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ACCOUNTING MYTHS FOR MANAGEMENT DECISION MAKING THAT WE HAVE COME TO KNOW AND LOVE

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ABSTRACT

In the 1980s, Activity Based Costing (ABC) rose to prominence with the publication of "Relevance Lost: The Rise and Fall of Management Accounting" by Kaplan and Johnson. From ABC, the profession moved to Activity Based Management (ABM), and now we are talking about Value Chains and Supply Chains to evaluate products and customers. The underlying methodology to develop the costs to be used in these evaluations relies heavily on the techniques inherent in ABC. ABC has as its foundation a thorough analysis of the activities, the cost drivers, and the costs for performing activities. Through the use of these cost drivers, costs are assigned to the products or customers being evaluated. But will this approach give managers the information that they need to come to the correct decision when evaluating products and/or customers?

This paper examines the underlying methodology being utilized in Value Chain and Supply Chain evaluations to determine its suitability to support the management decision making process. In addition, an alternative approach is also presented.

MEASURING LEADER INTEGRITY: PRODUCING A SHORT PERCEIVED LEADER INTEGRITY SCALE

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ABSTRACT

Honesty, integrity, and trustworthiness have long been expected traits of individuals deemed as ethical leaders in an organizational setting. Whether such a designation is warranted or not is ultimately a result of the perceptions of followers. Measuring leader integrity using follower assessment of leader behaviors was the focus of the development of the Perceived Leader Integrity Scale using a 31 item survey instrument (Craig & Gustafson, 1998). Simplifying the number of items within the Perceived Leader Integrity Scale (PLIS) has been a quest of both the scale's author and other researchers (Whelan, Stoughton, Craig & Perry, 2014). The paper reports results of exploratory and confirmatory factor analysis and suggests a significantly reduced set of PLIS items that yields a good model fit.

INTRODUCTION

Honesty, integrity, and trustworthiness have long been expected traits of individuals deemed as ethical leaders in an organizational setting. Whether such a designation is warranted or not is ultimately a result of the perceptions of followers. Leader behaviors can either reinforce or diminish follower perceptions of the traits demonstrated. Integrity defined as firm adherence to a code of moral values and conduct reflects characteristics at the heart of ethical leadership; honesty, trustworthiness, fairness and incorruptibility.

Measuring leader integrity using follower assessment of leader behaviors was the focus of the development of the Perceived Leader Integrity Scale using a 31 item survey instrument (Craig & Gustafson, 1998). However, researchers are warned against lengthy instruments that lead to respondent fatigue and non-response (Dillman, 2000; Bradburn, N., Sudman, S., & Wansink, B., 2004). Simplifying the number of items within the Perceived Leader Integrity Scale (PLIS) has been a quest of both the scale's author and other researchers (Whelan, Stoughton, Craig & Perry, 2014). The paper reports results of confirmatory factor analysis against two datasets and suggests a reduced set of PLIS items that yields a good model fit.

THE PERCEIVED LEADER INTEGRITY MODEL

Survey Data

For purposes of this study of perceptions of leader integrity behavior, survey data was collected via a survey instrument that included seven demographic items, the thirty-one (31) item Perceived Leader Integrity Scale (Craig & Gustafson, 1998). Two datasets collected five years apart were employed in this study. Both datasets were based on surveys of working adults from the Atlanta metro area. The first dataset contained a total of 270 usable responses while the second contained 193 usable responses.

Exploratory Factor Analysis

Exploratory factor analysis of the first sample (n=270) yields a three factor solution with eigenvalues of 19.245 (18 items), 1.280 (8 items), and 1.131 (5 items) explaining 69.858 percent of the variance and a Chronbach's alpha of .978. All items exceeded the minimum factor loading criteria of .40 for their respective component (Hinkin, 1998). In commentary on the original survey design, the authors divided the survey items into three categories; leader behavior toward the rater, leader behavior toward others in the organization, and global integrity attributes (Whelan, Stoughton, Craig & Perry, 2014)

Eight items reflecting global integrity attributes converges on a single factor solution with an eigenvalue of 5.549 explaining 69.343 percent of the variance. Reliability analysis suggested eliminating an additional item resulting in a seven item sub-scale with a Chronbach's alpha of .938.

Exploratory factor analysis of items identified as a measurement of leader behavior-toward-others returns a single factor solution with an eigenvalue of 3.689 explaining 73.778 percent of the variance. Reliability analysis validated a five item sub-scale with a Chronbach's alpha of .911.

Exploratory factor analysis of the leader behavior-toward-rater items yields a single component solution with an eigenvalue of 9.693 explaining 60.582 percent of the variance. Reliability analysis suggested eliminating an additional item resulting in a fifteen item sub-scale with a Chronbach's alpha of .959 based on standardized items.

Table 1
MEASURING LEADER INTEGRITY
Exploratory Factor Analysis Summary

Component / Sub-Scale	Items	eigenvalue	% Variance Explained	Chronbach's alpha after
Global integrity attributes	7	5.552	69.399	0.938
Leader behavior toward others	5	3.685	73.701	0.904
Leader behavior toward rater	15	9.693	60.582	0.959

Confirmatory Factor Analysis

Confirmatory factor analysis of the second sample (n=193) uses a two phase approach. The first phase is a traditional factor analysis and reliability analysis based on the derived three component model. The second phase employs structured equation modeling to test the model fit using AMOS 18. This phase also offers the opportunity to reduce the number of items while improving model fit.

Initially, factor analysis of all 31 items yields five components. However, only one item triggered each of the two additional components. Removal of the two items from the analysis yields a three factor solution with eigenvalues of 17.181 (18 items), 1.410 (8 items), and 1.274 (5 items) explaining 68.503 percent of the variance and a Chronbach's alpha of .972. All items exceeded the minimum factor loading criteria of .40 for their respective component (Hinkin,1998).

Confirmatory factor analysis of the adjusted global integrity sub-scale yields a single factor solution with an eigenvalue of 4.041 explaining 57.725 percent of the variance. While the scale meets the minimum requirements, reliability analysis suggested elimination of an item resulting in a 6 item scale with a Chronbach's alpha of .872.

Confirmatory factor analysis of the five items of the leader behavior-toward-others sub-scale yielded a single factor solution with an eigenvalue of 3.482 explaining 69.630 percent of the variance. Reliability analysis produces a Chronbach's alpha of .885 with no recommendations for further improvement.

The fifteen items in the leader behavior-toward-rater sub-scale converge on a single component solution with an eigenvalue of 9.232 explaining 61.549 percent of the variance. Chronbach's alpha is .948.

Table 2
MEASURING LEADER INTEGRITY
Confirmatory Factor Analysis

Component / Sub-Scale	Items	eigenvalue	% Variance Explained	Chronbach's alpha
Global integrity attributes	7	4.041	57.725	0.788
Leader behavior toward others	5	3.482	69.630	0.885
Leader behavior toward rater	15	9.232	61.549	0.948

STRUCTURED EQUATION MODELING

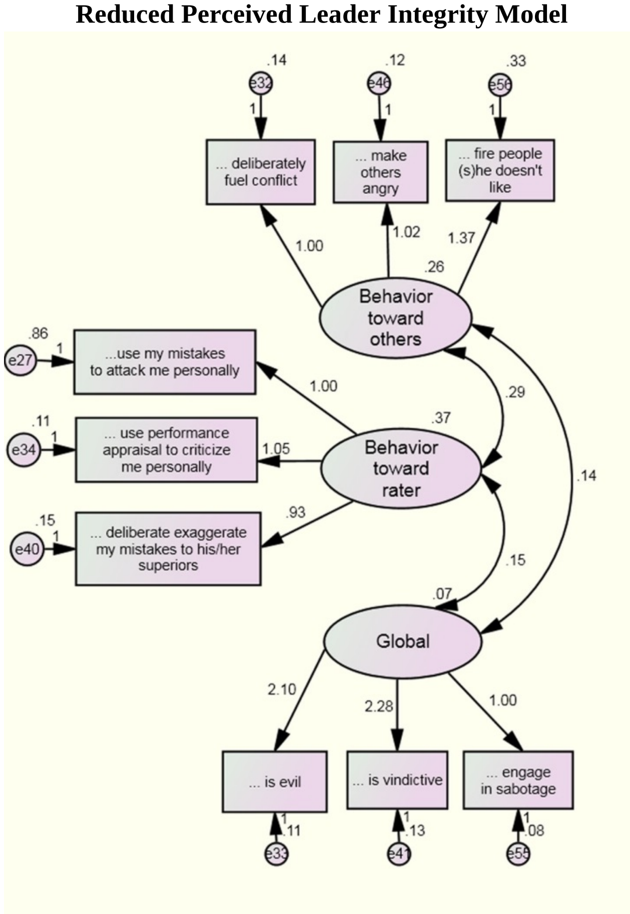
Structured equation modeling (SEM) using AMOS 18 provides an assessment of the model's "goodness of fit" to the data. SEM procedures provide a means of reducing the items used for measurement while improving the model goodness of fit because parsimony is rewarded with the goodness of fit index (Hinkin, 1998).

The initial test with 27 items did not meet criteria for an "adequate" much less "good" model. Items were removed based on high covariances on modification indices reports from AMOS 18 (Hinkin, 1998). With nine (9) remaining items, a model was derived meeting "good" model fit in accord with accepted evaluation criteria for all the seven measures listed below (Hooper, Coughlan & Mullen, 2008).

Table 3 MEASURING LEADER INTEGRITY Structured Equation Modelling Results				
Measure	Full Model	Revised Model	Criteria	Explanation
X^2	1239.518	44.333		
df	296	24		
X^2/df	4.188	1.847	< 2.0	
p	0.000	0.007	< .05	
GFI	0.646	0.955	> .95	goodness-of-fit index
AGFI	0.581	0.916	> .90	adjusted goodness of fit
NFI	0.760	0.964	> .90	normed-fit index
CFI	0.805	0.983	> .95	comparative fit index
RMSEA	0.129	0.066	< .07	error of approximation

A reduced set of items for measurement of perceived leader integrity has been identified as a result of the structured equation modeling phase of this confirmatory factor analysis. The final model is illustrated by the following path diagram showing unstandardized estimates.

Figure 1
MEASURING LEADER INTEGRITY
Reduced Perceived Leader Integrity Model



The items retained through the SEM process were tested for unidimensionality and internal consistency. Factor analysis of the final set of items converged on a single component. Internal consistency determined through reliability analysis yields a Chronbach's alpha of .931. Table 4 recaps the means, standard deviations, and correlations. All items correlated at a .01 or less level of significance.

Table 4
MEASURING LEADER INTEGRITY
Means, Standard Deviation and Correlations for Short Form PLIS Items

		M	SD	1	2	3	4	5	6	7	8	9
1	Attack me personally	1.57	1.112	1								
2	Use review for personal criticism	1.33	.717	.493**	1							
3	Would exaggerate my mistakes	1.30	.687	.443**	.727**	1						
4	Deliberately fuels conflict	1.30	.638	.386**	.661**	.605**	1					
5	Deliberately makes others angry	1.25	.629	.429**	.693**	.670**	.724**	1				
6	Would fire people he doesn't like	1.46	.907	.438**	.679**	.573**	.594**	.622**	1			
7	Is evil	1.28	.657	.486**	.741**	.632**	.696**	.687**	.659**	1		
8	Is vindictive	1.33	.716	.393**	.691**	.710**	.677**	.720**	.684**	.746**	1	
9	Would engage in sabotage	1.11	.392	.328**	.587**	.569**	.531**	.539**	.571**	.624**	.553**	1

**. Correlation is significant at the 0.01 level (2-tailed).
N = 193

DISCUSSION

Implications

This study demonstrates that a shorter version of the Perceived Leader Integrity Scale can be developed. While this paper parallels a recent effort to accomplish a similar objective (Whelan, et al., 2014), there are significant differences in results. The SEM model generated from this study provides a balanced number of items (3) for each of the three constructs; leader behavior-toward-rater, leader behavior-toward-others, and global integrity. Five of the nine items selected in the Whelan study are weighted to the leader behavior-toward-rater while only two items are used to measure each of the remaining constructs of leader behavior-toward-others and global integrity.

Human resource administrators have been reluctant to use the PLIS as a diagnostic tool due to the negative nature of the survey items and the length of the survey. More recently, the PLIS instrument has been used in an organization development setting to generate group discussion of ethical behaviors in the workplace and follower expectations of leader behaviors.

Reducing the number of items, reversing some of the statements with accompanying reverse coding, and combining the shortened scale with a battery of other shortened scales such as ethical work climate (Victor & Cullen,1988), perceived organizational support (Eisenberger, Huntington, Hutchinson & Sowa, 1986), or job commitment (Meyer & Allen, 1997) may provide an improved approach to developing a diagnostic toolset so that problematic behaviors in supervisors can be identified and addressed within the organizational setting. From a managerial perspective, organizations need to avoid potential legal liability of unethical supervisory and managerial behaviors and their resulting negative impact (Wall Street Journal, 2006).

Future Research

Additional research is needed to test the viability of this shortened form of the Perceived Leader Integrity Scale. While the proposed shorted form set forth in this study has been developed using results from two fairly robust data sets (n=270 and n=193), both were drawn from the same profile of working adults in the Atlanta metropolitan area. Additional testing of the SEM model is also recommended to verify overall goodness of fit with other datasets.

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LOCAL HOSPITAL SYSTEM CHANGES RESULTING FROM THE IMPLEMENTATION OF THE AFFORDABLE CARE ACT

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ABSTRACT

The case study explored the behavioral episodic changes occurring within a local community hospital environment due to the recent implementation of the Affordable Care Act policies. The implementation of the Affordable Care Act has forced hospital systems to re-evaluate their internal processes, internal costs, and revenue channels. The lack of a prior and proven United States' Affordable Care Act healthcare model has created an environment of uncertainty within hospital environments. This level of uncertainty has directly influenced employees' behaviors including managers, staff, and ancillary employees. Costs, internal and external processes, resource allocation, and job analysis are some of the environmental variables that have influenced how hospitals are affected by the implementation of the Affordable Care Act policies. The case study analysis at the local community hospital provides the opportunity to evaluate the internal and external behavior processes affected through the adoption of the Affordable Care Act while also identifying issues and problems during the identified episodic change. The hospital system's ability to prepare for the adoption of the Affordable Care Act has indirectly and directly affected the behaviors of the employees during this episodic period of change. There are three specific areas of change that were identified through the interview process due to the recent Affordable Care Act policies. The first area of change includes the increase in conflict between the various departments and employees due to the competition for internal resources and power. Due to the strong focus on cost reduction, conflicts among departments have increased due to the competition for financial and product resources leading to an adjustment in employee behaviors. The resource dependence theory assists in providing a comparison between the environmental influencers and the hospital internal personal resources, skills, and financial allocations. The second area of change uncovered included a focus on the structural communication changes to reduce negative behavior among managers and employees through the utilization of electronic medical record systems. The use of the contingency theory provided an explanation of the interrelated interactions defining the communication barriers between the hospital's subunits and departments. The third area of change included the behavior changes demonstrated by the employees and managers due to the implementation of the Affordable Care Act policies. The use of the social cognitive theory allowed for a comparison between the observed behavior within departments and the interactions between employees affected by the organizational changes. A number of programs have been implemented within the hospital to assist managers and employees in managing the increased turnover and training requirements resulting from the policy changes. This cases study assists in providing a foundation for further qualitative analysis on the effects that the Affordable Care Act policies has had on employees and management within hospital systems. The concern for the unknown within the hospital departments has created an environment of uncertainty that has directly affected the behaviors of their employees. Understanding the barriers and issues that result from the changes induced from the Affordable Care Act provides hospital management the opportunity to develop programs to address the identified changes and concerns.

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RESISTANCE OR ACQUIESCENCE: STUDENT PERCEPTION OF SOFTWARE SURVEILLANCE DURING A TEAM-BASED SIMULATION

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Grant Richards, Purdue University
Thomas Tworoger, Nova Southeastern University
Edie Schmidt, Purdue University

ABSTRACT

The use of software surveillance and monitoring systems in industry and academia is having an increasing impact on the privacy of users. While managers and administrators may appreciate the utility and security provided by these systems, the impact on end-user perception and behavior is unclear. It is uncertain if user tolerance of surveillance might be influenced by a general acceptance of technology. Furthermore, it is unclear to what extent attitudes impact behavioral response. This pilot study focused on capturing and deciphering participant reaction to surveillance software in the context of an undergraduate course during a team-based Enterprise Resource Planning (ERP) simulation. Responses collected through a post-completion open-ended survey were correlated with user behavior during the experience. Results revealed that the software had a positive impact on dissuading deviant behavior and that the majority of the students did not view the surveillance software as intrusive. Preliminary findings suggest surveillance systems may be used effectively and unobtrusively in a computer-based lab with Millennials.

A REVIEW OF LONGITUDINAL STUDY TYPOLOGIES FOR BUSINESS RESEARCH

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ABSTRACT

Longitudinal studies have become a standard methodology for academic research that examines issues in the ever-changing, complex global world of business. On matters of business research, longitudinal studies are particularly effective for measuring impact of business strategies over time. The literature's call for more longitudinal studies runs up against a rather incoherent and potentially confusing use of terminology and typology undermining the accessibility for business academics and practitioners who are not familiar with this area. This study provides a thorough review of longitudinal study typologies, including an annotated, illustrated methodological framework integrating the key facets of observational longitudinal studies. Although the framework is generalizable beyond the behavioral or business context, it refrains from dealing with the specific nuances of areas such as medicine. This review and framework should be beneficial to academics and other researchers in properly describing, setting up, and understanding longitudinal studies.

CONGRATULATIONS, YOU HAVE NOW BECOME A SUPERVISOR FOR THE FIRST TIME . . . NOW WHAT DO YOU DO?

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Long Li, Louisiana State University of Alexandria
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ABSTRACT

As an IT professional certainly you know your trade but how much training and thought have you done in supervision? More than likely, very little! We have all seen movies where the typical boss is either overbearing and demanding or a total push-over. Certainly, the movie example is not reality. The paper will give you some thoughts to develop your own style of management.

This paper will look at the challenges of the first time supervisor and what he/she will encounter in his/her journey through long-term management process. Elements discussed will include communication processes and styles; corporate culture; management styles; reporting structure; and adjustments to modify/correct any misalignments for continuous improvements.

EVALUATING THE EFFECTIVENESS OF COLLEGE FOOTBALL RECRUITING RANKINGS

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Julio A. Rivas, Lipscomb University
Jeffrey J. Jewell, Lipscomb University
Randall L. Bostic, Jr., Lipscomb University

ABSTRACT

Each year, American universities spend millions of dollars recruiting student athletes to play college football. The 126 universities that played major college football had total football revenues of $3.4 billion in 2013. The success of the multimillion-dollar programs depends on the success of million dollar coaches in recruiting, developing, and retaining 18-23 year old student athletes. Coaches continually assert that recruiting is very important for their programs. Most fans also believe that recruiting is vital for team success. There are several recruiting services that provide rankings for the fans of the players and the classes signed by the universities. The major recruiting services are ESPN, Scout, Rivals, and 247 Sports. These services are also multimillion-dollar companies. Previously, there have been only limited studies linking recruiting ratings to actual football results over several years. Currently, we have a poor understanding of accurate the recruiting service rankings predict future football success. This study measures the effectiveness of the recruiting rankings over a 10-year period to predict future team results.

MUST SUSTAINABLE PROJECTS BE JUSTIFIED BY FAITH ALONE? KAPLAN'S MODEL REVISITED

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Peter J. Fuchsteiner, St. Cloud State University

ABSTRACT

In Robert S. Kaplan's classic article, "Must CIM Be Justified By Faith Alone?" (Harvard Business Review, March-April 1986), Kaplan argues that evaluating the financial viability of investments in computer integrated manufacturing systems (CIM) does not have to rely solely on "faith" that the high costs of CIM are justified by hard-to-measure benefits such as increased flexibility, enhanced quality, and learning advantages.

While defending discounted cash flow (DCF) as a fundamental and critical financial tool for evaluating capital investment proposals, Kaplan identifies shortcomings in the application of DCF by many managers, and proposes a way to put a monetary value on the intangible qualitative benefits of a CIM project. Kaplan's paper is a major contribution for how to evaluate capital projects that feature many intangible benefits, while adhering to the discipline of the DCF financial tool in making capital investment decisions.

There are many parallels between the challenges of financially evaluating CIM investment proposals and evaluating investments in sustainable projects such as solar energy, wind turbines, LED lighting, geo-thermal, and storm water retention systems. Similar to CIM projects, sustainable projects usually feature many intangible costs and benefits that are difficult to incorporate into DCF analysis.

This paper summarizes Kaplan's key points from his classic article and applies his model to the challenges of using DCF to justify investments in sustainable projects. A special focus is given to Murphy Warehouse Company's (MWC) sustainable investment decision on a storm water retention project that features a long payback period. Kaplan's model is applied to MWC's decision, where the value of several intangible benefits must be assessed, based on the amount of negative Net Present Value (NPV) that a pure financial analysis would generate if only tangible, easy to measure costs and benefits are assessed.

STATE TAX LAW AND THE U. S. CONSTITUTION

April Poe, University of the Incarnate Word
Theresa Tiggeman, University of the Incarnate Word
Joseph Labatt, University of the Incarnate Word

ABSTRACT

Taxation at the state and local level has long been part of the fabric of American's public funding system. State and local governments use a variety of taxing options including income tax, sales tax, property tax, franchise tax, and severance tax. Each state's taxing authority arises from its state constitution. Nevertheless, state taxes have often been subject to challenge under federal constitutional law. Those challenges have been primarily based on three clauses in the U.S. Constitution: the Supremacy Clause, the Commerce Clause, and the Due Process Clause. This paper addresses the major legal boundaries for a state's taxing power.

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INTRODUCTION

Taxation at the state and local level has long been part of the fabric of American's public funding system. State and local governments use a variety of taxing options including income tax, franchise tax, sales tax, property tax, and severance tax. Each state's taxing authority arises from its state constitution. Nevertheless, state taxes have often been subject to challenge under federal constitutional law. Those challenges have been primarily based on three clauses in the U.S. Constitution: the Supremacy Clause, the Due Process Clause, and the Commerce Clause. This paper addresses the major legal boundaries for a state's taxing power.

All 50 states maintain some type of funding through taxation (Hoffman, Raabe, Maloney, Young, & Smith, 2015; Karlin, 2009; Raabe, Whittenburg, Sanders, & Sawyers, 2012; Rupert, Pope, & Anderson, 2015). Therefore, tax practitioners and researchers need to consider state and local taxation in both business and individual tax planning. However, researching a state issue does not usually allow for lack of knowledge about the impact of any federal rules or assumptions that state rules are the same as federal. Indeed, there are several notable federal-state tax law conflicts (Biek, 2012; Davis & Hageman, 2014; Gall & Kulwicki, 2012; Gall & Kulwicki, 2014; Raabe et al., 2012) although many states with an income tax simply piggyback on the Internal Revenue Code (IRC) (Hoffman et al., 2015; Karlin, 2009; Raabe et al., 2012; Rupert et al., 2015). A tax researcher must take care to evaluate how closely the state tax law follows the IRC. Some states selectively enact IRC-like tax code due to the damage that some IRC sections do to the revenue generating abilities of the states (Karlin, 2009; Raabe et al., 2012). Examples of IRC sections that inhibit revenue generation are bonus deprecation and other accelerated depreciation deductions (Karlin, 2009). Additionally, many states have not enacted IRC Section 199, Domestic Production Activities Deduction, to preclude the loss of state income (Raabe et al., 2012). Other considerations include the results of court cases in each state (Davis & Hageman, 2014; Gall & Kulwicki, 2012; Gall & Kulwicki, 2014; Karlin, 2009; Raabe et al., 2012).

SUPREMACY CLAUSE

"When a state law conflicts with a federal law, the Supremacy Clause provides a resolution: federal law trumps state law" (Dow, 2012, p. 1009). The Supremacy Clause appears in Article VI of the U.S. Constitution. It states:

> This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the Contrary notwithstanding

The basic principle of the Supremacy Clause is that federal law is higher than state law. Federal law preempts state action that "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress" (Monaghan, 2010, para.3). Therefore, the implication is that when a state law conflicts with a federal law, state law becomes void (Babich, 2012; Monaghan, 2010; Raabe et al., 2012). In *Warren Trading Post Co. v. Arizona Tax Commission* (1965), a trading post on a Navajo reservation challenged the imposition of Arizona state tax because the reservation was on federal land. *Warren Trading* was the first in a series of court cases in which trading post operators on Native American reservations were held to be exempt from state sales tax (Taylor, 2007). *Warren Trading* confirmed, "federal authority and tribal sovereignty at the expense of state taxing powers and regulatory authority" (Taylor, 2007, para.2). This important case reinforced the concept of federal law's supremacy over state law (Taylor, 2007). The Supremacy Clause further prevents a state from taxing the federal government (Raabe et al., 2012). Ultimately, states are not free to implement changes to their taxation systems without considering whether their positions are in conformance with federal law.

DUE PROCESS CLAUSE

The Due Process Clause states: "No person shall be…deprived of life, liberty or property without due process of law." (U.S. Constitution, Amendment 5). Under the Due Process Clause, state taxation of a business entity is acceptable only when it satisfies the requirements of "nexus" and "fairness" (Biek, 2012; Davis & Hageman, 2014; Gall & Kulwicki, 2012; Gall & Kulwicki, 2014; Raabe et al., 2012). Black's Law Dictionary defines "nexus" as "a connection or link." According to Davis and Hageman (2014), nexus exists "when a corporation's business activities are 'sufficiently connected' to a state that its income can be subject to tax there" (p. 106, original quotes). Davis and Hageman (2014) further clarify nexus "as the minimum degree of connection between a corporation and the state that subjects a corporation to the state's tax system" (p. 107). 'Fairness' requires a proper allotment of tax in conjunction with a corporation's business activity (Raabe et al., 2012).

States use Due Process to enforce state tax collection (Biek, 2012; Gall & Kulwicki, 2012; Gall & Kulwicki, 2014; Raabe et al., 2012). However, a notable limitation on a state's taxing powers is imposed by the Interstate Income Law, Public Law (PL) 86-272. PL 86-272 came about as a reaction to *Northwestern States Portland Cement v Minnesota* (1959). In *Northwestern States*, the Court upheld the state of Minnesota's right to tax an Iowa corporation taking orders from an office it leased in Minnesota. Congress addressed the business community's concern by passing PL 86-272, which prevents a state from taxing businesses whose only involvement with a state is asking customers for sales orders.

COMMERCE CLAUSE

The Commerce Clause grants to Congress "The Power to regulate Commerce with foreign Nations, and among the several States, and with the Indian tribes." (U.S. Constitution, Article 1, Section 8). Like the Due Process Clause, the Commerce Clause requires the application of nexus standards (Biek, 2012; Gall & Kulwicki, 2014; Raabe et al., 2012). A nexus must exist between the state and the entity being taxed by that state. Otherwise, the state tax would create an unacceptable burden on interstate commerce. Both the Due Process Clause and the Commerce Clause involve a physical presence (of a corporation) test. In *Quill Corp. v. North Dakota ex rel. Heitkamp*, (1992), the U.S. Supreme Court considered whether a vendor that did not have a physical presence in the taxing state of North Dakota was subject to taxation by that state. Because Quill Corp. sold by mail order and had no offices or employees in North Dakota, the U.S. Supreme Court found that the company lacked a substantial nexus with North Dakota. In addition, the Supreme Court of New Mexico in *New Mexico Taxation* declared that the Commerce Clause required a business to have a physical presence in the state in order to be subject to state tax (*New Mexico Taxation v. BarnesandNoble.com*, 2013).

Researchers in tax law need to contrast the *New Mexico Taxation* decision with recent applications of the Due Process Clause that do not require a physical presence (Biek, 2012; Gall & Kulwicki, 2012). What began as a physical presence test has evolved into an economic test of nexus. Davis and Hageman (2014) described, "an economic nexus standard that only requires the broad exploitation of the state's economic market in order to assert that a corporation has established nexus with the state" (p. 106). Thus, using an economic nexus, a state may require a business to file a state income tax return.

CHALLENGES IN THE COURTS

A major difference between federal and state taxation research concerns challenges in state courts (Raabe et al., 2012). Federal taxation cases occur mainly in federal tax court; whereas, there are not many analogous courts for states (Karlin, 2009; Raabe et al., 2012). The federal tax court is only for tax cases, and the judges are all tax experts. Most states have their tax cases heard by generalists who may or may not understand all the complexities of the taxation system. According to Taylor (2007), state challenges occur because the "stakes are large for the taxpayers and well worth litigating" (para. 10). In other words, taxpayers do not tend to litigate tax issues with small consequences.

Taxpayers must typically litigate state tax issues within state systems (Gall & Kulwicki, 2014; Raabe et al., 2012; Taylor, 2007) unless the U.S. Supreme Court hears an appeal from a state court. In 1937, passage of the federal Tax Injunction Act resulted in state courts being "the only option when constitutional nexus objections are in issue" (Gall & Kulwicki, 2014, p. 12). Gall and Kulwicki (2014) cited two cases with the same issues, but with different results. The cases were *St. Tammany Parish Tax Collector v BarnesandNoble.com* and *New Mexico Taxation and Revenue Department v BarnesandNoble.com*. In the Louisiana case, Barnes and Noble moved the case to federal court because of Louisiana's unusual tax code (Gall & Kulwicki, 2014). Barnes and Noble prevailed in federal court but failed in New Mexico's state court (Gall & Kulwicki, 2014).

STATE TAXATION AND BUDGETING PROCESS

State and local taxes are integral components in America's funding system and are mainly controlled by each state constitution. State and local governments use a variety of taxation options. Generally, the process of funding is similar from state to state, and nearly all funding activities begin in the state executive office (Raabe et al., 2012; Wallin, 2010). Wallin (2010) noted that each state process generally has two committees, one for each house. Wallin (2010) goes on to say states are "very different from (and far more efficient than) budgeting at the federal level" (para. 3). Wallin (2010) lists four reasons why state governors exert more influence than the U.S. President. Foremost is the balanced budget issue. Next, governors have more staff than state legislators. Additionally, governors are full time while many state legislators have professional obligations. Finally, many states make line item veto a prerogative of the governor.

CONCLUSION

The myriad of state taxation laws, court cases, and constitutional issues arises from three sources: "(1) state statutes, rules and judicial decisions; (2) the U. S. Supreme Court's interpretations of nexus requirements imposed by the Commerce Clause and Due Process Clause…; and (3) any federal statute explicitly defining state authority to tax" (Gall & Kulwicki, 2014, p. 11). A tax researcher must take care when investigating state taxation issues for businesses (Karlin, 2009; Raabe et al., 2012). Although tax laws in different states are often similar to federal tax laws, they may also contain significant differences. A researcher needs to investigate relevant issues in each state considered and not rely on findings from one state to make conclusions about another. Ultimately, tax researchers must be certain that state tax requirements conform to federal law.

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