

ENGAGEMENT, INNOVATION, AND IMPACT



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LONG BEACH SMALL BUSINESS MONITOR 1ST QUARTER 2020

Sales Expectations Are Higher

Long Beach Small Business Monitor Survey:

Are You Planning on Sales to Increase, Decrease or Stay the Same in 2020?

Change	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Increase	54%	61%	60%	54%	55%	62%	63%	54%	66%
Decrease	14%	12%	15%	18%	21%	11%	10%	18%	12%

Gallup National Small Business Surveys (Q1)

Are You Planning on Sales to Increase, Decrease or Stay the Same in 2020?

Change	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Increase	49%	43%	48%	55%	50%	61%	66%	55%	65%
Decrease	15%	22%	17%	11%	13%	9%	9%	10%	6%

Expectations for Long Beach Small Business in 2020 “Return to Optimism?”

At this time last year, Long Beach small business people were expressing concern and anxiety about the coming year. A large number of Long Beach small business people were lowering their expectations for sales, revenues and spending. But as the year progressed, things didn't go wrong, consumer spending increased, sales trends remained up, and attitudes among small business people turned more upbeat.

Today, in early 2020, Long Beach small business people are more optimistic than at this same time last year. The percentage planning for an increase in sales during 2020 has risen to 66%, and just 12% say their sales and revenues will decline in 2020. The more optimistic outlook of Long Beach small business is reflected in national data reported by Gallup in which the lower expectations of last year



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MARKETING

Long Beach Small Business Monitor
1st Quarter 2020

LONG BEACH SMALL BUSINESS MONITOR 1ST QUARTER 2020

Hiring Exceptions in 2020

Long Beach Small Business Monitor Survey: Are You Planning on Hiring at Your Business to Increase, Decrease or Stay the Same in 2020?

Change	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Increase	21%	29%	31%	29%	27%	35%	30%	31%	34%
Decrease	6%	7%	7%	8%	13%	6%	7%	9%	6%

have been replaced by more hopeful feelings for small business growth in 2020 across the country. Survey responses for Long Beach small businesses and national small businesses can be seen in the tables below.

Gallup is reporting large gains in consumer confidence nationally (for more info on Gallup's consumer confidence data [click here](#)). Confident consumers shop more and buy more, which is good for small business. An increase in consumer confidence may be what is contributing to the positive expectations of more Long Beach small business people.

So, the year begins with Long Beach small business people having higher expectations for more sales and revenues in 2020. But this survey is a snapshot in time. Last year we measured less optimism among Long Beach small businesses which turned around during the year. As 2020 progresses and the nation enters a volatile presidential election season the positive expectations that we see at the beginning of this year may give way to more uncertainty and less confidence. It is going to be an interesting 2020!

Expectations Are For More Hiring

After softening last year, there is an increase in the number of Long Beach small business people who are planning on hiring more people this year. Thirty-four percent (34%) of Long Beach small business people today say they will be hiring more, and fewer (6%) business owners expect to layoff or decrease their workforce in 2020.

In this time of low unemployment, Long Beach small business people say they are finding it hard to locate qualified people. As noted in the table below, 66% of Long Beach small business people reported that the number one problem they anticipate this year will be finding new skilled employees, an increase of 11% over the past few years. Helping small businesses find qualified workers to meet new consumer demand will be a top priority in 2020.

LONG BEACH SMALL BUSINESS MONITOR 1ST QUARTER 2020

Capital Spending in 2020

Long Beach Small Business Monitor Survey:
Are You Planning on Capital Spending At Your Business
to Increase, Decrease or Stay the Same in 2020?

Change	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Increase	31%	28%	41%	35%	31%	35%	35%	39%	41%
Decrease	20%	14%	18%	17%	17%	13%	12%	12%	18%

Hiring #1 Concern of LB Small Business in 2020.

Today, How Much of a Problem Is...?

Problem Type	2018	2019	2020
Finding Skilled Employees	55%	62%	66%
Business Taxes and Fees	62%	65%	61%
Raising Working Capital	37%	48%	44%
Finding and Keeping Customers	35%	46%	42%
Access to Low Cost Credit	22%	35%	38%

LONG BEACH SMALL BUSINESS MONITOR 1ST QUARTER 2020

More Spending on Equipment, Inventory, and Supplies is Expected

Capital spending is a very important metric in determining the expectations of small business. Capital spending is done to help a small business meet increased demand and sales. When a small business plans more capital spending, they are seeking to increase their infrastructure to meet an anticipated growth in customer transactions.

This year, more Long Beach small businesses are planning an increase in their capital spending on such things as new equipment, more inventory and supplies. Four in ten (41%) are saying their capital spending will increase in 2020. No doubt this is a response to more Long Beach small business people having positive expectations for growth in sales and revenues in the coming year.

More Expect To Seek New Credit and Financing in 2020

Often small businesses are under-capitalized and have difficulty finding access to credit and financing. Fewer small businesses have access to credit than larger companies because lending to them is seen as riskier and more expensive than extending credit to larger companies. This is because small businesses fail at higher rates than big businesses and changes in the business cycle have a larger impact on their profits. In our survey this year, we find an increase in the percentage of Long Beach small business people who report they will likely seek an increase

in their business credit and financing in the coming year. Today 41% say they are planning on seeking an increase in their credit situation. Similar to capital spending (and often necessary to realize this new spending), planning to increase credit and financing is an indication of more optimistic expectations for small business growth. Taking on new credit is a sign of more positive outlooks for Long Beach small businesses.

Summary - Overall Expectations Are Positive For 2020

Long Beach small business people are more optimistic about 2020 than they were at this time last year. More anticipate an increase in sales and revenues, hiring, capital spending and loan financing in 2020.

The next edition of the CSULB - COB Long Beach Small Business Monitor will take a closer look at exceptions for the coming year across different types of small businesses and between different areas of the city of Long Beach. The next edition will be emailed in March 2020.

Long Beach Small Business Monitor

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MINIMIZING HEALTH-COMPROMISING BEHAVIORS VIA SCHOOL-BASED PROGRAMS: AN OPTIMIZATION APPROACH



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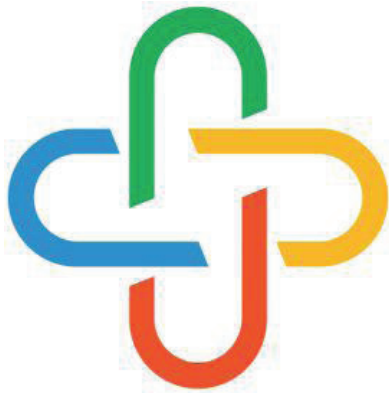
Mathematical modeling helps optimize school-based programs to minimize health-compromising behavior among youth.

School health programs are united by their desire to promote health and health-related outcomes among youth. They are also united by the fact that their expected effects are contingent on successful program implementation, which is often impeded by a multitude of real-world barriers.

This study develops a mathematical model that calculates the number of lessons that should be taught to minimize substance use in a school environment, given expected levels of predetermined implementation barriers. The findings from this exploratory study support the utility of applying mathematical modeling during the program planning and implementation processes of school health programs.

Dr. Banafsheh Behzad from the College of Business and Dr. Niloofar Bavarian from the college of Health and Human Services along with Sheena Cruz, a graduate student, developed a mathematical model to study health-compromising behaviors via school-based programs. This multidisciplinary study shows the importance of using quantitative approaches in studying health-compromising behaviors such as substance use among youth.

MINIMIZING HEALTH-COMPROMISING BEHAVIORS VIA SCHOOL-BASED PROGRAMS: AN OPTIMIZATION APPROACH



Positive Action®

School-based health-promotion programs come in various forms and have a variety of aims. What unites these programs is that their attainment of desired outcomes is often directly associated with implementation levels. One indicator of implementation, which broadly refers to program delivery, is dosage, which refers to the quantity of program delivery. The purpose of this exploratory study was to apply mathematical modeling to one specific, school-based program, Positive Action (PA). PA is a social-emotional and character development (SECD) program in which six lessons are delivered by the classroom teacher. From 2004 to 2010, PA was implemented via a randomized controlled trial in seven Chicago Public Schools in low-income settings. The outcome of interest in this study was substance use, a health-compromising behavior. The goal was to determine if it might be possible to obtain estimates of the specific amounts of implementation needed (i.e., number of lessons for each of the six units needed to be taught) to minimize substance use, given pre-specified and expected levels of various implementation barriers. Implementation is influenced by factors that can occur at various levels (e.g., teacher, school, student). Linear Programming is an optimization technique which uses a

mathematical model of linear equations with the objective of planning the best possible allocation of scarce resources, under a set of constraints that serve as barriers to implementation. This study uses linear programming to calculate the optimal levels of program implementation needed to minimize substance use, subject to known levels of implementation barriers (e.g., disruptive behavior, teacher education, teacher attitudes towards character development, school resources, and school safety). The results of this exploratory study demonstrate the feasibility of applying linear programming to school health programs.

Closing Paragraph: This research calculates the optimal numbers of lessons per unit to be taught weekly in a school environment in order to minimize substance use, subject to set values of known implementation barriers. On average, teachers in the PA trial came close to teaching the optimal numbers of lessons from each unit. This may explain, in part, why previous studies from this trial showed an impact on substance use, as compared to control schools. Teachers who taught less than the optimal amount should be consulted to better understand implementation barriers, and how they can be overcome in future studies.

RESISTANCE TO PHISHING ATTACKS



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Phishing is a cybercrime in which an attacker sends an email that appears to be from a trusted source and asks the recipient to provide personal information such as login credentials and debit/credit card numbers.

PHISH ME IF YOU CAN: IMPROVING EMPLOYEES' RESISTANCE TO PHISHING ATTACKS THROUGH EXPERIMENTAL PHISHING SIMULATIONS

In 2019, phishing was ranked by FBI's Internet Crime Complaint Center (IC3) as the number one cybercrime by victim count. Phishing emails that pass through the anti-phishing tools and software typically ask employees to click on malicious links or provide login credentials. Wandera (2017) reports that about 85% of institutions have been victims of a phishing attack. Likewise, the SANS threat landscape survey shows that phishing is the most significant threat that organizations have experienced. Automated anti-phishing solutions are not yet sufficient to alleviate phishing threats. This has led researchers and specialists to emphasize on the importance of users' education and training in regards to phishing attacks.

Phishing simulations tests are among the methods used to increase employees' awareness of phishing attacks and to understand users' susceptibility to phishing emails.

RESISTANCE TO PHISHING ATTACKS

The purpose of the simulation is to test employees' resistance to phishing attacks, make employees aware of recent phishing emails, and train employees on how to detect phishing attacks. This study is aimed to provide theoretical and practical implications that help organizations improve the resistance of employees to phishing attacks.

Design and Procedure

As part of the experiment, four phishing emails were developed. The emails were different in a) quality (high vs low), and b) theme used (fear vs reward). Moreover, the emails were developed to a) distinguish what motivates users to click (in this case fear vs. reward), b) identify how knowledgeable the users are regarding the key components of phishing emails, and c) educate employees on how to detect a phishing email. The two themes were rewarded and redesigned to feature high and low-quality characteristics. The sentiment of the two different quality emails was kept similar to the same theme. The reward emails were positive in sentiment and the fear emails were negative in sentiment. The absolute value of the fear and reward emails was also similar.

At the end of the campaign, we collected data from the phishing server and sent a debriefing email for every employee who fell victim for the phishing email.

The debriefing email was customized for each of the four phishing emails and gave clues to the employee on how they could have spotted the phishing email.

Results

The phishing emails were sent to about 3,709 employees. The main results showed that employees were more likely to fall victim to a reward-based phishing email than for a fear-based phishing email. In addition, the highest risk group was the new hires. This highlights the importance of including sophisticated phishing training as part of new employees' orientation and training.

Contribution

This research contributes to the literature in several ways. First, the experiment and simulation capture actual behavior from real employees rather than intentions and self-reported data to measure phishing susceptibility.

This study also contributes to theory and literature by incorporating argument framing, theme, quality, and relevance to the design of phishing simulation emails. The study provides practical implications on identifying risk groups, improving phishing simulation test practices, refining training material, and improving resistance to phishing emails.

DATA BREACHES HARM COMPANIES?



“A data breach, according to the Privacy Rights Clearinghouse, is a “security violation in which sensitive, protected or confidential data is copied, transmitted, viewed stolen or used by an unauthorized [sic] individual.”

So far this year, more than a dozen major incidents have occurred. These have put at risk over 30 million records – which included such personal information as computer log-on passwords, credit card numbers, Social Security identification numbers, and confidential medical files. Capital One, one of the major U.S. financial institutions, said in July of this year that it had suffered a major data breach involving the records of more than 100 million customers – or roughly one-third of the U.S. population. And this attack did not even reach the top five breaches occurring this year.

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DATA BREACHES HARM COMPANIES?

Corporations worldwide are worried about data breaches, as well they should be. Having its confidential information compromised can cost a company dearly, through lawsuits, legal fees, fines (at both the federal and state level) and the expense of revamping its data processing systems in the hope of preventing future successful attacks. In addition, such a breach can hurt a company's efficiency, intellectual property, and good name. For example, in 2017 Equifax reported a successful hack that compromised the records of more than 140 million Americans, and the company's stock plummeted 18.4 percent.

This problem is not limited, of course, to the U.S. corporations. Companies throughout the world have suffered similar attacks. And yet many firms fail to invest sufficient resources to safeguard their data. Given the potentially disastrous consequences of a successful cyberattack, why isn't more money being spent on defensive measures?

In an effort to find answers to this question, we examined the likely costs for a company suffering a successful cyberattack. These were divided into four categories: stock price changes, internal economic indices of performance, the cost of fees (such as audits), and mandatory reporting of internal control material weaknesses.

A considerable body of research exists concerning each of these factors separately, but only a small number of studies have looked at several of these areas together, or have involved a large number of companies. Some scholars have argued that stock price is not a valid measure of a breach's impact, because stockholders do not fully understand the significance of what has occurred. This study looks at all four of the economic factors, both separately and together.

As it turns out, the impacts of cyber attacks on most companies have proven to be of minimal significance. Stock prices of the affected firms dipped slightly in the period immediately after the announcement that a breach had taken place, but the differences between the stock value of afflicted companies and those that did not suffer a cyberattack disappeared after only a few days. For the other three criteria mentioned above, no significant difference was found between afflicted firms and their counterparts who did not experience a cyberattack. The only differences we found involved catastrophic breaches which are, fortunately, quite rare.

This is not to suggest that cyberattacks have no economic impact since they cost the U.S. economy between 57 and 106 billion dollars in 2016 (according to a 2018 Council of Economic Advisors report). However, the adverse effects mostly involved national economies or individual investors.

The conclusions of our research should be of interest to analysts, auditors, executives, and investors, all of whom should be very interested to learn that the consequences of data breaches for individual companies appear to be relatively insignificant. Our research should also help to explain why so few major firms are willing to spend a great deal of money on cyber defense measures. As Jason Spaltro, head of information security at the Sony Corporation recently stated, "It's a valid business decision to accept the risk of a security breach...I will not invest \$10 million to avoid a possible \$1 million loss." Thus, the current concern about data breaches, at least at the corporate level, probably comes down to "Much ado about nothing."

CSULB College of Business

TRUST IN PEER TO PEER LENDING



Person-to-person lending - also known as peer-to-peer lending, peer-to-peer investing, and social lending, and abbreviated as P2P lending - refers to lending and borrowing between strangers through a for-profit online platform.

It is done without the intermediation of traditional financial institutions, although they may participate as lenders. The service started in the United Kingdom in 2005, but U.S. platforms quickly took the lead in loan volume. In the direct unsecured P2P lending model, usual loan application information includes loan size, maturity, and purpose, percentage of loan funded, number of days the loan application has been visible online to potential lenders, some measure of credit rating and interest rate.

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TRUST IN PEER TO PEER LENDING



On some platforms, borrowers can submit an image. Platform services include calculating interest rates and repayment terms, creating written documents, and disbursing funds. Both borrowers and lenders are charged fees, and if the loan defaults, the platform sells it to a debt collection agency. P2P services are perceived as convenient, efficient, flexible and empowering, and previous work finds that borrowers deemed trustworthy receive 31% more lending bids than average.

Blockchain is also a decade-old “trust machine”. It is a decentralized ledger that allows secure, fast and transparent transaction records. It uses cryptography and hashing algorithms and requires consensus to update records, which makes transactions practically tamper-proof and therefore, more trustworthy. While the full potential of this fast-evolving technology is not yet clear, the applications are numerous and substantial. The gradual implementation of blockchain technology in P2P lending platforms facilitates safer transparent quick access to funds without having to deal with the complex, slower and more costly loan processes of banks. However, other uses of blockchain may be needed.

Purpose

The gradual implementation of blockchain technology in peer-to-peer (P2P) lending platforms facilitates safer transparent quick access to funds without having to deal with the more complex and costly processes of banks. Beyond that, this study examines trust-enhancing heuristics that show a need for blockchain to assist in monitoring and bad loan recovery.

Design/methodology/approach

This study examines 909 lending decisions by finance students on a mock P2P site. The loan applications were identical with the exception of a female or male photo (vs. an icon) and reports of having raised half the loan in either 3 or 11 days (vs. 7).

Findings

Investors who have experienced financial trauma are more likely to herd and lend higher amounts to loan applicants that are highly trusted by other lenders. This effect is more pronounced for male investors lending to highly trusted female loan applicants.

Originality

This study is the first behavioral experiment to examine herding in P2P lending. The findings emphasize the need for blockchain to assist beyond trusted records and safe transfers of funds.

Practical implications

Blockchain can compensate for behavioral biases in lenders’ decision making and improve monitoring by helping track digital money transactions and assisting in bad loan recovery efforts.

TRANSFER OF CONTROL AND OWNERSHIP STRUCTURE IN FAMILY FIRMS



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DR. HOJONG SHIN, FINANCE

When controlling families transfer their control through direct ownership inheritance, heirs inherit the family ownership by paying an inheritance tax.

Transfer of Control and Ownership Structure in Family Firms.

In exchange for these financial contributions, prosecutors say, Ms. Choi colluded with Ms. Park to ensure government backing for several deals, most notably a controversial merger of two Samsung affiliates in 2015 that helped Mr. Lee consolidate his hold over Samsung Electronics. The merger changed Samsung's intricate cross-holding structure and, prosecutors said, allowed Mr. Lee to avoid a steep inheritance-tax bill as he sought to succeed his father at the top of the conglomerate (Wall Street Journal, August 25, 2017).

This anecdote illustrates how, in practice, family firms indirectly transfer control to heirs through intra-group mergers.

TRANSFER OF CONTROL AND OWNERSHIP STRUCTURE IN FAMILY FIRMS



When controlling families transfer their control through direct ownership inheritance, heirs inherit the family ownership by paying an inheritance tax. This is what we generally expect when we talk about the transfer of control in family firms. However, heirs are exposed to the risk of their equity value decreasing due to heavy inheritance taxes when control is transferred through ownership inheritance.

Thus, controlling families are incentivized to use tax-minimizing succession strategies to ensure that the heirs maintain sufficient control over the entire business group. A common tax-saving strategy to avoid taxes during the transfer of control in business groups is for family firms with heavy inheritance tax burdens to acquire target firms owned by heirs. The heirs then convert the target shares into family firms' shares. Through this merger, heirs can obtain large controlling stakes in a key strategic firm owned by the controlling family while avoiding inheritance taxes.

[Motivation]

Transfer of control is a tremendously important issue in any organization.

Succession is the preeminent issue for family firms as it determines their firms' fate. Only 30% of family firms carryover into a second generation, 12% remain viable into a third, and 3% operate into a fourth generation or beyond. Given the importance of family firms, succession has attracted attention in recent literature and has been studied from numerous angles.

However, there is little detailed evidence regarding the effect of personal inheritance tax on corporate outcomes and the implications of different succession processes for family firms. Shin has identified a novel channel of transfer of control in family firms.

[Data]

Shin used information from Korean chaebols because they report highly detailed inter-firm ownership information among their affiliates with the Korean Fair Trade Commission since the mid-1990s. However, the story in my paper is not limited to Korea. Any family firm with an inheritance tax has its own incentive to use tax-minimizing succession strategies.

TRANSFER OF CONTROL AND OWNERSHIP STRUCTURE IN FAMILY FIRMS

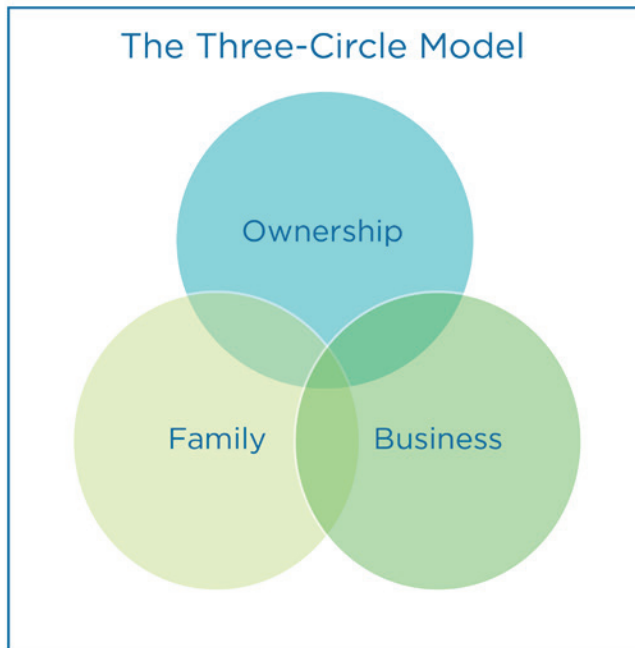


Figure 1. The Three-Circle Model of the Family Business System by Renato Tagiuri and John Davis

[Findings]

Avoiding inheritance tax is the motivation behind intra-group mergers in Korea. The tax reform increased personal inheritance tax by 25%. Thus, firms burdened by a high personal inheritance tax are likely to increase merger activities between group member firms during the post-tax-reform period. This result suggests that family firms with heavy inheritance tax burdens acquire target firms owned by heirs who then convert their target shares into family firm's shares while avoiding the inheritance tax.

What Shin did next was investigate the characteristics of target firms in relation to merger activities.

Shin found that heirs of chaebol families received large dividends from their private firms in which they already have large ownership stakes. Heirs can take these dividends because they have substantial voting rights with which they can determine the corporate policy in target merger firms. These firms become the target of mergers. Since heirs only own the target firms that are merged with acquired firms (owned by the family), these heirs prefer short-term gains in wealth over long-term investment commitments. These results suggest that to avoid inheritance tax burdens, heirs might first prefer to own private firms where they can increase cash dividends and then try to merge private target firms to their fathers' firms.

[Implications]

Tunneling is more prevalent in emerging economies where controlling shareholders can exercise their discretionary power to extract private benefits by transferring assets and profits out of firms. While the heirs of controlling families benefit from personal tax savings, minority shareholders suffer losses from these tax-motivated intra-group mergers as these mergers create few operating synergies and thus cause investors to exit their stocks.

This finding represents a new piece of evidence of tunneling caused by heavy inheritance tax burdens in a specific institutional setting. Similar personal tax-saving efforts implemented for the controlling family's benefits are likely to be observed in many alternative institutional contexts.

WHETHER IT MATTERS HOW TEAMS EVALUATE NEW MEMBERS

Equality, Diversity and Inclusion

An International Journal



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You're about to join a new project team. What can you do to start off on the right foot, to give yourself the best chance possible of immediately contributing to the team's efforts? Or, how should you evaluate a new member's ability to contribute, and give them the resources they need to ramp up and get started... or not?

Today's work teams tend to be more fleeting and temporary, with evolving membership. This team roster instability is complicated further by the trend towards organizational diversity.

Research supports that the success of diverse teams hinges upon ensuring that each member feels included enough to sufficiently participate and contribute. So mitigating bias in such settings is especially important when there are team members who are in marginalized or underrepresented demographic groups. CSULB associate professor Dana Sumpter argues that inclusion is key, and focuses on an understudied period of time in temporary team formation:

impending membership.

WHETHER IT MATTERS HOW TEAMS EVALUATE NEW MEMBERS

In this novel research, Professor Sumpter explores how new members enter these dynamic groups, and how this pivotal point can make or break a new member's ability to be treated well and have access to key resources, or be excluded and restrained. She conducted a multi-year autoethnographic study of a particular type of temporary team: a group of people surfing, referred to as a lineup. This unique study sheds light on how bias and discrimination can enter into this interpersonal evaluation process.

Whether a current or prospective team member, here are the five main takeaways from the study:

1. Don't reach beyond your grasp. When entering a new group, it may be tempting to impress others by tackling that really challenging assignment. This study's results suggest otherwise, so that you don't get in over your head. Just as a surfer shouldn't paddle out in conditions that exceed his or her ability level, recognize what you are capable of and don't try to take on something that is out of range of your capacity. This is important because self-awareness is noticed and picked up on by others, which will influence how you are perceived.

2. Showcase your strengths. Prospective group members should proactively demonstrate their capabilities and strengths.

Just as surfers entering a lineup can demonstrate their proficiency by paddling the right way and abiding by the well-known surfer's etiquette code, so too can organizational members demonstrate their competence and capabilities. Doing so actively shapes one's reputations through impression management and signaling. Applying the findings from this study, the proactive act of signaling competence may help to reduce uncivil behaviors, increase access to initial resources, and foster inclusion.

3. Remember that civility matters. When people are treated with incivility or rudeness, it negatively affects their performance and productivity.

4. Be aware of your own biases. Of course, the labor of preventing incivility should not rest on marginalized or excluded individuals alone.

5. Get a little help from your friends. This research also supported the importance of leveraging personal relationships in fostering inclusion. In surf lineups, having one key ally support and vocally include an underrepresented person made a huge difference in that person getting access.

New or prospective team members can seek out allies and ask for help with onboarding. And of course, this goes both ways – as a current team member, see how you can be the one to help welcome in and include someone who is newly arriving on the scene.

THE EFFECT OF STATE-LEVEL RULES AND CPA COMPETITION

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DR. GREG GAYNOR,
ACCOUNTANCY

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The authors analyze the pass rates and size of candidate pools of U.S. jurisdictions on the CPA exam and find evidence to suggest that state-level economic activity and CPA exam rules affect CPA candidate behavior and the flow of human capital. Specifically, lower credit-hour requirements help to attract candidates and higher state-level economic activity helps to attract relatively well-qualified candidates.

State Boards of Accountancy and other regulators monitor state-wide sit and pass rates on the CPA exam in fulfilling their mission to protect the public. These metrics can prompt important policy decisions such as state CPA exam requirements as well as the accounting curricula and resource allocation at that state's colleges and universities.

THE EFFECT OF STATE-LEVEL RULES AND CPA COMPETITION



American Accounting Association

Using the test center location of CPA candidates, the authors analyze the pass rates of U.S. jurisdictions regarding the performance of both in-state and out-of-state candidates. They document that states allowing a candidate to sit for the exam at fewer credit hours (120 verses 150 credit hours) tend to be greater importers of out-of-state CPA candidates. After controlling for a state's credit hour requirements, they find evidence to suggest that states with high economic activity tend to attract out-of-state

candidates that, on average, have better pass rates than do the candidates currently residing in those states.

The authors suggest that their results can assist State Boards, educators, and other stakeholders in making policy decisions regarding the CPA exam environment in their state. More broadly, the study contributes to the literature regarding how state-level rules affect regional competitiveness and the flow of human capital.



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END