advertising on the image of dentists.
2. Test the power of selected advertising strategies to attract new dental patients.
3. Measure the effect of selected advertising strategies on the opinions of patients concerning the desirability of advertising by dentists.
4. Determine the effects of different types of advertising on the patients' perceived quality of service delivered by dentists.
5. Identify the type of information consumers want included in advertisements placed by dentists.

## METHODOLOGY

The study was based on 200 responses obtained by personal interviews from residents of a metropolitan area in Texas. A sampling technique was used to ensure the sample represented major segments of the population. Respondents were chosen from each of the following groups: housewives, white collar workers, blue collar workers, professionals, and students. The sample was also checked against the demographic makeup of the population. When compared to the characteristics of the population, the age, sex, income level and ethnic background of sample respondents were very similar. Table 1 shows a demographic profile of the sample respondents.

The 200 respondents were divided into four matched groups. Care was taken to ensure that all groups had the same basic demographic profile. All four groups were asked to complete the same questionnaire; however, prior to answering the questions, the respondent was shown some type of advertisement for a dentist. One group was shown the direct mail letter shown in Figure 1, while a second group was shown the same letter with a \$5-off coupon (Figure 2). A third group of respondents was

shown a newspaper advertisement (Figure 3) for a dentist. The fourth group was shown the ad with a \$5-off coupon.

Table 1

### Examination of the Demographic Characteristics of the Sample

	Characteristic	Percentage
Age	Below 25	34
	26 - 35	24
	36 - 45	21
	46 - 55	11
	Over 55	10
Sex	Male	49
	Female	51
Education	Some HS	3
	HS Grad	21
	Some College	42
	College Grad	21
	PB	14
Income	Below 10,000	6
	10 - 20,000	13
	20 - 30,000	26
	30 - 40,000	19
	40 - 50,000	16
	Over 50,000	20
Ethnic	Black	16
	White	81
	Spanish	4
	Other	1

Source: Original

Figure 1



#### WEST AVENUE DENTAL CLINIC

James L. Smith, D.D.S.  
414 Bradford  
Houston, TX  
(713) 669-4432



Dear Reader:

Are you new to the area? Tired of inflated dental expenses? In need of expert dental care? If yes, why not utilize my services at West Avenue Dental Clinic.

At West Avenue Dental Clinic you would enjoy pleasant surroundings and the latest dental facilities while receiving expert dental care. I offer a wide variety of dental services to meet the needs of you and your family. I have an excellent dental hygiene program and specialize in permanent dental fillings and tooth extractions.

My office is conveniently located west of the Galleria, just off Westheimer. Appointments can be made anytime between 9 and 5 Monday through Friday. Feel free to call to consult me on any of your dental needs.

Sincerely,

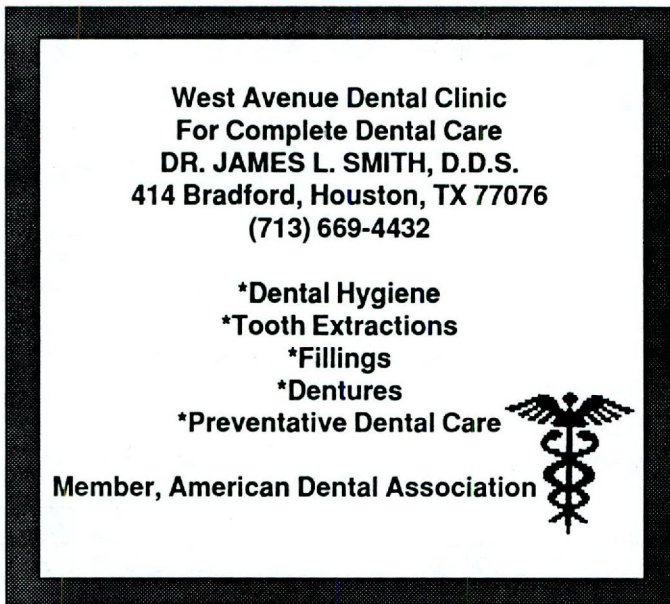
James L. Smith, D.D.S.



**Figure 2**  
A Coupon Illustration



**Figure 3**  
An Ad Illustration



The information content of the letter and the ad was very similar. The newspaper ad identified the dentist and showed a business address, hours of operation, telephone number, and services offered. The letter contained the same basic information as was presented in the advertisement.

After reading the advertisement, the respondent was asked to complete a short questionnaire. The questionnaire was designed to measure the respondent's image of the dentist who placed the ads as well as answer a number of questions concerning his opinions about advertising in the dental profession.

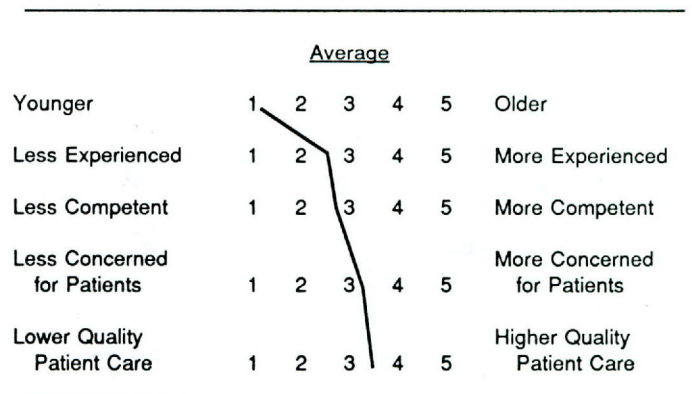
**FINDINGS**

**Impact of Advertising on Image**

The first objective of this study was to measure the impact of advertising on the image of dentists. This was accomplished by having the respondents evaluate the professionals that used the advertisements on five professional attributes. These consisted of age, experience, competency, concern for patients, and patient care quality. Figure 4 is an average profile of how the dentist who advertises is perceived by the respondents in the sample. A rating of 3.0 represents the profile of the "typical" dentist. Compared to the "typical" dentist, the profile shows the dentist who advertises to be relatively younger, moderately less experienced, slightly more concerned for patients, and about average in regard to quality of patient care. When the image was developed for different demographic groups (e.g., age, income, education) no significant differences emerged. These findings are consistent with earlier research results.<sup>6</sup>

**Figure 4**

**A Profile of the Dentist Who Advertises**



Source: Original

When the sample is disaggregated by the four different advertisements shown to the respondents, important variations emerge. Table 2 shows that respondents who were exposed to a letter, developed a significantly different image of the dentist that sent the letter, compared to respondents that were shown a newspaper ad. The professional that sent the letter was perceived to be older, more experienced, and more concerned about patient care than the dentist that placed the newspaper ad. Ratings on competence and quality of care were about equal in both groups. The inclusion of the coupon had little impact on image whether it was enclosed in a letter or placed in a newspaper ad. The only significant variations were found when the coupon was added to the letter. The coupon affected the perceived age of the dentist and the perceived quality of patient care. In both cases, the inclusion of the coupon lowered the image ratings.

Table 2

**A Profile of Dentists Who Advertise  
By Type of Promotion**

	<u>Letter</u>	<u>Ad</u>	<u>Chi-Square Significance</u>
Age	2.2	1.8	.02
Experience	2.7	2.1	.01
Competence	3.0	3.0	NS
Patient Concern	3.3	2.9	.04
Quality of Care	3.1	3.0	NS

	<u>Newspaper Advertisement</u>	<u>Advertisement and Coupon</u>	<u>Chi-Square Significance</u>
Age	1.8	1.6	NS
Experience	2.1	2.2	NS
Competence	3.0	2.8	NS
Patient Concern	2.9	3.1	NS
Quality of Care	3.0	2.9	NS

	<u>Letter</u>	<u>Letter and Coupon</u>	<u>Chi-Square Significance</u>
Age	2.2	1.8	.02
Experience	2.7	2.7	NS
Competence	3.0	3.1	NS
Patient Concern	3.3	3.3	NS
Quality of Care	3.1	3.5	.05

Note: The Profile is based on a scale of 1-5 as shown in Figure 4.

**Advertising Medium and The Likelihood of Patronage**

The next objective of the study was to investigate the effects, if any, between the advertising medium and the likelihood that a respondent would use a dentist. Table 3 shows that the advertising medium does influence the probability of patronage. Out of the group that read only the letter from a dentist, 36% said they would either definitely use or probably use the dentist (categories were combined for statistical purposes). Only 12% of the sample respondents that were exposed to the newspaper ad said they would likely use the dentist. The differences in the reasons of the two were significant at the .04 level of significance.

Table 3 also addressed the effectiveness of a price reduction coupon in bringing new patients to a dentist. When the coupon is added to a direct mail letter, 40% of the respondents reported they would either definitely or probably make an appointment with the dentist. This represents an increase of only 4 percentage points over the group that saw the letter only. Also, the differences in responses were not statistically significant.

The coupon does have a major impact on patronage when combined with the newspaper ad. Only 12% of the respondents that saw the ad alone reported they would probably use the dentist compared to 38% of the group that saw the ad with a coupon attached. The coupon combined with the ad generated about the same number of favorable responses as the letter, or the letter with an enclosed coupon.

Table 3

**The Effects of Different Types of  
Advertising on the Likelihood of Patronage (Percentages)**

<u>Responses</u>	<u>Advertising Letter</u>	<u>Medium Advertisement</u>
Would either definitely or probably use the dentist	36	12
Unsure	42	58
Would either definitely or probably not use the dentist	22	30
	100%	100%

Chi Square = 7.8, significant at .04 level

	<u>Letter Alone</u>	<u>Letter Plus Coupon</u>
Would either definitely or probably use the dentist	36	40
Unsure	42	36
Would either definitely or probably not use the dentist	22	20
	100%	100%

Chi Square = 0.64, not significant

	<u>Ad Alone</u>	<u>Ad Plus Coupon</u>
Would either definitely or probably use the dentist	12	38
Unsure	58	30
Would either definitely or probably not use the dentist	30	32
	100%	100%

Chi Square = 11.41, significant at .01 level

Table 4

**The Relationship Between Mode of  
Advertising and Perceived Quality of Service**

<u>Characteristics</u>		<u>Type of Advertising</u>	
		<u>Letter</u>	<u>Advertisement</u>
Quality of Service	Increase	28.0	16.0
	No Effect	64.0	66.0
	Decrease	8.0	18.0
	Not Significant	100.0	100.0
		<u>Letter Alone</u>	<u>Letter Plus Coupon</u>
Quality of Service	Increase	28.0	28.0
	No Effect	64.0	64.0
	Decrease	8.0	8.0
	Not Significant	100.0	100.0
		<u>Ad Alone</u>	<u>Ad Plus Coupon</u>
Quality of Service	Increase	16.0	18.0
	No Effect	74.0	70.0
	Decrease	8.0	12.0
	Not Significant	100.0	100.0

Source: Original

## Advertising and the Quality of Patient Care

Respondents were asked how they thought advertising by dentist would affect the quality of services delivered by a practitioner. As shown in Table 4, most people thought that advertising would have no effect on the quality of services offered by dentists. However, of those that thought advertising would influence the quality of services, the advertising medium seemed to affect their answers. More respondents that were shown the letter thought advertising would improve the quality of dental services (18%) compared to the group that saw the newspaper ad (16%). While this finding may have important marketing implications, the differences were not statistically significant at the .10 level, or less. As with earlier findings, the addition of the coupon had no affect on the perceived quality of services delivered by the dental profession.

### ANALYSIS OF THE INFORMATION DESIRED IN THE ADVERTISEMENTS

The data related to the information respondents would like to see in an advertisement is presented in Table 5. All respondents were asked to indicate what information they would like to see in the advertisement, regardless of the advertising medium utilized.

Hours and location were all indicated to be desirable by 178 and 175 respondents respectively, or by over 87 percent of the total respondents. Almost 75 percent, or 149 respondents, indicated a desire to have the areas of specialty shown in the advertisement. Prices, services offered, and certifications were also desired by a substantial number of respondents.

Table 5

#### Information Desired in Advertisement

Type of Information	Frequency Indicated	
	Desired	Undesired
Hours	178	22
Location	175	25
Specialty	149	51
Prices	133	67
Services	133	67
Certifications	112	88
Others	7	193

Source: Original

### CONCLUSION

As the data reveals, consumers do perceive dentists who use differing media differently. Those dentists who use only a letter were perceived to be older, more experienced, and more concerned for their patients than dentists who place a newspaper advertisement.

The inclusion of a coupon had little, if any, impact on image, when used with an advertisement. The only significant difference was when the coupon was included with the letter. In this case the image rating relative to age of the service provider and quality of care were lowered.

In terms of patronage, 36% of the respondents would use the dentist who sent the letter, compared with only 12% of the respondents who viewed the newspaper advertisement. The coupon only added an additional 4% usage rate to those who viewed the letter, but an amazing 26% to the group who viewed the advertisement. Therefore, the coupon added to the newspaper advertisement garnered the same favorable patronage rate as the letter with or without the coupon.

The letter garnered a more favorable response than the newspaper advertisement related to those respondents who thought advertising would influence quality of services. Almost twice as many respondents who saw only the letter thought that advertising would improve quality, than those who saw only the newspaper advertisement.

In terms of what data or information was desired in an advertisement, most respondents (about 87%) preferred to see hours of operation, location, specialties (75%), prices (67%), services (67%), and certifications (56%).

It is becoming apparent that dentists, and other professionals, are facing a marketplace that is more competitive, more informed, and more willing to evaluate professionals by the use of media influences. The professional of the 1990's, especially the dentist, must be able to successfully meet the challenges of this dynamic marketplace.

### NOTES

<sup>1</sup>Robert A. Swerdlow and William A. Staples, "Dentists' Views on Advertising in their Profession," Akron Business and Economic Review, Vol 12, No. 3 (Summer, 1980), p. 33.

<sup>2</sup>Goldfarb vs. Virginia State Bar, 421 U.S. 773 (1975).

<sup>3</sup>Bates vs. State Bar of Arizona, 97 S. Ct. 2691, 45 U.S. L.W. 4895 (1977).

<sup>4</sup>Journal of the American Dental Association, Vol. 94, No. 3 (March, 1977), p. 580.

<sup>5</sup>Larry T. Patterson, Robert A. Swerdlow, and Linda Anderson, "Should Professionals Advertise? An Empirical Analysis of Consumer Attitudes," Akron Business and Economic Review, Vol 12, No.2 (Summer, 1981), p. 20-24.



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# CONSIDERATION OF A STATE PERSONAL INCOME TAX FOR TEXAS

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Opposition to a state personal income tax is deeply rooted in Texas. The fact that Texas has prospered thus far without this dreaded form of taxation can be credited to the State's resources and leadership. But times have changed. The heady days of the oil boom, replete with abundant revenues to support state services, have ended. Instead, since the collapse of oil prices in the early 1980s, Texas has been reducing services and increasing sales taxes just to meet the State's most pressing needs. Texas has gotten by with this "band-aid" approach until this year, but now the State is faced with court-mandated changes in the way education is funded and additional outlays for prisons and other State services. Our legislators are now struggling to find a solution for a projected \$4.6 billion budget deficit.<sup>1</sup>

Lt. Governor Bob Bullock has proposed a state personal income tax. Thus far this proposal has proven unpopular with the people of Texas, and as of this date it has not been debated in the Legislature. However, unless some alternative method of providing a sound financial footing for State government can be found, it will have to be given serious consideration in the near future.

Because of strong opposition to state personal income tax, several members of the Texas Legislature are proposing to solve the problem with additional budget cuts, by expanding sales tax to include services, and by increasing property taxes. This approach has been criticized on the grounds that it would reduce services below an acceptable level. It is also considered unfair because of the regressive nature of sales taxes and the unevenness in the application of property taxes.

The purpose of this article is to examine the arguments that have been offered in support of and in opposition to these alternative approaches to solving Texas' budget dilemma. Hopefully, this analysis will provide a better understanding of the problems and options being faced by the Texas Legislature in the months that lie ahead.

## ARGUMENTS IN OPPOSITION TO A STATE INCOME TAX

Arguments advanced by the opponents of a state personal income tax in Texas can be divided into three

general areas of consideration. First is the assertion that income taxes tend to retard the growth of private earnings and investment. Second is the suggestion that the existence of an income tax will make Texas a less attractive location for business and industry and therefore inhibit industrial development. And third is the belief that the very existence of a state income tax will make it easier for future legislatures to raise taxes thus accelerating the growth of the government sector *vis a vis* the private sector.

### Retarding the Growth of Earnings and Investment

During the late 1970s, the traditional view that income taxation has little effect on work, savings, and investment was challenged by the supply-side economists.<sup>2</sup> The supply-siders essentially argue that changes in marginal tax rates influence decisions as to how people use their time and money. In this sense, marginal tax rates are similar to changes in relative prices. The relative prices affected are the price of leisure vs. work and the price of consumption vs. savings. A reduction in marginal tax rates increases the rewards derived from work and investment, thus encouraging more people to devote more time and effort to productive activities and less in non-productive activities such as leisure and consumption. These shifts both enlarge the resource base and improve the efficiency in the use of the resources, thus improving incomes and standards of living.

A number of supply-side economists were convinced that income taxes in the United States had become so burdensome that a reduction in income taxes would simultaneously stimulate economic growth and generate higher tax revenues. This idea was embraced by the Reagan administration, and reductions in marginal tax rates became an important part of Reagan's program. Congress passed a 25 percent tax cut in 1981, to be phased in over a three-year period. Advocates of this approach hoped to stimulate economic growth so much that inflation and unemployment would quickly fall and that government revenues resulting from the growth in economic activities would be sufficient to reduce the growing federal budget deficits.<sup>3</sup>

The experience of the Reagan administration is

about the only evidence available for evaluating the validity of the argument that income taxes retard the growth of earnings and investment--and unfortunately, available data do not provide conclusive evidence one way or the other. Between 1980 and 1988, the United States experienced a period of significant growth; however, during this period government expenditures rose faster than revenues, resulting in record federal deficits. In considering supply-side effects it is important to keep in mind that the significant relationship is between taxes and output, not taxes and government revenues. There seems little doubt that the Reagan tax cuts did result in an increase in output, but the increase was simply not strong enough to overcome the negative effect of lower tax rates on government revenues.

This result has led some to question how significant the "substitution effect" resulting from changes in marginal tax rates really is. For example, Joseph A. Pechman of the Brookings Institution says:

*Taxation is only one of many factors affecting work incentives. This makes it extremely difficult to interpret the available statistical evidence or the results of direct interviews with taxpayers. The evidence suggests that income taxation does not greatly reduce the amount of labor supplied by workers and managers who are the primary family earners. Work habits are not easily changed, and for most people in a modern industrial society there is little opportunity to vary their hours of work or the intensity of their efforts in response to changes in tax rates. Nearly all people who are asked about income taxation grumble about it, but relatively few say that they work fewer hours or exert less than their best efforts to avoid tax.<sup>4</sup>*

In summary, about the best we can say is that taxes may have a small effect on private earnings and investment. Lower taxes increase the rewards of work and investment, and higher tax rates may inhibit such productive activities by some members of our society. But there is no evidence to support the idea that this is significant enough that lower taxes will result in higher government revenues. The question of how government services will be paid for remains unanswered.

## **The Income Tax and Industrial Development**

A number of people argue that the existence of a personal income tax will inhibit industrial development. The majority of studies on this subject simply do not support this argument. To the contrary, the almost universal findings in the literature are that individual state and local taxes play a rather small role in most industrial location decisions.

For example, Thomas R. Plaut and Joseph E. Pluta of the University of Texas at Austin, in an extensive study of factors affecting industrial location, conclude that traditional market factors and climate variables are much more important in determining the location of industry than taxes. They state, "State industrial growth appears to be affected least by state-imposed taxes such as corporate

taxes, personal income taxes, and sales taxes."<sup>5</sup> Rather than citing further the voluminous literature dealing with plant location decisions, the interested reader is referred to two extensive bibliographies on the subject--one by the University of Georgia and one by the Regional Science Research Institute.<sup>6</sup>

In examining the broader issue of economic growth, similar results are found. For example, L. Jay Helms discovered that higher state and local taxes tended to retard economic growth when the revenue was used to fund transfer payments. However, when the revenue is used instead to finance improved public services (such as education, highways and public health and safety) the favorable impact on location and production decisions provided by the improved services more than off-set the disincentive effects of the higher taxes.<sup>7</sup> Similarly, another study on the impact of state and local taxes on economic growth suggests that while cutting taxes may have desirable short-run effects, the reduction of expenditures on education and infrastructure may lead to slower economic growth in the long-run.<sup>8</sup>

The fact that Texas is falling behind in the development of a quality labor force and infrastructure was pointed out in a recent report by the Corporation for Enterprise Development. In its fifth annual report ranking states on their "business climate," Texas did not fare well. The report found that Texas only graduates about 65 percent of its high school students for a 44th ranking nationally. Texas ranks only 47th in literacy of its work force, and 47th in its investment in infrastructure. According to Doug Ross, President of the non-profit organization:

*The development of human resources in Texas is much too weak for an economy that aspires to be a high--tech, electronic, computer-based information-age economy. ... When you look at Texas, it appears to be held back by its failure to develop enough skilled, educated people. States that do not invest in the basics, such as human skills and technology resources and financial resources aren't ultimately able to produce a lot of good paying jobs for their people.<sup>9</sup>*

The argument that an income tax in Texas would significantly inhibit industrial development is simply a myth. State and local taxes appear to play a relatively small role in plant location decisions. To the extent that they are a factor, it is more important how the taxes are spent than how they are collected. If an unusually large portion of the taxes are spent on welfare, it tends to inhibit industrial development and economic growth. If on the other hand, the taxes are used to improve education, highways, and other factors that improve the infrastructure or enhance the quality of life in the state, taxes actually foster economic growth.

## **Accelerating the Growth of Government**

Thomas R. Dye was recently commissioned by the Texas Public Policy Foundation to develop a "white paper" on how a state income tax in Texas would accelerate government growth and retard economic growth.<sup>10</sup> In this

paper he implies, that since in six out of eight states that adopted an income tax in recent years, state government spending accelerated rapidly following the enactment, there is a tendency for taxes to increase after the adoption of an income tax. What he fails to point out is that during the Reagan administration eligibility for federal transfer payments was tightened and nonmilitary spending was slowed sharply. State governments were forced to either curtail or fund from their own budgets a number of programs that had previously been federally funded. As a consequence, during the last ten years there has been a tendency for most states to increase taxes, whether they had recently adopted an income tax or not.

While the conventional argument that once an income tax is in place, it will be easier for the Texas Legislature to raise tax rates is compelling, there is little in the literature to support or refute it. Whether or not it would be easier to increase an income tax than, say, a sales tax is debatable.

## **ARGUMENTS IN FAVOR OF A STATE INCOME TAX**

The principle arguments in favor of the personal state income tax for Texas is that the State desperately needs a major new source of revenue to solve the huge deficit it faces and that an income tax is more fair than the alternatives being studied. It has also been argued that since a state income tax is deductible from federal income tax, many middle and upper income earners should find it preferable to a further expansion of the sales tax.

### **The Fairness Argument**

When it comes to taxes, judgements of fairness often seem to be biased by self-interest. Nevertheless, most people do share a common notion of what constitutes fair taxation. As long ago as 1776, Adam Smith stated that the citizens "of every state ought to contribute toward the support of government as nearly as possible in proportion to their respective abilities." While we may debate whether a "flat-rate" tax or a "progressive" tax is more fair, we can generally agree that wealthy people and high income earners should pay more than people who are poor and have low incomes. A recent study by the Citizens for Tax Justice raises serious questions as to whether or not Texas' present system meets this criterion of fairness.

According to the report, *A Far Cry From Fair*, the Texas tax structure is one of the most regressive in the United States.<sup>11</sup> The poorest families in Texas pay about five times more of their incomes to sales and excise taxes than do the wealthiest families. Families who fall in the bottom 20 percent of our income distribution will, on the average, pay 17.1 percent of their income in state taxes, while those in the top one percent will pay only 3.1 percent of their income to state taxes. The problem is Texas' heavy reliance on sales taxes. Poor families spend a much larger portion of their incomes on taxable items than wealthier families.

The perceived painlessness of the sales tax is merely an illusion. As sales taxes have gone up, taxes

have gone up. The impact of a tax is the same whether it is collected throughout the year in nickels and dimes or withheld from a pay check.

One of the proposals for solving Texas' financial plight is to broaden the base of the sales tax to include services. According to the State Comptroller's Office, approximately \$1 billion could be raised by extending the sales tax base to include physicians, dentists, lawyers, engineers, architects, accountants and custom computer and software and data service providers. From the point-of-view of fairness, this is questionable at best. If these service providers are made liable for collecting sales tax, they will not be the ones that end up paying. A large portion, if not most, of this tax will be passed along to users. Such an effort would only tend to make an unfair tax more unfair.

### **A State Income Tax is Deductible from Federal Income Tax**

The Tax Reform Act of 1986 adds a new dimension to consideration of a state personal income tax in Texas. Last year, the State collected in the neighborhood of \$40 billion in sales taxes. These taxes are no longer deductible for individuals when computing federal tax liabilities.

On the other hand, residents of the 43 states which have a personal income tax are able to deduct a portion of their state tax burden from their federal taxes. These people pay less taxes to the federal government than their counterparts in Texas. Under these conditions, Texans are in effect subsidizing citizens in other states because they are paying a larger share of the federal tax bill. Middle and higher income earners (those completing the Form 1040) need to take a closer look at the tax consequences of an income tax versus an expansion of the sales tax in Texas.

## **SUMMARY AND CONCLUSIONS**

There has traditionally been significant opposition to a state personal income tax in Texas. Granted there are good reasons to oppose an income tax. But there are also good reasons to oppose more sales taxes or higher property taxes. Unfortunately, any alternative to a state personal income tax seems to be a tax at least as objectionable.

Some may still call for further budget cuts, but this is no longer realistic. Efforts to solve Texas' current budgetary problems by cutting budgets of State agencies would reduce services to an unacceptable level. As has been pointed out in this article, Texas is already falling behind in education and the development of its infrastructure. Further budget cuts would simply further reduce Texas' competitiveness in industrial and economic development.

If Texas is to remain competitive in attracting and developing industry in the 21st century, it must do a better job in developing the proper climate--a skilled labor force, universities with strong research and technical capabilities, modern transportation systems, adequate health care

and correctional facilities, and the other amenities that will contribute to improving the quality of life for all Texans. And all indications are that Texans can afford to spend more on education and other state services that are needed.

Texas ranks 46th among the 50 states in all taxes collected. Tax burdens in Texas, when adjusted for inflation, have actually decreased during the last decade while most other states have increased their taxes. If Texas is to be competitive in education and other state services such as health care, human services, parks and wildlife, and highways, it will be necessary for Texas to increase its support of state government to levels comparable to other states.

In view of the \$4.6 billion deficit faced by the State of Texas, the Legislature is no longer asking the question: "Do we really need to raise taxes?" The question now is: "What kind of new taxes?" As the legislators weigh the pros and cons of various tax proposals in their efforts to solve Texas' budget dilemma, they may well discover that the state personal income tax is worthy of further consideration. Hopefully, as our leaders chart the course of Texas into the 21st century, they will decide that it is time for Texans to set aside outdated pride and politics and put in place a tax structure that will help Texas regain its greatness.

## NOTES

<sup>1</sup>This estimate of the budget shortfall was recently published in Scott Rothschild, "Connally Not Convinced State Income Tax Needed," Time Record News, April 26, 1991.

<sup>2</sup>See Dwight Lee (ed.), Taxation and the Deficit Economy, (San Francisco: Pacific Institute, 1986) for a detailed explanation of views of the supply-side economists on income taxes.

<sup>3</sup>Ralph T. Byrns and Gerald W. Stone, Economics, 4th ed., (Glenview, Ill: Scott Foresman and Company, 1989), pp. 208-210.

<sup>4</sup>Joseph A. Pechman, Federal Tax Policy, 5th ed. (Washington, D.C.: Brookings Institution, 1987), pp. 76-77.

<sup>5</sup>Thomas R. Plaut and Joseph E. Puta, "Business Climate, Taxes and Expenditures, and State Industrial Growth in the United States," Southern Economic Journal, July 1983, pp. 99-119. Plaut was at the University of Texas when this study was completed. He is now serving as a senior economist for revenue forecasting in the State Comptroller's Office.

<sup>6</sup>James L. Fisher, Dean M. Hanink, and James O. Wheeler, Industrial Location Analysis: A Bibliography, 1966-1979, (Athens: University of Georgia, Department of Geography, 1979), and Benjamin H. Stevens, and Carolyn A. Brackett, Industrial Location: A Review and Annotated Bibliography of Theoretical, Empirical and Case Studies, (Philadelphia:

Regional Science Research Institute, 1967).

<sup>7</sup>L. Jay Helms, "The Effect of State and Local Taxes on Economic Growth: A Time Series-Cross Section Approach," The Review of Economics and Statistics, November 1985, pp. 574-81.

<sup>8</sup>David S. Dahl and Samuel H. Gane, "The Impact of State and Local Taxes on Economic Growth," Regional Scientific Perspectives, Vol. 10, No. 2, 1980, pp. 3-9.

<sup>9</sup>As quoted by Jennifer Dixon, "Texas Gets Bad Grades on Business Climate," Wichita Falls Times and Record News, April 23, 1991.

<sup>10</sup>Thomas R. Dye, "A Texas Income Tax: Fueling Government, Stalling the Economy," Unpublished manuscript prepared for the Texas Public Policy Foundation, San Antonio, Texas.

<sup>11</sup>Robert McIntyre, Douglas Kelly, Michael Ettlinger, and Elizabeth Fray, A Far Cry From Fair, Washington, D.C.: Citizens for Tax Justice, 1991. The regressive nature of taxes in Texas is not new. It was pointed out earlier in Daniel B. Suits, "Measurement of Tax Progressivity," The American Economic Review, Vol. 67, No. 4, 1977, pp. 747-52.



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# THE REVENUE RECONCILIATION ACT OF 1990: SUBSTANTIAL TAX CHANGES TAKE EFFECT IN 1991

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On October 27, 1990, Congress passed the Revenue Reconciliation Act of 1990. President Bush signed it into law on November 5. The Act makes significant changes in individual tax rates, freezes the maximum rate on capital gains, and includes a limitation on itemized deductions and a phaseout of the personal exemptions above certain income levels. Other changes include an increase in FICA taxes, an excise tax on some luxury items, and other excise taxes. Other provisions of the act affect corporations and extend through 1991 some deductions and credits which were to expire at the end of 1990.

The purpose of this article is to discuss the major provisions of the Revenue Reconciliation Act of 1990 (referred to as the Act) concerning taxation of individuals. A brief discussion of excise taxes of particular interest to consumers is provided, and other miscellaneous provisions of the act are summarized.

## INDIVIDUAL TAXPAYERS

Individuals were the group hardest hit by the new tax law, especially "high income" individuals. Two of the major "tax increase" provisions of the act involve the phaseout of personal exemptions and the limitation on itemized deductions.

### Personal Exemptions

The deduction for personal exemptions is phased-out as the taxpayer's adjusted gross income exceeds \$150,000 for joint returns, \$125,000 for heads of households, \$100,000 for single taxpayers, and \$75,000 for married persons filing separately. The exemption is phased out by two percent (four percent for married filing separately) for each \$2,500 (or fraction thereof) in excess of the threshold amount. For example, a married couple filing a joint return who had adjusted gross income of \$162,000 would be required to reduce their personal exemption deduction by ten percent. For a married couple filing jointly, the personal exemption deduction would be completely eliminated when adjusted gross income exceeds \$272,500.

### Allowable Itemized Deductions

Allowable itemized deductions are reduced by three percent of the taxpayer's adjusted gross income exceeding \$100,000 (\$50,000 for married filing separately). However, allowable itemized deductions may not be reduced by more than 80% of certain itemized deductions including state and local income taxes, real estate and qualifying personal property taxes, interest other than investment interest, contributions, moving expenses, and miscellaneous itemized deductions.

In addition to the limitation on certain itemized deductions, "unnecessary" cosmetic surgery is no longer deductible as a medical expense. Unnecessary cosmetic surgery is defined as surgery designed to correct a deformity that is not congenital or caused by personal injury or disease.

### Effect on Marginal Tax Rates

The phaseout of personal exemptions and the limitation on itemized deductions effectively increase the marginal tax rates. The effective increase in marginal rates during the phaseout of personal exemptions amounts to about one-half of one percent per personal exemption. The effective increase in marginal rates due to the limitation on itemized deductions is .93 percent.

### Revision of Tax Rates

The old 33% "bubble" rate has been replaced with a 31% marginal income tax rate. However, where the old "bubble" rate reverted back to 28% at higher income levels, the new 31% tax rate is effective for taxable income above the following amounts for 1991:

Single taxpayer .....	\$49,300
Married, filing jointly .....	\$82,150
Head of household .....	\$70,450
Married, filing separately .....	\$41,075

## Long-term Capital Gains

Net long-term capital gains will continue to be taxed at the maximum rate of 28%. However, the rate will effectively be 28.93% for any amount of capital gains which creates a phase-out of itemized deductions. The effective rate for capital gains which places adjusted gross income in the personal exemption phase-out range will be even greater depending upon the number of personal exemptions as noted above.

## Alternative Minimum Tax

The alternative minimum tax rate has increased to 24% (from 21%). The Act also suspends for one year, 1991, the alternative minimum tax preference treatment of charitable contributions of appreciated tangible personal property which is long-term capital gain property and meets the related use test. Furthermore, the three percent reduction of itemized deductions in excess of \$100,000 that applies for regular tax purposes will not apply to the calculation of the alternative minimum tax.

## Increase in Medicare Tax

The Act increases the Medicare Hospital Insurance component of FICA taxes by raising the income ceiling subject to this 1.45 percent tax to \$125,000. The 6.2 percent OASDI (Social Security) tax will apply only to the first \$53,400 of income during 1991. Both the \$125,000 cap and the \$53,400 cap will be indexed annually for inflation.

In addition to the increases in the caps on these taxes, the coverage of OASDI and the Medicare Hospital Insurance payroll taxes is extended to include state and local government workers who are not covered by a retirement system in conjunction with their employment for a state or local government. The rates and amounts of these taxes are the same as discussed above. This part of the Act is effective for services performed after July 1, 1991. Certain state or local government employees will continue to be exempt such as students employed by public schools, universities, and colleges, for whom coverage may be provided at the option of the state government.

## Other Provisions Affecting Individuals

For low-income taxpayers, the rate of the earned income credit will gradually increase from 14% to 23%, and an additional amount of credit is allowed for families with two or more children. In addition, the credit is increased if any of the children are under one year of age at the end of the taxable year. An additional credit is available for qualified insurance expenses.

The Act requires taxpayers to provide a taxpayer identification number for any dependent who has attained the age of one year as of the close of the taxable year. The previous rule required reporting of the Social Security number of dependents who are at least two years old

before the close of the tax year.

## EXCISE TAXES

### Luxury Tax

Luxury taxes included in the Act are expected to provide substantial sums, approximately \$70 billion per year by some estimates. A ten percent excise tax is imposed on the portion of the retail price of the following luxury items that exceeds the following threshold amounts:

Aircraft .....	\$250,000
Boats and Yachts .....	\$100,000
Automobiles .....	\$30,000
Jewelry and Furs .....	\$10,000

The excise tax on luxury items applies to sales after 1990 and before 2000. The tax applies only to the first retail sale of newly manufactured items.

### Gas Guzzler Tax

The gas guzzler tax rates of the prior laws are doubled. The tax now begins at \$1,000 for automobile models with mileage ratings of at least 21.5 but less than 22.5 miles per gallon. The rate increases to \$7,700 for automobile models with mileage ratings of less than 12.5 miles per gallon. The gas guzzler provision applies to all passenger automobiles with an unloaded gross vehicle weight of 6,000 pounds or less; however, all limousines are subject to the tax regardless of weight.

### Gasoline, Diesel, and Special Motor Fuels Tax

Excise taxes on gasoline, diesel and special motor fuels are increased by five cents per gallon. A two cent per gallon tax is imposed on refined petroleum products including gasoline, diesel fuel, aviation gasoline and jet fuel kerosene and residual fuel oil. Fuel used in manufacturing and agriculture endeavors are exempt from this tax which is generally paid by refiners of petroleum products and by importers.

### Beer, Wine, Spirits, and Tobacco Tax

The Revenue Reconciliation Act of 1990 doubled the excise tax on beer to \$18 a barrel, increased the excise tax on distilled spirits by one dollar per gallon, and increased the excise tax on still wines and artificially carbonated wines by 90 cents per wine gallon. Small domestic producers of beer and wine are exempted from the new provisions. Small producers will pay the same rate of tax as under the old law.

The excise taxes on all tobacco products are increased by 25% on January 1, 1991 with another increase due on January 1, 1993. This translates to an increase of

four cents per pack of cigarettes on January 1, 1991.

### **Other Excise Tax Provisions**

The tax on passenger tickets and air freight is increased by 25%. The ticket tax is increased from eight percent to ten percent. Additionally, the Airport and Airway Trust Fund excise taxes are extended through 1995. The three percent telephone excise tax is permanently extended.

### **OTHER PROVISIONS OF THE ACT**

The Act includes a large number of other provisions which have not been discussed in this article. Several of the provisions in the Act involve the extensions (with clarifications and modifications) of provisions which were to expire at the end of 1990. These include the Targeted Jobs Tax Credit Business Energy Tax Credits, Research and Experimentation Tax Credit, and the Low-income Rental Housing Tax Credit among others.

Other provisions of the Act include new tax credits and modifications of deductions which are designed to encourage production of alternative energy sources and to enhance oil recovery. Still other provisions involve the extension of existing taxes to increase amounts available for clean-up of pollution and hazardous waste as well as additional excise taxes on ozone-depleting chemicals.

### **CONCLUDING REMARKS**

Other more specialized provisions of the Act involve corporate taxation, estate taxation, and a significant number of miscellaneous provisions which may be of interest to particular individuals. These include the extension of the statute of limitations for collecting taxes, suspension of the statute of limitations for the assessment of tax during the litigation period, and an expanded definition of cash and increased penalties for intentionally disregarding reporting requirements involving cash received in a trade or business.

Readers who are interested in learning more about the Revenue Reconciliation Act of 1990 may wish to obtain a copy of the Act itself. Additional information about the Act could also be obtained by contacting almost any certified public accountant, attorney, financial planner or financial consultant.



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# THE 150-HOUR EDUCATION REQUIREMENT: A SURVEY OF STUDENT ATTITUDES

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## INTRODUCTION

In 1988, the American Institute of Certified Public Accountants (AICPA) amended its bylaws to require a 150-hour education program for all new members after the year 2000. As a result, some states have already imposed a 150-hour education requirement in order to sit for the CPA exam. This requirement is currently in effect in Florida, Hawaii, and Utah. More and more states are following the lead of the AICPA in requiring an additional 30 hours of college education. Another seven states including Kentucky have implemented similar statutes which will take effect at various times during the next decade.

Texas is also planning to require additional education in order to sit for the CPA exam. The current proposal suggests September 1997 as the starting date for the new requirement. How these new requirements will affect the pool of future accountants is unknown. As these additional education requirements are being implemented, the number of persons approaching college age is diminishing. The purpose of this study is twofold: To learn of student attitudes toward: (1) the 150-hour education requirement; and (2) to gain an insight of how to best utilize the additional 30 credit hours.

## BACKGROUND

A 150-hour education requirement for accounting students is not a recent issue for the profession. As early as 1959, the AICPA Council recommended that graduate education should be mandated for careers in public accounting. Ten years later the AICPA issued the Beamer Report which specifically called for increased educational requirements for CPAs. This position was reaffirmed by the AICPA in 1978 and again in 1983. The 1983 report justified its position in stating that the dramatic expansion in the body of accounting knowledge and the changing structure and environment of accounting practice required additional education.

The added education requirement is supported by many accounting educators and practitioners, but there are also dissenters. On the positive side, students

will have the opportunity to gain a more broad-based education and also gain additional technical knowledge. The extra courses will better prepare students for a professional career in a continuously changing profession. On the negative side, the incremental cost of acquiring an additional 30 hours of accounting education may unduly restrict entry to the accounting profession, and it may fall especially hard on the disadvantaged. Further, higher educational standards may cause some of the most capable and highly motivated students to reject accounting as a major and thereby exacerbate the problems of staffing and professional competency.

The timing of implementing this requirement is a concern because of a decrease in the number of college age students. For example, the majority of the current college population was born between 1965 and 1970. The birth rate in these two years was 19.4 and 18.4 per thousand, respectively. The birth rate in 1975 was 14.6 per thousand (U.S. Bureau of the Census, 1990). Those children born in 1975 will be starting college in three to four years, just as the increased education requirement comes into force.

The latter part of the past decade is also marked by a continuous slide in the number of accounting degrees conferred at institutions across the nation. The number of accounting degrees conferred in the late eighties is similar to the number conferred ten years earlier. On the other hand, the percentage of female accounting graduates has increased substantially, from 14.0 percent in 1978-89 to over 50 percent today (Williams, 1989). The number of accounting graduates may have been sharply curtailed without women entering the profession in large numbers. Further, the relative starting salaries of accounting graduates have experienced a decline over the past decade, undoubtedly diminishing the interest in studying accounting (Williams, 1989). It is evident that accounting faces increasing competition from other disciplines and is already losing students to other areas.

Many concerns arise in connection with a mandated increase in the education requirement, which lead to some specific questions. What type of students are willing to meet the new higher education requirement? What type of students will this pool consist of? How can

the increase in credit hours best be utilized?

Several studies have examined the attitudes of both educators (see for example Hoshower, 1989) and practitioners (see for example Ortinau, Engle and Siebel, 1989) about some potential effects of the new requirement. However, to date, scant attention has been given to the attitudes of the accounting students. Rather than assessing student reactions third hand, this study approaches students directly. It is of interest to learn how the students react to some of these issues, and not only how educators and practitioners expect them to react.

## SURVEY

Four classes containing mainly juniors and seniors, two at Southwest Texas State and the other two at the University of Kentucky, were asked to complete questionnaires. Kentucky has mandated a 150-hour education requirement for all individuals sitting for the CPA exam after 2000, and Texas is expected to do the same starting September 1997.

Many of the students surveyed may escape the added 30 hours, but they may also feel at a competitive disadvantage in the long run. However, for those who postpone the decision of whether or not to become a CPA, the new requirement has serious implications. The new education requirement has recently been debated in both states, which means the issue is fresh on the minds of the accounting students. In spite of the fact that some of the students surveyed may avoid the new education requirement, their insights are important as an indication of how both they and future students may react.

For discussion purposes, the survey is divided into three major categories. The first section deals with student attitudes about the profession. The second section addresses the adequacy of the current four-year program and suggests allocation of the additional 30 credit hours, and the third section discusses the impact of the new education requirement on career choices.

## RESULTS

A seven point Likert scale was used to measure the responses to the survey questions. The public accounting profession is concerned about the capabilities of students who are interested in pursuing a career in public accounting. Consequently, it is of interest to learn if the issue of additional education is perceived differently by students with higher versus lower GPAs. Thus, the sample was divided into two groups, students with a grade point average (GPA) of a 3.0 or greater and students with a GPA lower than 3.0.

Students in both states exhibit a similar pattern of responses even though the implementation of the education requirement is expected to be somewhat more imminent in Texas than in Kentucky. The responses of students planning a career in public accounting are not significantly different than those of the rest of the students. Income level, gender, and age do not significantly alter response patterns either.

## STUDENT ATTITUDES

The importance of obtaining a CPA certificate and the perceived value of an added year in college are addressed by questions one to four of the questionnaire. All the questions and responses by the students surveyed appear in the appendix.

The students overwhelmingly feel that it is important to obtain a CPA certificate and only a minority of students would be content to work as para-professionals. Most students stress the importance of the CPA certificate, but students with GPAs above 3.0 are almost in complete agreement on the importance of obtaining the professional certification. The average response of students with GPAs above 3.0 is 6.35 on a seven point Likert scale. The group with a lower GPA averages 5.62. Further, the students surveyed generally feel that a 150-hour program enhances the status of the accounting profession, which is shown by an overall average response of 5.63. Students with GPAs above 3.0 indicate some willingness (average response is 4.38) to complete the additional 30 hours to maintain their standing in the profession. On the other hand, students with lower GPAs are somewhat more ambivalent on the issue as indicated by an average response rate of 3.69.

Questions five and six address the cost of mandated additional education. The consensus among the students indicates that the cost of a fifth year of education is somewhat of a concern and the students report similar feelings in the proposition that the benefits exceed the cost. The overall average responses are 4.58 and 4.54, respectively.

It is fair to say that the designation as a certified public accountant is important to many of the students. They seem to understand the need for additional education and are willing to stay in college an additional year in order to obtain the necessary qualifications to sit for the CPA exam. It is worth emphasizing that the students also tend to support the retention of the four-year program for those students whose future plans do not include the pursuit of a CPA certificate.

## ALLOCATION OF ADDITIONAL CREDIT HOURS

The adequacy of a four-year accounting curriculum and the composition of the proposed fifth year are the issues addressed by questions seven and eight. There is some indication (average response rate equals 4.63) that many of the students feel that the body of accounting knowledge is too large to be taught in four years. At the same time, the students indicate a lack of agreement (average response rate equals 3.99) as to whether accounting courses should emphasize broad concepts or detail knowledge.

An issue of controversy is how to best utilize the additional hours required. Almost half of the practitioners surveyed by Arnold and Geiselhart in 1984 favored a broad-based business education. These results are not unlike the aggregate response of the academicians in the 1989 study by Hoshower.

The students, however, appear to have a somewhat different point of view. They are less enthusiastic about an emphasis on a broad-based education as opposed to a concentration on acquiring technical skills in accounting and other business courses. Table 1 shows the suggested allocation of the students surveyed of the additional 30 hours of education between various courses.

**TABLE 1**

<b>Allocation of Additional Credit Hours</b>	
<u>Suggested Courses</u>	<u>Percentage</u>
Accounting courses	31.76%
Accounting internship	22.26%
Computer courses	16.77%
Written and verbal communication	14.34%
Other business courses	11.39%
Liberal arts courses	3.48%
<b>Total</b>	<b>100.00%</b>

Overall, the students suggest that more than 82 percent of the fifth year requirement should be allocated to business and computer related courses. More than 50 percent should be spent on accounting courses and accounting internships, indicating that to a large extent the students look on the additional 30 hours as an opportunity for accounting specialization. There is some recognition of the need for communication courses, but virtually no interest in a broad-based education, i.e. liberal arts courses.

Faculty and employers, on the other hand, view the extra credit hours as an opportunity for greater generalization and improvement of communication skills. It is apparent that the students wish to use the additional hours to learn more about accounting and not to gain a general background as proposed by practitioners and academicians. This, in turn, indicates a lack of understanding on the part of the students of the tools needed for a successful career in accounting.

**CAREER CHOICE**

Items 9 through 13 measure the effects of additional education requirements on the students' desire to pursue a career in accounting. It was found that students are generally inclined to pursue a five-year degree in accounting even if a choice of a four-year plan is still available. Students with GPAs above 3.0 are not very interested in pursuing a four-year degree program if it does not qualify them to sit for the CPA exam. Students

are divided on whether a current five-year requirement would adversely influence their decision of pursuing a career in public accounting. The overall average response rate is 4.56 with a standard deviation of a 1.85 for both groups. A concern has occasionally been voiced that students may leave their home state if the added education requirement is not adopted in all states simultaneously. Few of the students in either group expressed a willingness to take such a step. The final survey question asks the students whether, all things considered, they favor the five-year requirement. The response is somewhat mixed. The average response rate is 4.45 with a standard deviation of 1.69. Irrespective of the change in the education requirement, almost half of the students with a higher GPA would major in accounting. Table 2 indicates, however, that a third of all students would choose another major, and about one quarter of the students are undecided on the issue.

**TABLE 2**

	<b>Effect of the 150-Hour Requirement on Choice of Major</b>		
	<u>Yes</u>	<u>No</u>	<u>Do not Know</u>
I would major in accounting even if the 150-hour requirement was already in effect and mandated for all accounting majors.	42%	34%	24%
Students with a GPA $\geq$ 3.0	46%	29%	25%
Students with a GPA $<$ 3.0	32%	43%	25%

**SUMMARY**

The findings of this study suggest that the pool of college students traditionally interested in public accounting, i.e. undergraduate accounting majors, may decrease as a result of the new education requirement. It is difficult to assess how serious an impact the 150-hour requirement may have on students' interest in public accounting, but a significant number of the students surveyed express a hesitancy to commit to further education in order to major in accounting. Students with lower GPAs indicate the most reluctance to choose accounting as a major if a 5-year program was a mandated degree requirement.

This study surveyed mostly students who are already committed to accounting. These students express an overwhelming desire to attain professional certification and even though not everybody supports the change in the degree requirement, the wish to qualify as a certified public accountant may aid in convincing students interested in accounting to remain in college for another year.

The students want to use the additional year for more in-depth study of accounting and business related subjects. On the other hand, the students only indicate a minimal interest in taking courses that would improve their communication skills and virtually no interest in liberal arts courses. This is contrary to the view of faculty and employers who would like to see improved communication and analytical skills from the entry-level staff.

In-depth technical skills are often learned on the job, but analytical and communication skills need to be developed over a period of time. Without current updates, specific knowledge often becomes obsolete within a short period of time. In-house training handles continuing education by conveying current updates in an ever changing environment. On the other hand, the years in college are ideally suited for teaching analytical and communication skills, which are time-consuming but rarely outdated. It is apparent that the students perceive that the possession of technical skills is the road to success and that they do not realize the importance of communication and analytical skills for many positions in accounting. Accounting students must be convinced of the value of a broad-based education, something which is essential in the current environment.

Public accounting firms now hire graduates with degrees in areas other than accounting. In 1987-88, 18 percent of the recruits did not have accounting degrees. The percentage is expected to be around 31 percent for 1988-89 (Walsh and McInnes, 1989). The accounting students need to acquire some of the broad-based education valued by prospective employers, not only to remain competitive but to have an edge over other graduates.

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## APPENDIX

Survey Questions and Responses	Strongly Disagree					Strongly Agree	
	1	2	3	4	5	6	7
1. If I am an accountant, I feel it is important to become a CPA.	0	0	4	8	12	39	51
Overall	Mean					St. Dev.	
GPA >=3.0	6.01					1.07	
GPA < 3.0	6.35					0.89	
	5.62					1.23	
2. A 5-year program enhances the status of the accounting profession.	0	4	4	14	19	40	33
Overall	5.63					1.31	
GPA >=3.0	5.63					1.37	
GPA < 3.0	5.63					1.20	
3. When Texas (Kentucky) imposes a 150-hour requirement to obtain a CPA license, I will enroll for another 30 hours of college credit after graduation to maintain my professional standing.	13	12	10	24	27	19	8
Overall	4.14					1.76	
GPA >=3.0	4.38					1.76	
GPA < 3.0	3.69					1.69	
4. I would be willing to work as a para-professional in public accounting with a 4-year degree.	29	24	19	18	14	9	0
Overall	2.92					1.62	
GPA >=3.0	2.74					1.49	
GPA < 3.0	3.26					1.82	
5. The cost of remaining in college an additional year is an impediment to obtaining a 5-year degree.	4	13	9	24	29	21	14
Overall	4.58					1.62	
GPA >=3.0	4.41					1.69	
GPA < 3.0	4.90					1.45	



6. In my opinion, the benefits of a fifth year exceed the cost.

Strongly Disagree				Strongly Agree							
1	2	3	4	5	6	7					
4	11	11	29	24	22	13					
Mean				St. Dev.							
4.54				1.59							
GPA >=3.0				4.56				1.65			
GPA < 3.0				4.51				1.48			

Overall  
GPA >=3.0  
GPA < 3.0

7. More accounting courses are needed for an accounting major to master the subject of accounting successfully.

Strongly Disagree				Strongly Agree							
1	2	3	4	5	6	7					
3	7	14	24	37	13	15					
Mean				St. Dev.							
4.63				1.49							
GPA >=3.0				4.51				1.49			
GPA < 3.0				4.85				1.48			

Overall  
GPA >=3.0  
GPA < 3.0

8. Accounting education in general should be primarily concerned with broad concepts as opposed to technical accounting topics.

Strongly Disagree				Strongly Agree							
1	2	3	4	5	6	7					
4	16	26	25	21	18	4					
Mean				St. Dev.							
3.99				1.50							
GPA >=3.0				3.96				1.46			
GPA < 3.0				4.05				1.61			

Overall  
GPA >=3.0  
GPA < 3.0

9. If the 150-hour requirement were in force now, my decision to pursue, or not to pursue, a career in public accounting would be unaffected by the additional education requirement.

Strongly Disagree				Strongly Agree							
1	2	3	4	5	6	7					
8	12	16	12	22	26	18					
Mean				St. Dev.							
4.56				1.85							
GPA >=3.0				4.59				1.88			
GPA < 3.0				4.51				1.83			

Overall  
GPA >=3.0  
GPA < 3.0

10. Even with a five-year requirement for CPAs, the four-year degree plan should remain in existence for those who are not interested in obtaining a CPA license.

Strongly Disagree				Strongly Agree							
1	2	3	4	5	6	7					
9	6	9	14	25	24	27					
Mean				St. Dev.							
4.93				1.83							
GPA >=3.0				4.93				1.90			
GPA < 3.0				4.92				1.72			

Overall  
GPA >=3.0  
GPA < 3.0

11. When Texas (Kentucky) imposes a 150-hour requirement to obtain a CPA license, I may move to another state in order to practice public accounting without the additional education requirement.

Strongly Disagree				Strongly Agree							
1	2	3	4	5	6	7					
40	21	20	12	6	7	7					
Mean				St. Dev.							
2.75				1.85							
GPA >=3.0				2.86				2.05			
GPA < 3.0				2.54				1.41			

Overall  
GPA >=3.0  
GPA < 3.0

12. If the 150-hour requirement were currently a prerequisite for the CPA exam, I would choose to become an accountant without becoming a CPA which would prevent me from working in public accounting.

Strongly Disagree				Strongly Agree							
1	2	3	4	5	6	7					
24	29	18	16	16	7	3					
Mean				St. Dev.							
3.04				1.68							
GPA >=3.0				2.76				1.69			
GPA < 3.0				3.56				1.54			

Overall  
GPA >=3.0  
GPA < 3.0

13. Overall, I favor the 150-hour (or 5-year) requirement.

Strongly Disagree				Strongly Agree							
1	2	3	4	5	6	7					
5	15	11	22	26	21	13					
Mean				St. Dev.							
4.45				1.69							
GPA >=3.0				4.46				1.66			
GPA < 3.0				4.44				1.77			

Overall  
GPA >=3.0  
GPA < 3.0

1. If I am an accountant, I feel it is important to become a CPA.

Strongly Disagree				Strongly Agree			
1	2	3	4	5	6	7	
1	2	3	4	5	6	7	

2. A 5-year program enhances the status of the accounting profession.

Strongly Disagree				Strongly Agree			
1	2	3	4	5	6	7	
1	2	3	4	5	6	7	

3. When Texas (Kentucky) imposes a 150-hour requirement to obtain a CPA license, I will enroll for another 30 hours of college credit after graduation to maintain my professional standing.

Strongly Disagree				Strongly Agree			
1	2	3	4	5	6	7	
1	2	3	4	5	6	7	

4. I would be willing to work as a para-professional in public accounting with a 4-year accounting degree.

Strongly Disagree				Strongly Agree			
1	2	3	4	5	6	7	
1	2	3	4	5	6	7	

5. The cost of remaining in college an additional year is an impediment to obtaining a 5-year degree.

Strongly Disagree				Strongly Agree			
1	2	3	4	5	6	7	
1	2	3	4	5	6	7	

6. In my opinion, the benefits of a fifth year exceed the cost.

Strongly Disagree				Strongly Agree			
1	2	3	4	5	6	7	
1	2	3	4	5	6	7	

7. More accounting courses are needed for an accounting major to master the subject of accounting successfully.

Strongly Disagree				Strongly Agree			
1	2	3	4	5	6	7	
1	2	3	4	5	6	7	

8. Accounting education, in general, should be primarily concerned with broad concepts as opposed to technical accounting topics.

Strongly Disagree				Strongly Agree			
1	2	3	4	5	6	7	
1	2	3	4	5	6	7	

9. If the 150-hour requirement were in force now, my decision to pursue, or not to pursue, a career in public accounting would be unaffected by the additional education requirement.

Strongly Disagree				Strongly Agree			
1	2	3	4	5	6	7	
1	2	3	4	5	6	7	

10. Even with a 5-year requirement for CPAs, the four year degree plan should remain in existence for those who are not interested in obtaining a CPA license.

Strongly Disagree				Strongly Agree			
1	2	3	4	5	6	7	
1	2	3	4	5	6	7	

11. When Texas (Kentucky) imposes a 150-hour requirement to obtain CPA license, I may move to another state in order to practice public accounting without the additional education requirement.

Strongly Disagree 1 2 3 4 5 6 7 Strongly Agree

12. If the 150-hour requirement were currently a prerequisite for the CPA exam, would choose to become an accountant without becoming a CPA which would prevent me from working in public accounting.

Strongly Disagree 1 2 3 4 5 6 7 Strongly Agree

13. I would choose a major other than accounting if the 150-hour requirement were in effect now for all accounting majors.

Yes No Do not know

14. If your answer to the above question is yes, indicate the major of your choice.

15. Overall, I favor the 150-hour (or 5 year) requirement.

Strongly Disagree 1 2 3 4 5 6 7 Strongly Agree

16. Please suggest how to allocate the additional 30 hours credit by indicating the number of credits from the areas below (total credit hours should add up to 30).

- Written and verbal communications
Accounting courses
Accounting internship
Other business courses
Computer courses
Liberal arts courses
Other (please specify)

17. Freshman Sophomore Junior Senior

Graduate Student

18. Age

19. Male Female

20. The year you entered college the first time

21. Work experience in accounting: months

22. Overall GPA GPA of your major

23. Major

24. Do you plan to pursue a career as an accountant?

Yes No Do not know

26. Do you plan to begin your career in public accounting?

Yes No Do not know

26. Do you plan to pursue a career in public accounting?

Yes No Do not know

27. Do you plan to go to graduate school within the next 5 years?

Yes No Do not know

28. If you responded yes to question #27, would you continue to graduate school regardless of the current emphasis on additional education?

Yes No Do not know

29. If you respond yes to question #27, please indicated how you plan to finance your graduate studies.

30. Family Income

- <\$20,000
\$20,000 - \$39,999
\$40,000 - \$59,999
>\$60,000

31. Please indicate your primary area of interest in accounting.

- Auditing Financial Managerial
Non-profit Systems Tax

# THE ECONOMIC SIGNIFICANCE OF ALTUS AIR FORCE BASE FOR THE SOUTHWEST OKLAHOMA ECONOMY

JIM HORNER, Professor of Economics, Cameron University

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## INTRODUCTION

The economy of Oklahoma suffered during the 1980s as a result of agricultural and petroleum recessions. The burden of the downturn was not evenly distributed. Some regions of the State, which were heavily dependent on petroleum and agriculture, were hard hit. Southwest Oklahoma fared better due to expenditures of military installations. Altus and the region around it is a case in point, in that the spending to support the programs at Altus Air Force Base provided a stabilizing force for the region's economy.

Each new announcement of Gramm-Rudman budget cuts, post-war defense cuts, and possible closing and realignments of military installations poses new threats to the Southwest Oklahoma economy. This is especially true of cities like Altus whose very existence would be in jeopardy if the Federal Government decided to close Altus Air Force Base.

The purpose of this paper is to focus on the economic significance of Altus Air Force Base to the Southwest Oklahoma economy. Hopefully, these findings will help community leaders and government officials better understand the important role Altus Air Force Base plays in the Southwest Oklahoma economy and the potential loss that might result from its closing. (For the purposes of this paper, Southwest Oklahoma is defined as the economic impact region (EIR) designated by the Cost Analysis Branch of Altus AFB. The region includes Harmon, Greer, Jackson, Kiowa, Tillman, and Comanche counties. The EIR is shown in Figure 1.)

**ECONOMIC IMPACT REGION  
SOUTHWEST OKLAHOMA**

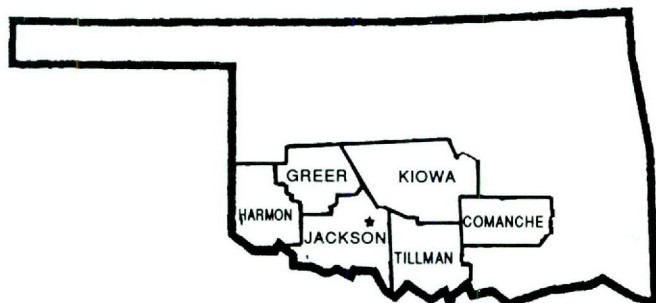


Figure 1

## THE STRUCTURE OF ALTUS AIR FORCE BASE

Altus AFB is located on the eastern edge of Altus, Oklahoma. The base serves as a home for the 443rd Military Airlift Training Wing, the 340th Air Refueling Wing, and the 71st Flying Training Wing. The 443rd provides transition and upgrade training for the aircrews of the Military Airlift Command (MAC). This includes training for the Lockheed C-141 "Starlifter" and the C-5 "Galaxy". The base has a flight simulator for the MAC aircrews. The 44rd also trains Department of Defense (DOD) flight engineers and some foreign students. The 340th Air Refueling Wing conducts training for refueling pilots and performs air refueling operations throughout the world. The 71st Flying Training Wing provides instruction with the T-37 twin engine jet for KC-135 pilots.

There are other missions located at the base as well. These include the 2002nd Communications Squadron; Detachment 4, 17th Weather Squadron; Detachment 4, 17th Audiovisual; Detachment 3, 1600 Management Engineering; Field Training Detachment 403; and Detachment 1020 Air Force Office of Special Investigations.<sup>1</sup>

Table 1 shows the breakdown of Altus AFB personnel by classification and housing location for 1990. Over 3,600 military personnel were stationed at Altus AFB. There were 5,109 military dependents, 566 civilian workers, and 820 contract and private business workers. There was a substantial number of military retirees (over 3000) living in the area as well.

**TABLE 1. PERSONNEL AT ALTUS AIR FORCE BASE BY CLASSIFICATION AND HOUSING LOCATION, 1990**

Classification	Living on Base	Living off Base	Total
U.S. Military (Permanent)	1,281	1,937	3,218
U.S. Military (Trainees)	405	10	415
Civil Service		566	566
Other Civilian Employees		820	820
Military Dependents	1,934	3,175	5,109
Military Retirees			3,134

Source: Economic Impact Statement, Altus AFB Oklahoma, (Altus: Altus Air Force Base, 1990) p.14.

Altus AFB has not been target *yet* for closure or for reduction in force. Nonetheless, it is still important to demonstrate the significance of the base on the Southwest Oklahoma economy.

## THE ECONOMIC SIGNIFICANCE OF ALTUS AIR FORCE BASE

Garland Hadley noted in an earlier study that an economic impact region (EIR) receives economic and non-economic benefits from the expenditures of a military installation. Primary economic benefits include the dollars injected into the EIR (from outside) that fund payrolls; acquisition of materials; goods and services from local businesses; and improvements and maintenance for the physical facilities of the base. The expenditures of military retirees and the expenditures of those who visit the base are also examples of primary economic benefits. Secondary economic benefits are also generated as the funds from the primary benefits are re-spent for goods and services in the EIR. Hadley notes that non-economic benefits (contributions to education, weather forecasting, law enforcement, sports and cultural events) are difficult to measure but do generate significant benefits to the local economy.<sup>2</sup>

The total economic impact of Altus AFB can be shown as:

$$Y = K(SX + MX + CX + R + V)$$

where:

- Y = Total economic impact
- K = EIR Multiplier
- S = Total salaries and wages
- M = Total expenditures for materials, supplies and services
- C = Total expenditures for construction, maintenance and improvements on the physical facilities of the base
- R = Retiree income
- V = Visitor expenditures
- X = Proportion of payroll and other expenditures spent in the EIR

### TOTAL SALARIES AND WAGES

The actual impact of the Altus AFB payroll on the EIR hinges on the proportion of the payroll that is spend *within* the EIR. In turn, the proportion of the payroll spent within the EIR depends on the housing location of the employee (on base or off base) and the classification of the employee (military or civilian). The salaries and wages are adjusted in Table 2 to reflect the proportion of the expenditures that flow into the EIR.<sup>3</sup> Total salaries and wages spent in the local economy are estimated to be \$54,950,013.<sup>4</sup>

In addition to the total wages and salaries flowing into the economy, it is important to gauge the flow from other sources. Materials, supplies and services, and construction contributed \$17,719,350 to the EIR. Construction expenditure estimated at \$12,997,278. The

3,134 military retirees living in the EIR earn an estimated income of \$9,614.<sup>5</sup> This accounts for a total of \$30,130,276. The amount of expenditures flowing into the economy in 1990 as a result of visitors to the base is not totally insignificant. Altus AFB has an "open house" every other year. The average number of visitors in an open house year is 30,000 while the average is 2,000 in "non-open house" years. 1990 was an open house year. The 30,000 visitors in 1990 spent an average of \$65 each. This resulted in a total visitor expenditure of \$1,950,000.<sup>6</sup>

TABLE 2. BENEFITS ACCRUING TO SOUTHWEST OKLAHOMA EIR FROM ALTUS AIR FORCE BASE, 1990.

Source of Benefit	Amount in Dollars	Adjustment Factor	Economic Impact in Dollars
<b>SALARIES AND WAGES</b>			
Military Personnel (on base)	\$21,881,908	0.45	\$9,846,858
Military Personnel (off base)	\$49,443,177	0.59	\$29,171,474
Civil Service	\$12,391,398	0.75	\$9,293,548
Other Civilians	\$8,850,845	0.75	\$6,638,133
<b>TOTAL WAGES &amp; SALARIES</b>			<b>\$54,950,013</b>
<b>MATERIALS, SUPPLIES &amp; SERVICES</b>			<b>\$17,719,350</b>
<b>CONSTRUCTION SERVICES</b>			<b>\$12,997,278</b>
<b>RETIRES</b>			<b>\$30,130,276</b>
<b>VISITORS</b>			<b>\$1,950,000</b>
<b>TOTAL ECONOMIC BENEFITS</b>			<b>\$117,726,917</b>
Times Regional Multiplier			x 1.90
<b>TOTAL DIRECT &amp; INDIRECT ECONOMIC BENEFITS</b>			<b>\$223,681,142</b>

Sources: W.D. Gunter *A Socioeconomic Survey of Air Force Employees (AFESC/DEVP)*, November 1982. *Economic Resource Impact Statement for Altus Air Force Base* (Altus Ok.: Altus Air Force Base, 1990).

The total direct expenditure made by government into the EIR is \$117,726,917. This figure is calculated by summing the adjusted salaries and wages and other categories of expenditures.

### TOTAL ECONOMIC BENEFITS

Total economic benefits are found in summing direct and indirect expenditures flowing into the EIR. Indirect benefits are derived from the multiplier effect; that is to say, a one dollar increase in autonomous consumption spending will result in a greater than one dollar increase in total spending in the EIR. The reverse of this is also true. A one dollar *decrease* in autonomous consumption spending will result in a greater than one dollar *decrease* in total spending. It becomes obvious how important budget cuts or base realignments may be to the Altus AFB EIR.

Assume that budget reductions or base realignments result in the transfer of a pilot from Altus AFB. On the next payday, this pilot will not inject the usual amount of his/her paycheck into the EIR. The rent that the pilot would have paid will no longer be income for the land

owner. The land owner will not be able to spend part of the rental income to take the family out to eat. A portion of the money that would have been spent for eating out will not be spent by the restaurant owner to purchase food supplies. Thus, this decrease in spending creates a "ripple effect" throughout the EIR. The multiplier takes into account the secondary effect of changes in government spending for the local economy. The regional multiplier for the Altus Air Force Base EIR (Southwest Oklahoma) is estimated to be 1.9.

The total direct and indirect economic benefits are estimated by multiplying the total direct expenditures by the regional multiplier. The total direct and indirect economic benefits are estimated to be \$223,681,142.

## CONCLUSION

The economic significance of Altus AFB to the Southwest Oklahoma EIR (economic impact region) can be best understood by comparing the total economic benefits generated by the base to aggregate income figures. Figures 2 and 3 show the total personal income and the total non-farm income for the six counties of the EIR. The Statistical Abstract of Oklahoma indicates that the total personal income for the relevant region is \$2,145,410,000. Non-farm income totals \$2,031,274,000 and accounts for approximately 95 percent of the total personal income.<sup>7</sup> The total income accruing to the Southwest Oklahoma economy from Altus AFB would amount to 9.59 percent -- almost 10 percent of total personal income in the region.

Altus AFB escaped the first round of proposed defense cuts. This is good news for the economy of the EIR. With almost 10 percent of the total personal income being a direct result of the presence of the base, any future cuts in the budget or personnel could have far reaching consequences for the people of Southwest Oklahoma.

## NOTES

<sup>1</sup>Economic Resource Impact Statement for Altus Air Force Base, (Altus: Altus Air Force Base, 1990).

<sup>2</sup>Garland Hadley and Evelyn Walker, "The Economic Significance of Sheppard Air Force Base to the North Texas Economy", Midwestern Business and Economic Review, Spring 1990, pp. 15-18.

<sup>3</sup>The adjustments are based on W.D. Gunther A. Socioeconomic Survey of Air Force Employees, (AFESC/DEV), November 1982.

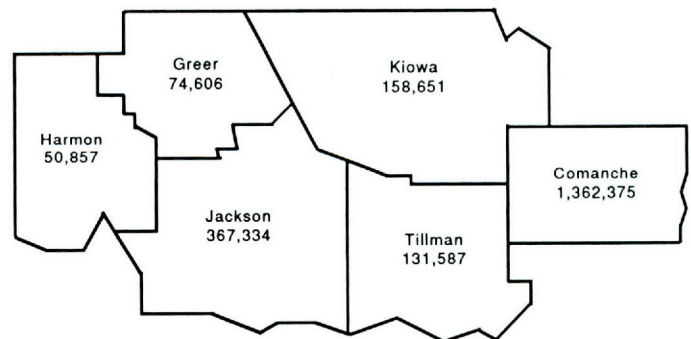
<sup>4</sup>The factors of adjustment are taken from W.D. Gunther, A Socioeconomic Survey of Air Force Employees, (AFESC/DEV), November 1982.

<sup>5</sup>The estimate of \$9,164 is derived from Hadley and Walker (1990). The North Texas EIR and the Southwest Oklahoma EIR are very similar; consequently, this estimate should be relatively accurate.

<sup>6</sup>Hadley and Walker (1990) estimate the average expenditure on an Air Force Base to be \$40 per day for a three day period. Visitors to Altus AFB consist of about one half public school students who visit the base for one day. Their expenditures are estimated at \$10 per day. The other half of the visitors would spend an estimated \$40 a day for a three day visit. Adjusting for these factors, we estimate the average expenditure per visitor to be \$65.

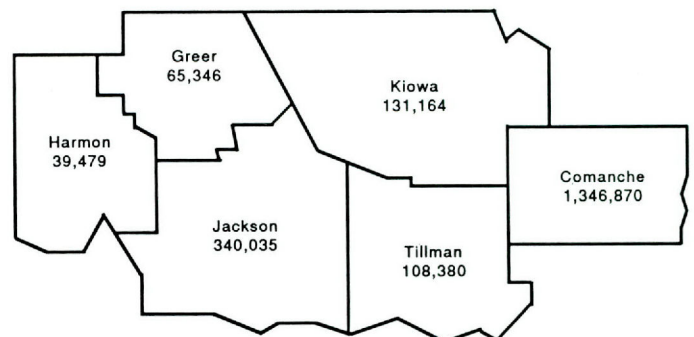
<sup>7</sup>Statistical Abstract of Oklahoma 1990, (Oklahoma City: Center for Economic and Management Research at the University of Oklahoma, 1990).

**TOTAL PERSONAL INCOME  
BY COUNTY  
(in thousands)**



**Figure 2**

**NON AGRICULTURAL INCOME  
BY COUNTY  
(in thousands)**



**Figure 3**



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# A STUDY OF THE PROBLEMS OF SMALL BUSINESS PERSONS IN SOUTHEAST TEXAS

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DR. LYNN GODKIN, Professor of Management, Lamar University

DR. CHARLES McCULLOUGH, Professor of Marketing, Midwestern State University

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## INTRODUCTION

The purpose of this study is threefold. The most significant problems concerning small business owners in Southeast Texas will be identified. The data will then be compared to the findings of the Kansas Small Business Development Center, which conducted a similar study in the fall of 1987. Finally, it is hoped that this problem identification may be interpreted as an assessment of resource and/or information gaps in the Southeast Texas small business community.

## BACKGROUND

Small business activity is vital to the economy serving as a major producer of new services, new products, innovative organizational methods and new technologies. Small businesses tend to create more innovations per employee, and bring those innovations to market faster and with fewer resources than does big business. They can meet special market needs, including those that are highly specialized, are located in geographically isolated areas, or are not affected by economies of scale (Schwammberger, 1987). In addition, one half of the private work force is employed by small businesses.

Small business is important, and in an attempt to provide local support to small businesses, Small Business Development Centers (SBDC) were created. The Small Business Development Centers are a program of the United States Small Business Administration (SBA). They receive joint funding as a partnership between the Small Business Administration, the State and the local institution(s) which may host the center.

Kraft and Goodell (1988) sought, in a 1987-88 state-wide study, to systematically and comprehensively identify and quantify problems encountered by small business people. The research consisted of three phases which were designed to delve into the nature and scope of the problems, as well as to measure their extent and severity as they exist in the business community.

The initial research phase consisted of thirty-one personal interviews with small business "experts" from the eight SBDC geographical regions in Kansas. These professionals included SBDC consultants, bankers,

accountants and attorneys. They provided information based on years of experience working with small business start up and development in communities of all sizes and types through the state. This data provided the framework of issues for the study.

Group interviews with small business people in seven of the eight Kansas SBDC regions comprised the second phase of the study. The additional information gathered from this phase indicated that human problems such as worry, apprehension, frustration, loneliness and the need for support should be addressed.

The final phase of the Kansas study was to survey small business people throughout the state to obtain their feelings on various specific problem areas that had been indicated through the first two research phases. This survey attempted to quantify the extent of problems and determine any relationships between categories of business and specific problems (Kraft and Goodell, 1988).

## METHODOLOGY

This survey of small business owners was conducted in February and March of 1990. The sample was drawn from the entire list of clients served by a subcenter of the SBDC of the University of Houston providing service to Jefferson, Orange, Hardin, Tyler, Jasper, Newton and Chambers counties of Southeast Texas. Of 3,500 questionnaires mailed, 368 were returned for a response rate of 10.5 percent.

The survey was a replication of the survey document used by Kraft and Goodell in Kansas. The study sought to determine if similar general patterns would emerge. In the absence of similar data in the Kansas study, this study sought to identify, if any, demographically-based differentials which might appear. Respondents were asked to rate sixty-seven specific business problems (see Exhibit III) using the following categories:

Not a problem	1
Minor problem	2
Moderate problem	3
Major problem	4
Critical problem	5

## FINDINGS

Of those responding, 68.1 percent were current small business owners, while another 8.3 percent were former owners (Exhibit I). Notably, 98 percent are now actively managing the business and 78 percent are the entrepreneurs who initially founded the business. Almost one-third of the respondents was female and only 8.9 percent were minority ethnic groups. Most (72.2%) were married, and the average household size was 2.9 persons. Only half (54.2%) were college graduates or post graduates.

Three-fifths of the businesses (60%) were proprietorship (Exhibit II). Eight percent (8%) were partnerships, and there was a high percentage of corporations (32%). There was a high percentage (28%) of homebased firms. This trend has been, no doubt, supported by improved computer and communication technologies.

Most (76%) began the business "from scratch". Eighteen percent (18%) purchased the firm while 6 percent of the respondents inherited the business.

The age of small businesses in the Southeast Texas sample was high, with only 34 percent five years of age or less. The median business age was seven years. The 1982 Bureau of the Census report indicated that nationally 31 percent of small businesses are three years of age or younger. This might suggest that our local respondents are more experienced and possibly more successful than average.

Business size of the sample was fairly evenly distributed with 26 percent having gross revenue in 1989 of more than \$500,000, and 26 percent grossing less than \$50,000 in that year. Firm size according to number of employees averaged 7.1 including the proprietor and spouse.

Finally, the category of business of the respondents was heavily weighted to services (48%) and retail trade (26%). Twelve percent (12%) were in manufacturing, and 6 percent were each in construction and wholesale trade.

## SMALL BUSINESS PROBLEMS

There were sixty-seven specific problems of small business addressed in the survey. Because this number was large and difficult to manage, they were first analyzed in fifteen groups of problem categories (Exhibit III). The ranking of these groups of problems is depicted in Exhibit IV.

Because the problems were rated as to severity, they could be analyzed in several ways. In order to obtain a view of the proportion of people who felt that a given problem was very serious, the researchers identified the respondents who believed that the individual problems were either "major" or "critical." This will tend to highlight the proportions of small business people who were most seriously affected by each of the sixty-seven problems. Therefore, these proportions may be used as a demand figure for possible SBDC assistance programs. Exhibit V

shows the top twenty specific problem areas experienced by small business people in southwest Texas. Groups of this size would tend to justify the development of SBDC seminars or workshops focusing on these specific problem areas.

## DEMOGRAPHIC DIFFERENTIALS

At the beginning of the survey, local researchers suspected that there might be differences in problems encountered by different groups of people in the small business community. Because Kraft and Goodell (1988) made mention of such differentials, cross tabulations were done in order to compare responses between males and females, ethnic groups, married and single, and urban and rural sectors in the belief they might come to light.

## SEXUAL DIFFERENCES

Problems experienced by business women are illustrated in Exhibit VI. Six specific problem areas appeared in the top twenty most severe problems for women that were not apparent in the overall tabulations. In order of severity these were:

- \* 38.0% Getting start-up capital
- \* 38.0% Lack of additional resources
- \* 33.3% Personal time and energy limits
- \* 24.0% Selecting advertising media
- \* 23.8% Conflicts with partners
- \* 23.8% Making broad range decisions

There were also five common top twenty specific problems which were experienced by women to a greater degree than men. These were:

	Found "Major" % females	"Critical" %males
* Absorbing start-up losses	47.0%	39.0%
* Paying state taxes	38.0%	31.0%
* Forecasting sales	33.3%	27.5%
* Budgeting expenses	33.3%	23.5%
* Getting state assistance	28.5%	25.4%

Women also experienced more difficulty than men in the areas of:

- \* Exports and selling to foreigners
- \* Getting engineering assistance
- \* Lack of management experience
- \* Determining prices
- \* Learning about competitors
- \* Managing personal finances
- \* Developing a business plan

However, in all other fifty-five specific problem areas, women had proportionately fewer "major"/"critical" problems. Most notable were:



- \* Dealing with government rules
- \* Finding a general consultant
- \* Finding a financial consultant
- \* Establishing credit with capital sources
- \* Establishing trade credit
- \* Feelings of isolation
- \* Delegating responsibility
- \* Distributing the product
- \* Defining the firms market
- \* Managing receivables
- \* Developing new products
- \* Deciding what to sell

## ETHNIC DIFFERENCES

Ethnic differences were also studied by cross tabulation. Groups studied were white, black, Hispanic, American Indian, Asian, and Puerto Rican. Results were very close to overall findings. Notable differences were:

- \* Ethnic minorities seem much less affected by the general state of the economy. The problems of "poor business climate" and "lack of local economic growth" did not appear in their top twenty specific problems.

- \* Minorities do not report "major"/"critical" problems of "personal time and energy limits" and "personal or family stress" that are reported in the overall sample.

- \* Instead, minorities report "major"/"critical" problems in the areas of "doing marketing research," "selling to the government," "exports/selling to foreigners," and "getting engineering assistance."

- \* About fifty percent of non black ethnic minorities reported "major"/"critical" difficulties in "finding a good lawyer" and "finding a good accountant." This was rarely a serious problem as reported by white, black, or female respondents.

## MARITAL STATUS DIFFERENCES

Cross tabulation was also completed in regard to marital status. Singles had notably greater difficulty than those that were married in the problem areas:

- \* Forecasting sales
- \* Doing marketing research
- \* Learning about competitors
- \* Finding a marketing consultant
- \* Obtaining a local assistance (Chamber of Commerce, trade associations, local university and high school)
- \* Paying employer benefits
- \* Delegating responsibility
- \* Conflicts with partners
- \* Using government data
- \* Selling to the government
- \* Getting engineering assistance

Small business people who were married reported proportionately greater difficulties than their single counterparts in:

- \* Determining prices
- \* Developing advertising
- \* Managing personal finances
- \* Managing receivables
- \* Lack of additional resources
- \* Paying state taxes
- \* Finding a financial consultant
- \* Personal or family stress
- \* Feelings of isolation

## URBAN/RURAL DIFFERENCES

Experts at the Texas-based SBDC intuitively believed there might be differences between the "major"/"critical" problems of rural respondents and urban respondents. Cross tabulations were done isolating the two urban counties of Jefferson and Orange from the more rural five. Of the 368 respondents, 66 percent were located in the urban counties and 34 percent were operating in the rural. Surprisingly, no significant differences were noted.

The five most critical problems for urban respondents in order of severity were:

1. 60% Paying liability insurance
2. 51% Lack of local economic growth
3. 48% Finding qualified employees
4. 47% Paying state and federal taxes
5. 32% Paying employer benefits

The five most critical problems for rural respondents in order of severity were:

1. 62% Paying liability insurance
2. 54% Lack of local economic growth
3. 54% Paying state and federal taxes
4. 46% Finding qualified employees
5. 43% Paying employer benefits

The same most several problems were identified by both groups. Only degree of severity varied slightly. Expected problems in advertising and sales for rural respondents did not surface.

## CONCLUSION

The small business sector of our economy is vitally important. The small business person is besieged by a large number of problems. Failure rate for small businesses in the United States is high -- more than 80 percent of small businesses tend to fail within their first five years of operation. The major reason for their failure is "poor management" (Williams, 1986). In addition, rapidly changing technologies will require the training and retraining of owners and their employees in order to sustain a competitive advantage and the resulting success.

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## EXHIBIT I

### PROFILE OF INTERVIEWEES

#### RESPONDENT PROFILE CATEGORIES (% of Total Sample):

1. Ownership	(Kansas)
68.1% are current business owners	(85%)
8.3% are former business owners	( 7%)
23.6% never owned a business	( 8%)
2. Management:	
98.0% actively manage the business	(95%)
3. Founders:	
78.0% were founders of this business	(78%)
4. Demographics:	
70.8% males	(70%)
29.3% females	(30%)
72.2% married	(85%)
27.8% single	(15%)
Average house hold size is 2.9 persons	(3.2)
Ethnic group:	
91.3% white	(96%)
6.9% black	( 2%)
2.0% other	( 2%)
Educational attainment:	
4.2% some high school	( 2%)
9.7% graduated high school	(15%)
31.9% some college	(37%)
40.3% college graduate	(24%)
5.6% post graduate work	(23%)
8.3% masters degree	

\*Total response is 368 persons in Southeast Texas and 750 in Kansas  
 \*\*(Kraft and Goodell 1988)

## EXHIBIT II

### PROFILE OF BUSINESSES REPRESENTED BY INTERVIEWEES

#### BUSINESS PROFILE CATEGORIES (% of total sample):

1. Business Form:	(Kansas)
60% proprietorship	(53%)
8% partnership	( 9%)
32% corporation	(35%)
2. Home based business:	
28% are home based	(29%)
3. How the respondent "entered" the business:	
76% started it "from scratch"	(67%)
18% purchased it	(19%)
6% inherited the business	( 6%)
4. Age of the business:	
8% one year or less in age	( 8%)
10% two years	(10%)
16% 3-5 years	(20%)
36% 6-10 years	(18%)
30% over ten years	(43%)
Median age of business: 7 years	( 9 )
5. 1989 sales volume of the businesses:	(Kansas 1986)
26% less than \$50K	(35%)
7% \$50K-\$100K	(14%)
21% \$100K-\$250K	(22%)
17% \$250K-\$500K	(12%)
10% \$500K-\$1 million	( 8%)
12% \$1 million - \$3 million	( 6%)
2% \$3 million - \$6 million	( 1%)
2% \$6 million - \$10 million	( 1%)
6. Average number of employees:	7.1 (7.8)
7. Category of Business:	
26% retail trade	(21%)
6% wholesale trade	( 4%)
12% manufacturing	(10%)
48% services	(11%)
6% construction	( 5%)
2% other	(44%)

\*Total response 368 persons in Southeast Texas and 750 in Kansas  
 \*\*(Kraft and Goodell 1988)

EXHIBIT III

PROBLEMS FACED BY SMALL BUSINESS PEOPLE IN  
SOUTHEAST TEXAS AND KANSAS

Problem Description	% Major/Critical SE Texas Kansas *	
<b>Group 1: Marketing Problems</b>		
Forecasting sales	29.2%	26.4%
Doing marketing research	22.3%	20.9%
Learning about competitors	11.1%	11.7%
Deciding your firm's ad target	15.3%	14.4%
Selecting advertising media	23.6%	14.3%
Determining prices	12.5%	11.4%
Distributing your product	5.6%	14.5%
Defining your firm's market	7.0%	13.3%
Developing advertisements	11.1%	13.0%
Building your reputation	5.6%	11.7%
Finding a marketing consultant	13.9%	15.1%
Selecting store locations	13.9%	1.8%
<b>Group 2: Financial Management</b>		
Maintaining positive cash flow	41.7%	37.0%
Personal time and energy limits	41.2%	27.2%
Budgeting expenses	26.4%	17.5%
Handling record keeping	26.3%	15.3%
Lack of management experience	15.3%	16.1%
Managing receivables	11.1%	15.4%
Managing personal finances	6.9%	13.4%
Determining profits and losses	8.6%	10.8%
Making board range decisions	6.9%	9.9%
Lack of educational resources	15.3%	7.5%
<b>Group 3: Obtaining Financial Resources</b>		
Getting growth capital	43.0%	40.1%
Getting start up capital	41.2%	39.4%
Absorbing start-up losses	41.7%	29.2%
Dealing with banks	34.8%	21.5%
Estab'g cred' b'ity w/cap' tl srce	30.6%	19.3%
Establishing trade credit	18.1%	16.0%
<b>Group 4: Getting Assistance</b>		
Getting state assistance	26.4%	23.2%
Getting assistance from SBA	22.3%	19.8%
Getting assistance from Ch. of Comm.	13.9%	18.0%
Getting assistance from trade assoc's	13.8%	18.0%
Getting assistance from local univ's	19.5%	8.1%
Getting assistance from local H.S.	13.9%	6.4%
<b>Group 5: Taxes and Insurance</b>		
Paying for liability insurance	56.2%	30.2%
Paying federal taxes	43.1%	26.2%
Paying state taxes	31.0%	19.4%
Paying employer benefits	48.6%	13.5%
<b>Group 6: Human Resource Management</b>		
Finding qualified employees	43.1%	27.6%
Determining compensation methods	16.7%	8.0%
Supervising employees	13.9%	8.8%
Delegating responsibility	18.1%	9.4%
<b>Group 7: Finding Advice and Counsel</b>		
Finding friendly advisor	16.7%	18.1%
Finding general consultant	18.0%	13.5%
Finding financial consultant	20.9%	15.1%
Conflicts with partners	8.3%	6.1%
<b>Group 8: Keeping One's Spirits Up</b>		
Personal or family stress	27.8%	21.8%
Maintaining your enthusiasm	23.7%	14.9%
Feeling of isolation	22.2%	13.3%
Lack of a role model	12.5%	10.5%
<b>Group 9: Government Dealings/Exports</b>		
Using government data	27.8%	13.9%
Selling to the government	25.0%	17.4%
Export'g/sell'g to foreigners	18.0%	9.8%
Get'g engineering assistance	15.3%	7.7%
<b>Group 10: Poor Economic Environment</b>		
Lack of local economic growth	48.6%	38.6%
Poor business climate in gen'l	42.1%	30.6%
<b>Group 11: Business and Product Ideas</b>		
Testing new business ideas	16.6%	16.9%
Deciding what will sell	20.8%	14.3%
Developing new products	15.2%	10.0%
<b>Group 12: Business Planning</b>		
Developing a business plan	18.0%	18.7%
Following a business plan	20.1%	19.7%
<b>Group 13: Supply and Suppliers</b>		
Finding/dealing with suppliers	15.3%	9.1%
Supply and materials management	11.1%	5.4%
<b>Group 14: Dealing with Gov't/Law/Regs</b>		
Dealing with government rules	40.3%	33.1%
Finding a good lawyer	14.3%	12.9%
Finding a good accountant	12.5%	9.6%
<b>Group 15: New Business Management</b>		
Knowing how to manage a new business	15.2%	19.2%

\* (Kraft and Goodell 1988)

EXHIBIT IV

RANKED GRJROUPING OF 15 SMALL BUSINESS PROBLEMS AREAS

Group Rank	Problem Area	% Who Rate Problems as "Major/Critical"
1.	Poor economic environment	45.9%
2.	Taxes and insurance	44.7%
3.	Obtaining financial resources	34.9%
4.	Human resource management	23.0%
5.	Dealing with gov't/laws/regs.	22.3%
6.	Keeping one's spirits up	21.6%
7.	Government dealings/export	21.5%
8.	Financial management	20.0%
9.	Business planning	19.1%
10.	Getting assistance	18.3%
11.	Business and product ideas	17.5%
12.	Finding advice and counsel	16.0%
13.	New business management	15.2%
14.	Marketing problems	14.3%
15.	Supply and suppliers	13.2%

EXHIBIT V

TOP 20 SPECIFIC PROBLEM AREAS EXPERIENCED  
BY SMALL BUSINESS IN SOUTHEAST TEXAS  
(N=368)

Rank	% of "Major" or "Critical"	Description of the Specific Problem Area
1.	56.2%	Paying for liability insurance
2.	48.6%	Lack of local economic growth
3.	48.6%	Paying employer benefits
4.	43.1%	Poor business climate in general
5.	43.1%	Finding qualified employees
6.	43.1%	Paying federal taxes
7.	43.0%	Getting growth capital
8.	41.7%	Maintaining positive cash flow
9.	41.7%	Absorbing start up losses
10.	41.2%	Personal time and energy limits
11.	40.3%	Dealing with government rules
12.	34.7%	Dealing with banks
13.	31.0%	Paying state taxes
14.	30.6%	Establishing good credibility with capital sources
15.	29.2%	Forecasting sales
16.	27.8%	Personal or family stress
17.	27.8%	Using government data
18.	26.4%	Budgeting expenses
19.	26.4%	Getting assistance from Texas
20.	26.3%	Handling record keeping

EXHIBIT VI

TOP TWENTY-ONE SPECIFIC PROBLEM AREAS EXPERIENCED BY  
BUSINESSWOMEN IN SOUTHEAST TEXAS

<u>"Major"/"Critical"</u>	<u>Description of the Specific Problem Area</u>
1. 47.0%	Absorbing start-up losses
2. 42.0%	Lack of Local economic growth
3. 38.0%	Getting start-up capital
4. 38.0%	Getting growth capital
5. 38.0%	Lack of additional resources
6. 38.0%	Paying federal taxes
7. 38.0%	Paying state taxes
8. 38.0%	Paying employer benefits
9. 33.3%	Paying liability insurance
10. 33.3%	Forecasting sales
11. 33.3%	Budgeting expenses
12. 33.3%	Personal time and energy limits
13. 28.5%	Assistance from the state
14. 28.0%	Poor business climate in general
15. 28.0%	Finding qualified employees
16. 24.0%	Selecting advertising media
17. 23.8%	Dealing with banks
18. 23.8%	Using government data
19. 23.8%	Handling record keeping
20. 23.8%	Conflicts with partners
21. 23.8%	Making a broad range of decisions





## MANUSCRIPT GUIDELINES

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