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A DECISION MODEL TO FACILITATE AN ASSET REPLACEMENT DECISION

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ABSTRACT

This paper develops a model for determining when it is economical to replace an existing business asset. A review of the literature shows a large body of work for making an initial purchase decision, but little guidance on when to economically replace. The discussion, which follows, outlines a process and a model to assist in the asset replacement decision making process. In addition, guidelines are presented for accumulating the necessary data to use in the decision model.

Typically, the replacement issue occurs when assets become fully depreciated, someone notices, and suggests replacement, even though the asset is still serviceable. While the depreciation shield is important, obtaining it by purchasing a new (or replacement) asset may lead to a poor economic decision. For example, when replacing an asset, one should compare acquisition costs, residual values, and the relative revenues and costs associated with both the replacement asset, and the asset being replaced. Further, both present value and marginal tax rates should be included in the process. The model developed in this paper takes into account the necessary considerations needed for the appropriate economic decision.

INTRODUCTION

Anecdotal and empirical evidence suggests that small, closely-held businesses often make uninformed asset replacement decisions (e.g. Alltizer and Sanders 1997). Any prospective business transaction should always be analyzed in terms of both economic benefit and tax consequences. However, order is important, correct tax and business planning should always start with a sound economic plan, and then attempt to minimize taxes through careful planning. Anecdotal evidence and prior research has established that taxpayers often arrive at a suboptimal economic decision when they endeavor to minimize their tax liability. One should never let taxes be the tail that wags the dog.

Careful planning (tax and economic) is both legal and necessary in today's competitive business environment. In fact, years ago Justice Learned Hand once said "There is nothing sinister in arranging one's affairs as to keep taxes as low as possible for nobody owes any public duty to pay more than the law demands." (Commissioner v. Newman) Even so, when acquiring new assets, minimizing taxable income is not always the best solution. For example, suppose an asset is fully depreciated yet still serviceable at roughly the same operating cost as a replacement. If the taxpayer acquires replacement property, he/she has a new deduction (depreciation), which lowers taxes, but was required to pay for the deduction dollar for dollar. This only makes economic sense when the tax rate equals or exceeds 100 percent!

Thus, while tax planning is an important consideration in any business decision, over-emphasizing tax considerations in a business asset investment decision may lead to a sub-optimal outcome. Nearly all large companies have departments with experts who conduct a thorough analysis before acquiring new assets. Unfortunately, smaller closely held companies do not always have the expertise in house, and must purchase this advice from their financial advisor. This paper is intended to provide guidance for the small business person who must purchase that advice. The following model quantifies the key process in considering the acquisition of a replacement asset.

THE MODEL

In the literature, several methods are discussed for determining if the acquisition of a new asset is economically viable. The three most common methods are the payback, internal rate of return (IRR) and net present value (NPV).

The payback method uses non-discounted cash flows to determine when an asset has paid for itself with increased profits. The IRR method calculates a discount rate such that the present-value of future cash flows equal the cost of the investment. If this rate is higher than the cost of capital, the investment is accepted, or if choosing between alternatives the investment with the highest rate is selected. Finally, NPV uses the cost of capital to discount the future cash flows. If the NPV is positive the proposed investment is made, or if choosing between alternatives, the highest NPV is selected.

This paper extends the asset acquisition analysis by developing a model to quantitatively determine whether the replacement of an existing asset is warranted on an economic basis. The premise of the model is to calculate the present value of the changes in cash flow between the existing asset (old) and its replacement (new) from the acquisition point of the new asset to the end of its estimated useful life.

Before undertaking the analysis, the following information must be obtained. Obviously, as our estimates are refined and developed the utility of the model becomes more reliable and useful.

- What are the estimated costs of maintaining/operating the old equipment?
- What are the estimated costs of maintaining/operating the new equipment?
- Do we expect revenues to change as a result of this equipment?
- If so, by how much?
- What is our marginal tax rate?
- What is the appropriate discount (borrowing rate?
- What are the current value of the old asset, as well as the estimated useful life of the new asset, and its residual value?

$$\sum_{yr=0}^{n} PV_i(CF_{yr}) \qquad (1)$$

Where:

$$CF_0 = \text{Cost of New Asset} - \text{Proceeds from Old Asset} \qquad (2)$$

$$CF_1 = \frac{\Delta R - \Delta E}{1-t} + \frac{\Delta D}{1-t} + (BV_{old} - \text{Proceeds from Sale of existing asset})(t) \qquad (3)$$

$$CF_{2-n-1} = \frac{\Delta R - \Delta E}{1-t} + \frac{\Delta D}{1-t} \qquad (4)$$

$$CF_n = \frac{\Delta R - \Delta E}{1-t} + \frac{\Delta D}{1-t} + \text{Proceeds from New Asset} + (BV_{new} - \text{Proceeds from sale of New asset})(t) \qquad (5)$$

t = the marginal tax rate
i = the discount rate
BV = Taxable book value as it applies to either the new or old asset
R = Change in revenue attributable to the new asset
E = Change in operating expenses attributable to the new asset
D = Change in depreciation attributable to the new asset

The process starts by calculating the acquisition cost of the new asset and estimating the salvage value of the old asset (equation 2). The date of the exchange of assets is day one of the process; hence the difference in the values is not subject to a present value calculation. Equation 3, calculated at the end of year one, evaluates the difference in operating revenue and expenses, the tax effect of the loss of gain on disposal of the old asset, and the tax savings from the depreciation of the new asset. For the remaining years, the net change in operating revenues and expense are brought to present value along with any tax saving from depreciation (equation 4). In the final year of the asset's life (equation 5) the net change in operating revenues and expenses, the revenue from the sale of the asset, any tax effect of the gain or loss for the sale of the asset and any remaining depreciation are brought to prevent value.

Equation 1 provides the summary of the decision-making process. If the sum of the present value calculations is positive, the new asset should be purchased. If the sum of the present values is negative, the old asset should be retained until facts and circumstances change. Because the estimated cash flows are summarized on a present value, after-tax basis, a positive result indicates that cash inflows exceed cash outflows. Of course, a negative result suggests deferring the replacement.

While this model provides a mechanical test, it is purely quantitative in nature, and does not address any qualitative issues. It is conceivable that a replacement asset could add quality without a direct or measurable increase in revenues. For example, a retail store might replace display cases to “refresh” their appearance; however, be unable to use our model because any change in revenues is uncertain at best. Even so, management may decide to make the replacement, and could be correct in doing so.

CONCLUSION

When replacing an existing asset, careful planning is important to both the company involved and the economy as a whole, as the most efficient allocation of relatively scarce resources benefits everyone. Large publicly traded corporations routinely make asset replacement decisions that have a sound economic basis. In general, the difference is probably attributable to the difference in resources. Large companies often have in-house expertise to analyze the problem, while smaller companies may not.

The model developed in this paper is intended to provide a useful decision-making tool that a small business person could use to evaluate important asset replacement decisions. However, the importance of carefully accumulating needed data cannot be overemphasized.

Limitations of the model include the extensive use of estimates, and any non-quantifiable qualitative issues. Even with its inherent limitations, the model can be an effective part of the process if properly utilized.

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THE NEW PHYSICIAN ENTREPRENEUR – FRIEND OR FOE?

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ABSTRACT

The Physician Entrepreneur - a double edged sword? Is the new physician entrepreneur good for healthcare in the United States or simply another force contributing to the escalating costs of our healthcare system? Regardless of opinions, today's entrepreneurial physicians are steadily becoming a rival to established healthcare providers. Physician owned healthcare services and physician owned specialty hospitals are increasingly capturing a large portion of healthcare dollars, especially in the high profit areas. Depending upon the perspective taken, physician entrepreneurs can be seen as both friend and foe. This study examines some of the positive and negative impacts of the new physician entrepreneur, and examines the role of the physician entrepreneur in shaping healthcare delivery systems of the future.

INTRODUCTION

While physicians have a long history as entrepreneurs, recently the number of physicians participating in entrepreneurial ventures has been growing at an unprecedented rate. The principal factors contributing to this growth among physician entrepreneurs appears to be downward pressures on physician incomes resulting from increased expenses associated with the operation of medical practices, advances in technology resulting in the practice of "scientific medicine", and pressures from third-party payers to reduce payments for medical services The first consideration is increasing costs associated with operating a medical practice.

Physician's practice incomes are eroding today due to lower reimbursements, higher costs for malpractice insurance, administrative burdens, delayed payments for services and complex reimbursement procedures from insurers that require increased professional and clerical man hours, and frequently delay reimbursements (Kalogredis, 2004). One specific example of reimbursement pressure on physician incomes is an initial reimbursement reduction of 4.3% for Medicare Part B charges in 2006, which under current law will continue over a six year period, during which reimbursement reductions for Medicare Part B charges will total 26% (Sloan, 2005). Compounding the pressure of reduced reimbursement is the expectation that physicians will become more efficient as they see more patients in less time - due to population increases combined with a physician shortage. Adding to incomes pressures for physicians created by increases in practice costs are income reductions tied to a shift to more outpatient procedures and reduced length of stay for inpatient procedures. Much of this is a result of scientific and technological advances in medicine.

Scientific and technological advances in the practice of medicine have virtually eliminated the need for "exploratory surgery". New medical diagnostic equipment, tests, and advances in medical and surgical equipment and processes have resulted in many procedures previously requiring lengthy hospital stays, being performed on an outpatient basis. Scientific and technological advances have also led to shorter lengths of stay for patients requiring in-patient hospital services.

While scientific medicine has vastly improved the quality of care, it has also contributed to downward pressures on physician incomes. In addition to income pressures resulting from the increased utilization of science and technology in the practice of medicine, third party payers have also contributed to pressures on physician income levels (Broxterman, 2005).

As healthcare competition heats up along with escalating costs, hospitals, health systems, and physicians are under more pressure than ever to accept risk in the form of various capitation agreements. Under these plans primary healthcare providers are paid a fixed fee based on the number of plan members under their care, or by diagnosis, rather than on the basis of services rendered. According to Johnson and Egger (2000) the major failure of capitation programs to reduce the costs associated with healthcare delivery has been a failure to put physician specialists at risk in the same way that hospitals and primary care physicians are put at risk. New capitation agreements are designed to reimburse specialists based on the number or percentage of plan members under their care, or by diagnosis, rather than basing reimbursement on the number of procedures performed by the specialist as has been common practice for quite some time. This system re-designed is intended to encourage specialists to practice less costly (less profitable) medicine. Given that practice costs are increasing, technology has reduced length of stay, and payers are adopting more comprehensive capitation systems – physicians are seeking ways to protect their income levels.

In order to alleviate income pressures resulting from advances in the application of “scientific medicine” and pressures from third party payers the primary areas of physician investment have been freestanding surgical centers, specialty hospitals and diagnostic centers. In response to this movement, many universities are now offering MD-MBA programs, preparing entrepreneurial physicians to seize new business opportunities. While this may create new opportunities for some, does it also contribute to escalating costs of healthcare delivery, as more physicians are now involved in many new and evolving business opportunities?

CONCERNS

There are many concerns regarding physician investments in health care related services and facilities. A 1992 study in Florida found that at least 40 percent of physicians in that state who were involved in direct patient care, had investments in a health care agency to which they might refer patients. (Mitchell & Scott, 1992). Areas of physician and physician group investments include both diagnostic and therapeutic services often related to the primary practice of the physician or physicians. Specific diagnostic areas where physician investments are common include freestanding laboratories, diagnostic imaging centers (CT scanners, MRI units, ultrasound units and radiology centers) mobile heart catheterization laboratories, and endoscopy centers. Physicians also frequently invest in therapeutic services such as ambulatory surgery centers, minor emergency rooms, dialysis centers, alcohol and drug abuse treatment centers, physical therapy and rehabilitation services, prenatal nutritional centers and radiation therapy centers. Other investments which are common among physicians include home health agencies, durable medical equipment suppliers, outpatient infusion therapy services, and nursing homes (Anonymous, 2004).

The current healthcare system in the United States funds much un-compensated and charity care through a process referred to as cost shifting. Under this system payments received for medical services from insured and private pay patients also cover many of the expenses associated with the delivery of uncompensated and under-compensated care. Thus, by increasing the number of healthy patients with adequate health care coverage and minimizing the number of very sick and indigent patients a medical facility can substantially increase operating profits.

One concern, especially tied to investments by physicians in freestanding outpatient surgical centers and specialty hospitals is the erosion of community based full service hospitals ability to provide charity care. The Texas Healthcare Association’s "Report on Limited Service Providers" illustrates the disparity in services provided by full service community hospitals and limited service health care centers. This study found that limited service doctor-owned businesses selectively admit healthier and better reimbursed patients – a process commonly referred to as "cherry picking". Patients who are less healthy and in addition to the primary diagnosis associated with admission present with co-morbidity factors such as coronary problems, morbid obesity, respiratory problems, and diabetes are more likely to be admitted to full-service community based facilities. Under the current system which often involves capitation, a single fixed rate often reimbursed by primary diagnosis, so it more profitable for healthcare facilities to avoid admitting patients who are "high risk". The primary care of these patients is more costly to deliver and the potential liability risk is greater for less healthy patients. Thus "cherry picking" by admitting physicians could increase profits for limited service facilities at the expense of full service community hospitals. In addition to shifting profits to physician owned specialty facilities by patient selection, the offering of limited or no emergency room services also may increase the profitability of specialty facilities at the expense of full service community based hospitals..

Because the emergency room provides a gateway to health care for the indigent, much of the uncompensated in-patient care delivered by full service community hospitals is originated by emergency room admissions. A study conducted by the American Health Standards Group found that limited service healthcare centers deliver significantly less emergency care and access to the emergency department by offering a limited range of emergency services, or in some cases no emergency department. Full-service hospitals within the American Health Standards Group study had an average of 14,760 emergency room visits per year or 40.4 visits per day, compared to an average 480 emergency room visits per year or 1.3 visits per day for physician-owned limited service hospitals that offer some level of emergency services (Speak Out on Doctor Owned Services,1995).

While physician investments in freestanding surgical centers, specialty hospitals, diagnostic and therapeutic services are understandable attempts to protect and increase income levels among physicians, these entrepreneurial practices also raise numbers of questions. For example, a study by the American Health Standards Group (Speak Out on Doctor Owned Services,1995) determined that there was an increase in orders for services of over 40% when the physician entrepreneur held a financial stake in the service being administered. The question here is whether tests are ordered more frequently by physicians with personal financial interest in the facility providing these services because of financial interests, or is a higher level of care being administered because tests in these facilities are more easily scheduled, feedback is received more rapidly, or because patient inconvenience is minimized? Regardless of the motivation of physician entrepreneurs, the question remains as to the appropriate response by traditional providers.

RESPONSE TO THE PHYSICIAN ENTREPRENEUR

Traditional healthcare providers are using both cooperative and competitive strategies in response to entrepreneurial physicians. Hospital cooperative VHA recently counseled its members to "build barriers" to restrict physician entrepreneurs who compete with them. These barriers can take many forms which include, threats of revoking the admitting privileges of physician investors, lobbying for tighter state control of permits for construction of new medical facilities, convincing insurers that competitive pressures will require higher reimbursement rates to offset volume declines, support of bills that tax facilities providing little charity care to provide additional funds for providers of charity care in the community, and initiating large numbers of lawsuits against those who desire to construct new facilities, are just a few examples of "barrier building"(Anonymous,2004).

Cooperative strategies are emerging especially with regard to hospital / physician joint-ventures. Typically these joint ventures involve procedures that generate a technical fee, or facility use fee from both public and private payers. Ambulatory surgery centers, endoscopy suites and imaging centers are common examples of services where hospitals joint venture with physicians. Hospitals participating in these joint ventures realize that hospital revenues will be reduced, but tend to participate based on the rationale that “half is better than none”-assuming that physicians could move ahead alone or with other partners if the hospital is unwilling to participate (Lifton & Bryant, 2006).

DISCUSSION

There is little argument that the increasing cost of healthcare is a major national problem. Under existing payment structures, much of the costs associated with providing care for the uninsured and indigent are shifted to existing payers. As costs of care and the number of uninsured grow, health insurance costs rise. As health insurance costs rise, fewer businesses can afford to provide medical coverage to employees, fewer employees are able to afford their share of insurance premiums, and fewer of the self employed are able to afford health insurance coverage. The existing structure, which transfers costs for treating the indigent and uninsured to private payers, is no longer working. Cost shifting now acts to reduce the number of payers, provide financial incentives to care providers that target profitable patient populations, and increase the total number of uninsured. Rather than focusing on retaining a system that is failing, perhaps developing a new model is the answer. Can entrepreneurship in medicine provide the foundation for a more successful system?

Perhaps, rather than trying to control the success of the new physician entrepreneur, through additional taxes, legislation to limit their growth, and building barriers to restrict their success, efforts should be made to partner with them for mutual benefit. Providing financial incentives to new physician entrepreneurs may serve to enlist much needed intellectual capital in the quest to design a system that delivers high quality and affordable health care to the population of the United States. In developing solutions for a failing healthcare system much research will be required.

Areas for continuing research should include the examination of practice strategies employed by successful physician entrepreneurs and an assessment of opportunities to transfer these skills to other healthcare providers. Another area for future research is the evaluation of current governmental regulations and controls, to determine which regulations and controls support and which hinder efforts to provide high quality / high value healthcare to our population. It is suggested that research and cooperative efforts are central to the development of a healthcare system capable of providing for the needs of all our citizens now and in the future.

CONCLUSION

The emergence of the physician entrepreneur should not really call the question of friend or foe, as has been the case in most of the academic, professional, and healthcare industry literature. Research demonstrates that physician owned facilities tend to be well run facilities with short lengths of stay and good patient outcomes. Having pressured physicians to reduce patient lengths of stay, integrate more technology in the practice of medicine, accept capitation of payments, while facing increasing costs associated with operating their practices; should it be surprising when physicians seek ways to protect and increase their incomes? The economy in the United States is based on the philosophy that open competition and free market forces result in the delivery of higher quality / higher value products and services to consumers.

New physician entrepreneurs are challenging the established health care delivery system in this country. There are basically two alternatives available which are; enlist the aid of entrepreneurial physicians in designing a more effective and efficient heath care system, or seek to protect the current system that is currently in crisis. Regardless of the alternative chosen, the new entrepreneurial physicians will pay a pivotal role in shaping the health care delivery of the future in this country. The likelihood of significant improvement in the current health care delivery system may well depend on our view of the new entrepreneurial physicians as friends or foes.

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THE EXPANSION OF WAL-MART: AMERICAN ICON OR EVIL EMPIRE

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ABSTRACT

In this study, I examine the conflicting opinions toward the role of Wal-Mart in the communities of the United States. The proponents of Wal-Mart view the company as providing excellent service, unparalleled logistics, and discount prices to serve its customers. The critics of Wal-Mart claim that it is misleading consumers and city planning officials by appearing to comply with their requests while in actuality pursuing a strategy which will mar the landscapes of America's towns and cities for years with ugly big-box retail stores and huge asphalt parking lots. Applying the lens of institutional theory, I view the attempt of the managers of Wal-Mart to achieve a legitimate status in the eyes of its largest stakeholder, the American public. I measure this attempt using a telephone survey of residents in a typical American community.

KATRINA DRIVEN RECOVERY THROUGH GOVERNMENTAL ENTREPRENEURSHIP

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ABSTRACT

In this paper we offer our Governmental Entrepreneurial Model (GEM) that can be used in the restructuring and revitalization of Post-Katrina City of New Orleans (NO). By using the GEM, Louisiana government agencies at the state and local levels can use it as a tool to meet their seemingly insurmountable challenges. Our GEM enables these government agencies to: analyze the needs of NO, search for public and private sector data as to how others have accomplished these same tasks, and use this data to develop knowledge that is specifically unique to the needs of NO. Once this information has been obtained, it can then be used in the development of a long-term strategic plan to drive Post-Katrina recovery. The lessons learned from the development of GEM can provide a tremendous planning tool for cities throughout the nation as they struggle with challenges that include aging infrastructures, declining tax bases and federal support.

GAINING ACCESS TO START-UP CAPITAL: A GUIDE FOR THE NASCENT ENTREPRENEUR

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ABSTRACT

When new entrepreneurs get started developing their business ideas, one of their greatest needs will be gaining access to capital. Some entrepreneurs are fortunate and have easy access to capital, but most are not as lucky. This article is a brief guide to the different types and levels of financing available to new businesses, and will give entrepreneurs and a simple understanding of how to access this capital. We illustrate the integral relationship between the entrepreneur, the business idea, and the opportunities for success in raising capital. Entrepreneurs should be excited about the possibilities ahead of them, while staying focused on the financial realities that they will face. Our goal is to encourage entrepreneurs to be prepared as they chase their dreams. We want them to understand the financial realities they face. Ultimately, the more they are prepared and the greater understanding they have of these realities, the greater their chances for success.

INTRODUCTION

The history of the American economy is at least partially defined by the great success of its many entrepreneurs. These innovators, people like Ben Franklin, Thomas Edison, Bill Gates and Jeff Bezos, are often larger than life figures with iconic stature. It is often said that this innovation is what keeps our economy the strongest and most robust in the world. Most entrepreneurs won't be as well known as Thomas Edison or Bill Gates, and they may not create billion dollar enterprises. There are successful entrepreneurs all around us, from the owner of the local pizzeria or dry cleaner, to the latest greatest Wall Street success story. Whether your dream is to operate a small local business or become the next mogul, you can achieve this dream with hard work, determination, and a plan.

At some time we all have an idea for a business; for many of us these ideas come on a relatively frequent basis. It's the American way to be a dreamer, and it's often part of the American dream to be successful in business. For many their dream includes achieving a comfortable level of prosperity, the ability to control their own destiny, and to become the next great entrepreneur. For most people these ideas are just that, just an idea. For many different reasons these ideas, whether they are good or not, never become an operating business. This guide is for those that are committed to taking that first step and are looking for help. Although our focus here is on financing and growing early stage businesses, there is good advice throughout that you will be able to apply to all areas of your business. With your hard work, talent, commitment, and focus you are on your way to starting or growing your business, and possibly becoming the next great American entrepreneur.

FINANCING YOUR BUSINESS IDEA

You have a business idea, and you're committed to making it work. Now what you need is the money to get this idea started. Every new business has expenses and therefore has a need for capital. These expenses may include fees for registering your business, and filing for patents or trademarks, inventory, equipment, promotions, staffing, transportation, etc. You have the determination and focus to turn this idea, your dream, into a reality. The smartest entrepreneurs realize they need help, and luckily for them there is an abundance of good help available and most of it is available for free or at far below market cost.

One of the biggest factors in what ultimately makes someone successful with their idea is competently managing their capital needs. One of the more common problems new businesses face in managing their capital is not having enough of it. Even if you are fortunate to have the necessary capital, you need to properly manage the capitalization of your business to make sure that you can meet your cash flow needs, preserve your equity, and strategically leverage your business without becoming over leveraged. The capitalization of your business simply refers to how you acquire the money needed to fund your business, outside of the money your business will make through its operations. The leveraging of your business refers to debt you take on as part of your capitalization, and equity refers to your ownership interest and any ownership interest you grant to investors as part of your capitalization.

PREPARATION AND ORGANIZATION

It helps to have a great idea and boundless enthusiasm when launching a business, but it's equally important to be realistic and focused. As part of understanding the reality of undertaking a new business venture it is important to be extremely well prepared and organized. There are many different organizational steps to starting a business, including, deciding on a corporate structure, filing forms, printing business cards, and organizing your personal finances.

YOUR PERSONAL FINANCIAL PICTURE

A large part of your organization process will be getting your personal finances in order. More than anything, lenders and investors have to believe in the person they are investing in, or loaning money to. You could have a great idea, but without being able to sell yourself, your chances at success are largely diminished. Part of selling yourself is showing that you are responsible with money. There is no greater reference in this regard than your personal credit history. Accordingly the first thing in getting organized should be getting a copy of your personal credit report. Fortunately many states, including New Jersey have passed laws allowing you free access to your credit report. The following companies can provide you with a free copy of your credit report:

Experian, www.experian.com
Equifax, www.equifax.com
Transunion, www.transunion.com

Once you have your credit report you will find that is broken into two categories, potentially negative items, and accounts in good standing. Potentially negative items are current or past credit items that haven't been paid in a timely fashion or not at all, these items may also include judgments and charge offs. First and foremost you want to make sure that everything in your credit file is accurate. If there are inaccuracies, then you have the right to dispute them. In many cases if the information is truly inaccurate you should have no problem getting that item removed or corrected in a few weeks. For items that are negative, but are an accurate reflection of your credit history, now is the time to take action to improve your credit file. Other personal financial recordss that you will need to get together are copies of all bank and investment accounts and your tax returns for the past few years.

SEED CAPITAL

For many people the hardest thing about starting a business is finding the seed money needed to launch their business, as well as keep it running after the launch. In many cases, even after operating for a time, businesses will still need outside capital to keep a business running and growing. In some cases business are fortunate enough to generate enough cash flow right from the start of operations to run their business and even grow if that is a desired goal.

It's not easy asking people for money, and it doesn't matter if they are family or complete strangers. It can't be emphasized strongly enough that organization and focus are keys to success. The first step in organizing a business is your business plan. It is a good idea for any business to create a detailed business plan, an internal guide that is used to work through the day to day developments in the business model. When a business decides that it's necessary to seek outside financing, either debt or equity from investors or financial institutions, a shorter version of the business plan will need to be written. This version of you plan is commonly called a mini plan or investor presentation, and will be succinct and in summary form. The investor presentation should be in slide form, preferably using PowerPoint software. Investors and loan officers tend to be extremely busy people in many cases they will even ask for a smaller version of your investor presentation, a 2-4 page summary of your business. Knowing all forms of your plan inside-and-out will give you confidence, and will likely give investors' confidence in you. The mini plan/investor presentation should be 15-25 slides covering all areas of your business. Sequoia Capital provides an outline for such a plan/presentation, which can be found at: http://www.sequoiacap.com/process/stepthree_howtoformat.asp

At the very beginning of starting your business venture it is somewhat unlikely that you will be making presentations to outside investors. It is however a good idea to work hard on your business presentation, honing it in written form and rehearsing the actual presentation. Practice the plan over and over again in front of different audiences, this will get you comfortable for whatever investors or banks will throw out you. Not taking the time to know your own business in incredible detail will hurt you. Remember that there are lots of people with lots ideas competing for a comparatively small amount of capital; the competition for investment and loan dollars is tough.

PERSONAL FUNDS, FRIENDS AND FAMILIES

The financing needs of startups are commonly addressed by the personal resources of the entrepreneur, either in the form of savings or personal lines of credit. At some point during the early days of a business, an entrepreneur may exhaust their ability to personally fund the growth and development of the business. It's at this point that other sources of funding become necessary to keep your dream alive. The most common way for people to gain funding is to ask friends and family members to help finance their business idea. If borrowing funds from friends or family, or taking on friends or family as partners, it is advisable that you treat them like you would any other investors. This includes giving them your investor presentation and making sure all agreements are in writing. This will go a long way in heading off any future misunderstandings about the terms and responsibilities of the parties involved.

PARTNERS

Sometimes it is possible to raise capital from other businesses that have a stake in the success of your new venture. Maybe a supplier or larger player in your industry that is willing to invest in a smaller niche player. If you have a great investor presentation, and you have rehearsed it so many times that you know it cold, this will give you the confidence you need to approach potential investors. It is vitally important that you have confidence and you show it, after all a large part of any investment will be in you personally.

SMALL BUSINESS LOANS

There are many types of loan programs available to small business, from smaller micro-loans to larger business loans. Micro Loans and other SBA Loans, although guaranteed by the SBA are administered by private and quasi private concerns such as banks, financing companies, and economic development entities. The participants in the Micro-loan program normally have a local or regional focus. The majority of Micro-Loan programs assist low and moderate income persons establish or expand their business. The micro-loan program targets those who may not have personal funds or access to lines of credit. In these cases it is often the best option for attaining see money.

Loan funds can be used for:
- Startup equipment
- Expansion equipment
- Increasing inventory
- Leases, including leasing a building and lease hold improvements
- Purchasing a building
- Advertising
- Transportation

PRIVATE EQUITY

Private equity is a term used to describe a wide scope of investors, from individual accredited investors(note 1) and groups of Angel Investors (note 2), to large billion dollar buyout firms. At this early stage of a company's development it is unlikely that you would attract large amounts of private equity, this is especially true if you are in a micro-entrepreneur (note 3) category. Startups with significant growth potential may be able to access capital from individual investors or angel networks. The full gamut of private equity concerns are covered in later chapters

CONCLUSION

In closing, we hope that you have found this article helpful and encouraging. There have been many entrepreneurial successes before you and there is no reason you can't join this elite club. Understand your entire business model, but especially focus on its financial part. Commit yourself to finding and facing the financial realities of your new venture, whatever they may be. Educate yourself on all of the options available to you, be detailed in your planning and preparation, and most of all, have confidence in yourself and your idea.

A 21st CENTURY MODEL OF ENTREPRENEURSHIP EDUCATION: OVERCOMING TRADITIONAL BARRIERS TO LEARNING

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ABSTRACT

This paper introduces scholars in the discipline of entrepreneurship to a 21st century model of delivering interdisciplinary entrepreneurship education. The basic premise behind the model truly differentiates it from common entrepreneurship programs, which is the capability to overcome five traditional barriers to learning: isolation, time, limited expertise, cost, and rapid globalization. Readers are provided the essence and effective of the program, and are invited to learn more about it and consider its adoption at their own universities.

LITERATURE REVIEW

Since 2000, there has been a tremendous proliferation of entrepreneurial programs and courses in the college and business school curricula (Osborne, 2000). This has been triggered in part by the recognition that small businesses create the majority of new jobs in the country (Nunn & Ehlen 2001), and by a need for colleges and universities to differentiate their product offerings in order to attract students due to increased competition. Unfortunately, undergraduate education is still too compartmentalized into rigidly defined disciplines. As a result, students do not get the required exposure in academia to adequately function in the real world (Smith, Hornsby, & Kite 2000). Although disciplined based teaching can improve the analytical skills of students (Borg & Borg 2001), they cannot easily impart the tools necessary for the students to deal with uncertainty in an environment characterized by globalization and rapid change.

Entrepreneurship, by definition, is an area of study that is centered on dealing with ambiguity, uncertainty, and complexity. Emmett (1999), Glennon (1966), Begley & Boyd (1987) and Lambing & Kuehl (2000), among others, document evidence that entrepreneurs tolerate uncertainty and ambiguity better than others. Hence, it seems important that entrepreneurship courses should make attempts to educate students on how to deal with these issues. In a recent paper Envick, Madison & Priesmeyer (2003) present a cross-course project model that employs the contents of one course to help teach the learning objectives of another course in an effort to remedy the deficiencies of traditional courses, and by creating situations where students are forced to deal with uncertainty and ambiguity. Unfortunately, this model is still limited by the structured environment of a traditional classroom setting.

THE 21ST CENTURY MODEL OF ENTREPRENEURSHIP EDUCATION

The model presented has actually been in existence for over six years at one university, and it has been highly successful. Subsequently, several representatives from two other universities were invited to a workshop to learn the model and discuss ways to implement similar programs at their respective universities. Both universities have since put this program into action and have achieved similar success.

The 21st century model of entrepreneurship education offers many different benefits relative to traditional educational models. The uniqueness of the program is that it allows students the flexibility to tailor their own learning by balancing the amount of traditional classroom learning with off-campus opportunities, including domestic and international business trips.

The model is a university wide program designed for all students regardless of major. At our university the program has included students from a variety of fields including accounting, industrial engineering, English communication arts, electrical engineering, entrepreneurship, biochemistry, psychology, and international relations. The goal of the program is to provide students with the self-confidence, knowledge, experience, and skills necessary to initiate their own business ventures. Participants in the program complete a yearlong series of activities, which include two three-hour classroom courses, a domestic business trip, an international business trip, networking opportunities with local business leaders, invitations to local business workshops and seminars, and an optional apprenticeship. They are also required to participate in a service learning activity that employs their newly acquired entrepreneurial knowledge and skills. This 21st century model of entrepreneurship education provides students with experiences unlike any other program, because it is designed to overcome five traditional barriers to learning: isolation, time, limited expertise, cost, and rapid globalization.

Isolation: A traditional classroom setting isolates students from other useful learning environments such as speaking engagements in the local business community where successful entrepreneurs share their stories. Other useful activities are workshops and seminars hosted by Chambers of Commerce at different locations throughout the community. Taking fieldtrips to entrepreneurial businesses is another beneficial activity, where a student can learn wonderful lessons. Attending national conferences, such as the one hosted by the Collegiate Entrepreneurs' Organization, is another avenue for acquiring knowledge. These are just a few examples of extremely beneficial opportunities available to students outside of the classroom.

Time: The amount of time provided during a regular semester can be a deterrent when trying to teach a comprehensive knowledgebase such as entrepreneurship. That is why a certificate program that spans over the course of one year is more appropriate. It bridges the two semesters together nicely, and even offers students summer activities beyond the spring semester. This time frame allows for more depth and breadth in the learning opportunities made available to students. Spring break is utilized for the international business trip, which allows for a full extra week during the regular semester for learning and business plan development. Oftentimes, students are able to count the courses offered in this certificate program as electives in their respective majors.

Limited Expertise: While many of us may not like to admit it, professors do have limitations on their expertise, even within our own field. In a traditional semester-long class, students only have access to the knowledge and experiences of the professor teaching the course. This model recognizes that there are different road maps to success, especially in other environments. When students hear advice and success stories from entrepreneurs, investors, and other business executives, they realize there are multiple ways to succeed, which is the true recognition and acceptance of lifelong learning.

Cost: The cost of attaining significantly more education about a discipline is generally too great when other learning environments, besides the classroom, are incorporated into the students' education. To overcome this barrier, our model seeks sponsorships from individuals and businesses in the community. The sponsorship fund allows students to take business trips and attend events that require registration fees. All learning materials such as textbooks, case studies, and software are also covered by program funds. It is important to note that students also pay an additional program fee beyond their regular tuition to be a part of this selective program. However, because of the sponsorship fund, the tangible benefits far outweigh the cost of their program fee, and they quickly realize the value of the intangible benefits on top of that.

Rapid globalization: The advent of new global players (especially China and India) increases the degree of uncertainty, but also adds new opportunities. The 21st century model presented here allows students to be exposed to these environments by taking an international business trip. The main purpose of this trip is to develop local business contacts. It is designed to get students out of their comfort zone and test out their ideas for a business venture in a relatively risk-free international environment. They also became fundamentally aware of international cultures and economies.

Prior to the international business trip, students spend time preparing a business plan. Depending on their plans, they are either selling or buying products in the country of interest. They develop a list of questions related to these focal points, and at the same time assimilate knowledge about that country's entrepreneurial culture. Students analyze their business concepts and address questions related to the purchase their products/services, how they would protect intellectual property, and what modifications would have to be made to the product/service to make it work in another country. They also determine what kinds of negotiation skills are necessary. Answering these questions and experiencing their own successes and failures will serve them very well after graduation. Because students must develop their own business plans, it forces them to behave and ask the same types of questions as real entrepreneurs would in the same setting.

EFFECTIVENESS AND BENEFITS OF THE PROGRAM

We are finishing out the second year of the program at our university. The number of applications for the second year more than doubled that of first-year applications and included more representation from students outside of the School of Business.

As mentioned, the total value for the students is well beyond their program fee, when the cost of two business trips (domestic and international), learning materials, and conference/workshop/seminar fees are included. And this does not include the intangible benefits such as developing a professional network, gaining real world experiences on business trips, as well as the means to realistically initiate a new venture by the end of the program. When students were asked to anonymously provide feedback about their experiences in the program, they all responded quite favorably.

The professors involved in the program also notice dramatic changes in the students from the time they enter the program until they complete all the requirements. The non-business majors, in particular, enter the first class slightly intimidated and unsure of what they can contribute. By the middle of that semester, they realize they have just as much to contribute as the business majors. The synergy created among students from a variety of majors is unique and rewarding. Another observation is the huge boost in their confidence levels after they return from business trips. They come to realize that they can conduct business anywhere in the world, and it truly provides them a level of self-assurance they simply would not acquire in a traditional classroom setting.

Entrepreneurship occurs in every department across all universities. This program allows these entrepreneurial endeavors to come to fruition and publicly recognizes them across campus and in the business community. By offering a certificate of achievement, this program allows any student from any major to participate, which not only strengthens and develops individual students but the entire field of entrepreneurship.

LEARNING MORE ABOUT THE 21ST CENTURY MODEL OF ENTREPRENEURSHIP EDUCATION

The purpose of this paper was to introduce scholars involved in entrepreneurship education to a new program model that has achieved great success at three pilot universities. This success has been well documented for over six years at one university and two years at the other universities. It is important to note that this is not a cookie-cutter approach. The three universities that currently run the program have slightly different methods of delivery that fit the size, mission, and available resources at their universities. However, there are some core values that remain consistent across all three sites. The universities involved also collaborate with each other, both professors and students. The professors collaborate to maintain the core values and offer each other suggestions and ideas. The students have conducted joint business trips and have also competed with each other in an elevator pitch competition. The programs at the three universities could be considered one dynamic learning community with room to grow.

Workshops are available each summer to train new universities on how to successfully implement the program. Representatives from the three universities currently operating the program lead the workshops to teach the model, offer important suggestions, and thus significantly flatten the learning curve for those trying to implement such a program. They have an incredible amount of knowledge and experience to share that will save you valuable time and other resources such as *how to*: (1) Recruit students from non-business majors to participate; (2) Recruit faculty representatives from across the university to help champion the program; (3) Attract and maintain sponsors; (4) Design courses appropriate for all majors; (5) Create valuable business trip experiences; (6) Collaborate with other universities operating the program; (7) Adhere to the core values of the program; and (8) Modify the model to fit your university's mission, size, and available resources. Entrepreneurship educators interested in learning more about this leading edge 21st century entrepreneurship education model are encouraged to contact one of the authors of this paper.

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THE CISG AND THE PREPONDERANT PART CONUNDRUM

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ABSTRACT

The United Nations Convention on Contracts for the International Sale of Goods (CISG) became effective in the United States in January 1988. It is a self executing treaty that is the supreme law of the land. By January, 2006, 67 nations, including Canada and Mexico, had ratified the convention. The law of the convention governs international business to business sales of goods when the parties have their places of business in different countries that have ratified the convention. The CISG preempts domestic law, specifically the UCC. Like the UCC, however, the CISG does not apply to contracts for services. An uncertainty arises when international contracts provide for both services and goods. Under such circumstances the court must decide which law, the CISG or domestic common law, should govern the mixed contract. The CISG provides that it will not apply to contracts in which the preponderant part is in the furnishing of services. Until recently there has been some uncertainty about the meaning of the phrase "preponderant part" and how the concept would be determined by the courts. This paper will explore the uncertainty engendered by mixed contracts, current domestic and foreign legal analysis, and offer some solutions to the problem.

BACKGROUND

The Internet boom of the past decade has enabled the virtual world to shrink the huge physical distances between countries. The relatively low cost of setting up and maintaining an Internet presence, the appeal of attracting new customers from the billions of people around the globe, and the glamour of becoming an e-business has led many organizations large and small to establish a presence on the World Wide Web. The sale of goods and the mixed sale of goods and services have naturally been implicated in this burst of opportunity. Many business managers may share the general optimism that online sales will grow as business use of the Internet continues to grow. However, many of these same entrepreneurs may not realize that by establishing a Web presence to market previously domestic goods and services to new international markets, they are entering into the unfamiliar business of global commerce--a realm fraught with often unique rules and legal risks.

Most contracts for the domestic sale of tangible goods, or goods combined with services, are governed by the Uniform Commercial Code (UCC) as found in the law of each state (except Louisiana) in the United States. However, contracts for the international sale of tangible goods, or goods combined with services, may be governed by an international convention entitled the United Nations Convention on Contracts for the International Sale of Goods (CISG). This article addresses an issue that arises when an international agreement consists in providing both tangible goods and services in the same contract.

INTRODUCTION

The CISG and became effective in the United States on January 1, 1988 (United Nations Convention on Contracts for the International Sale of Goods, 1986). This convention governs international business to business sales of goods between parties that have their places of business in different countries when the countries are signatory nations (Ajax Tool Works v. Can-Eng Manufacturing Ltd, 2003). The U.S. adopted the convention as a self executing treaty and therefore it is the supreme law of the land (Usinor Industeel v. Leeco Steel Products, Inc., 2002). As of January 15, 2006, the United Nations lists 67 nations that have adopted the CISG. For U.S. importers and exporters of goods, the convention is significant because it can supplant the more familiar domestic Uniform Commercial Code Article 2-Sales as the law governing contract disputes (Asante Technologies, Inc. v. PMC-Sierra, Inc., 2001). When the sales contract is silent as to the applicable law, the CISG will apply to parties with places of business in different countries bound by the convention (St. Paul Guardian Insurance Company v. Neuromed Medical Systems & Support, GmbH, 2002). By its terms, the convention will apply to sales of goods contracts between parties domiciled in different contracting states; for non-consumer goods; where the buyer does not furnish a substantial part of the materials necessary for the manufacture or production of the goods; and where the preponderant part of the obligation of the supplier of the goods does not consist in the supply of labor or other services (United Nations Convention on Contracts for the International Sale of Goods – Article 3, 1986).

MIXED CONTRACT FOR THE SALE OF GOODS AND SERVICES – THE PREPONDERANT PART

Many contracts for the sale of goods contain provisions for the furnishing of services and labor in connection with delivery of the goods. One issue, then, is whether a contract for the sale of goods along with services will be governed by the CISG or domestic law. The CISG by its own terms does not apply to contracts in which the preponderant part of the obligations of the party who furnishes the goods consists in the supply of labor or other services (United Nations Convention on Contracts for the International Sale of Goods – Article 3, 1986). However, if it is determined that the supply of labor or services does not constitute the preponderant part of the seller's obligation then the CISG will apply to the entire contract (Ferrari, F., 1995). Under the UCC the customary analysis used by U.S. courts to determine if a mixed contract was a sale of goods covered by the UCC or whether the contract was one for services covered by the common law is to analyze the facts of the case or contract to decide which aspect predominated (Princess Cruises, Inc. v. General Elec. Co., 1998). However, when the CISG in held to apply it trumps domestic sales law such as the UCC (Speidel, 1995; Asante Technologies, Inc. v. PMC-Sierra, Inc, 2001). The convention recites in its general provisions that its interpretation be accomplished with regard to its "international character and the need to promote uniformity in its application and the observance of good faith in international trade" (Delchi Carrier SpA v. Rotorex Corporation, 1995). The UCC may, however, be consulted to assist in interpreting analogous provisions in the CISG (Raw Materials, Inc. v. Manfred Forberich GMBH & Co., KG, 2004).

PREPONDERANT PART IN THE UNITED STATES

As stated above, the CISG provides that it applies to contracts of sale of goods between parties whose places of business are in different States "but does not apply to contracts in which the preponderant part of the obligations of the party who furnishes the goods consists in the supply of labour or other services (United Nations Convention on Contracts for the International Sale of Goods – Article 3, 1986). In Genpharm Inc v. Pliva-Lachema (2005) a U.S. District Court decided its subject matter jurisdiction under the CISG in a breach of contract action arising out of an agreement to manufacture and supply a pharmaceutical ingredient used in the production of warfarin sodium tablets. The parties to the action all maintained their places of business in nations which had ratified the CISG. The plaintiff asserted that the CISG was controlling because under the contract it purchased development quantities of the pharmaceutical ingredient from defendants and was to engage in the international sale of goods known as warfarin tablets. The defendants claimed that the contract was not for the sale of goods but was for developmental services necessary to prepare and submit an application to the FDA. Therefore, defendants argued, the convention did not apply. The court looked to cases decided under the UCC to summarize the analysis that "if the provision of services or rendition of other performance predominates and is not merely incidental or collateral to the sale of goods" then the contract will not be subject to the CISG. The court, by analogy to the UCC, decided that courts should look to the "essence" or main objective of an agreement in deciding whether such agreement is a contract for the sale of goods or predominantly one for the provision of services in determining the preponderant part under the CISG. In the instant case, the court found that there could be no question that the contracts involved an agreement to supply goods. It was clear to the court that the only reason the parties had any relationship was for the international sale of warfarin and the CISG treaty would apply to the case and supply the court's necessary subject matter jurisdiction. This case is significant in that it provides authority for the rule that U.S. Courts will look to the "essence" or "main objective of the agreement" when deciding whether the preponderant part of the contract is the sale of goods or the supply of labor or other services. In this case of first impression in the U.S. the "essence" analysis is more expansive than that postulated by many scholars who believed that "preponderant part" would simply refer to a contractual comparison between the economic value of the goods sold and the economic value regarding the supply of labor and services (Ferrari, F. 1995). Under the "essence" analysis it appears that more mixed sales and services cases will be exposed to CISG governance than if a mere arithmetic comparison was made between the cost of goods and cost of services.

FOREIGN JURISDICTIONS IN ACCORD

In light of the CISG directive to observe its international character and promote uniformity in its application U.S. courts have looked to foreign case law for guidance in interpreting the relevant provisions of the CISG (Chicago Prime Packers, Inc. v. Northam Food Trading Co., 2004). Foreign case law can be found in the United Nations UNCITRAL database. The Genpharm "essence" analysis for determining the preponderant part of a contract for the sale of goods has been approved in other global jurisdictions. In Landgerich Mainz 26 November 1998 (1998), a German Court was required to decide whether the preponderant part of a contract involving the construction and set-up of a paper-making machine was a contract for the sale of goods governed by the CISG or whether the contract was one for services or labor. The German Court decided that the "essential obligation" of the contract consisted in the delivery of the machine not the services rendered in setting it up for operation. Therefore, the court found that the focus of the contract was the sale of goods and that the CISG would govern the dispute between the parties. So too did an Italian Court look to the "essential aim" or "essential purpose" of the agreement in deciding whether the preponderant part of the agreement was the supply of goods or furnishing services or labor. The case involved the sale of trademarked leather goods which the defendant argued was a works contract and not one for the sale of goods governed by the CISG. The court decided that the distinction between a contract for the sale of goods and a works contract was not in the services involved in the manufacture of the goods but in the essential purpose of the transaction which in this case was an output contract for supplying leather goods (Alfred Dunhill Ltd. V. Tivoli Group S.r.l., 1995).

CONCLUSION AND IMPLCATIONS FOR MANAGEMENT

The CISG may control contracts for the sale of goods between parties who are located in nations that have adopted the convention. However, the convention applies only to the sale of goods and not contracts for services. Many contracts involve both the sale of goods and the performance of services related to the sale of the goods. Which of the elements of the contract is primary and which is incidental will govern the applicability of the CISG. If the CISG is not controlling then the contract will be governed by domestic law. In determining the preponderant part of a contract the courts in the U.S. and in foreign nations will look to the "essence" of the contract in making this determination. As noted above, the international contract, situs of the contracting parties and the essence or main objective of the agreement will determine whether the CISG or domestic law will apply to a dispute on the contract. The following scenarios identify the result:

Contract for the international sale of services – CISG does not apply to these transactions which are covered by domestic law.

Contract for the sale of tangible goods between parties whose places of business are in different States when the States are Contracting States – CISG does apply to these transactions.
Mixed contract for the sale of goods and services between parties whose places of business are in different States when the States are Contracting States – the "essence" or main objective of the agreement will determine if the CISG will govern the transaction.

For many organizations, especially ones that have significant amounts of trade in mixed contracts, this level of uncertainty in contract legal status may be too great. Accordingly, the authors suggest the following options from which to choose in reducing the uncertainty for mixed contracts for the international sale of goods and services. Create two separate contracts for the transaction: One contract for the sale of the tangible goods that may be subject to the CISG. One contract for the sale of services that will be subject to domestic law. Create one contract for the sale of both the goods and services that specifically "opts out" of the CISG and will be subject to domestic law. Care must be taken to properly exclude the applicability of the CISG and professional drafting may be required. Create one contract that specifically adopts the CISG and specifically excludes the "preponderant part" clause in the convention so that the CISG will apply to the contract. Create one contract with a clear agreement that the essence and main objective of the contract is for the sale of goods or for the rendering of services. As always, appropriate legal advice about the particular contract is recommended.

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THE STITCH HOUSE: A CASE OF ENTREPRENEURIAL FAILURE

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CASE DESCRIPTION

This case concerns why entrepreneurs fail. Issues related to the case include how entrepreneurs make decisions, the marketing, financial, and accounting issues that should be considered when starting a new business. A secondary issue illustrated by the case is the risks involved in mixing business and personal finances in a start-up business. This case has a difficulty level of three. However, it may be used, with time allowed to develop alternate scenarios of the business owner's choices, in both senior and first-year graduate courses. The case is designed to be taught in one 75 – 90 minute class session and is expected to require one to two hours of outside preparation. Alternatively, an instructor may elect to use this case to challenge advanced students to create a business plan that would have a greater likelihood of success. For such use, the case may require up to 5-6 hours of outside preparation. Additionally, a shortened version of this case has been used effectively as an examination case in a senior-level Entrepreneurship course.

CASE SYNOPSIS

Why did The Stitch House fail so quickly? Louise had business experience, adequate start-up capital, and people with experience in marketing her product. But, in less than six months time what seemed like a certain success consumed her capital, was abandoned by her erstwhile partners, and left her with substantial personal debt. This case gives students the opportunity to learn from one of the majority of new small business startups – those which fail in less than two years. Based on an actual entrepreneurial situation, the case illustrates the impact that each decision an entrepreneur makes may have on the ultimate survival of the business and how easily a new business can fail. It presents students with the opportunity to analyze the basic decisions that an entrepreneur must make in creating a new business. Alternatively, advanced students may be challenged to re-construct the business concept and create a business plan for The Stitch House.

INTRODUCTION

"What am I going to do now," Louise thought to herself. "Oh well, if we can't make this work out maybe I can get something out of it on Ebay." The "It" Louise was looking at was a 15-needle, single-head commercial embroidery machine, the kind used to stitch designs on fabric – company logos on polo shirts for example. "It" and the office equipment stored in her garage were was the only things remaining from Louise's venture into her own business; she still owed several thousand dollars on the purchases.

THE ENTREPRENEURIAL URGE

Louise wanted to start her own business. In Fall, 2004, newly divorced and holding a reasonable financial settlement, Louise moved back to San Antonio, Texas, where most of her family lived. After ten years in California, she was ready to restart her life. Thinking over her options, Louise decided that, with the cash she had from the settlement, now was the time to do it – to go into business for herself. After all, she had worked with her now ex-husband in his furniture business for over 5 years and knew how a small business operated – and she liked the idea of being her own boss.

As luck would have it, about three weeks after moving to San Antonio, Louise met Robert and his friend, Luis, at a social event at her cousin's house. Both Robert and Luis were in the commercial embroidery business and both were unhappy with their present employer. Most importantly, Robert had many contacts in the business and was sure that there were opportunities in the area, in some aspect of the commercial embroidery business. Economic conditions in San Antonio and the South Texas region were better than they had been in years. The two men seemed to have all the skills needed to get started: Robert sold embroidery products – so he had an established clientele – and Luis worked in the operations side of the business – so he understood the production process. Robert suggested to Louise that the three of them should go into the embroidery business. After conversations over several days, Louise agreed. She thought Robert and Luis were a good match with her administrative and bookkeeping experience from her ex-husband's used car lot.

Louise set up her business, Louise __________ d.b.a The Stitch House, as a sole proprietorship. She then wrote a contract specifying that all three participants – Robert, Luis, and she – would share in the profits as partners. Thus, salary expenses could be at a minimum but all would be committed to the success of the enterprise. Initially, Robert's idea was that they would be in the business of supplying thread bobbins (bobbins loaded with thread for the embroidery machines) to commercial embroidery shops in San Antonio and the South Texas region. However, due to the need to invest in a large inventory to start a bobbin supply business, the three partners decided this was not feasible. Based on Robert's recommendation, they then decided that their success would lie in being in the commercial embroidery business – not in being suppliers to it. The role that each was to play in the business matched their perceived expertise: Robert was responsible for sales, Luis would operate the equipment to produce the embroidered products, and Louise would manage bookkeeping, and order processing and fulfillment. Louise supplied all of the working capital.

THE INDUSTRY

The commercial embroidery business produces a wide range of goods, all of which consist of a fabric product embellished with an embroidered design. Products may range from large quantities of apparel, such as polo shirts or baseball caps with corporate or team logos, to individual items with monograms or personalized designs.

Products sold into the high-volume corporate market are typically catalog items that, for marketing purposes, may be grouped together with other advertising specialty products such as embossed desk accessories, corporate coffee mugs, or other business souvenirs. This segment of the market usually purchases in large quantities [>100-250 pieces] and pricing to it reflects the volume orientation. Typically, the marketing channel is catalogs [both print and online] and manufacturer's representatives. Smaller-volume items and one-of-a-kind items are most often marketed locally or regionally through direct sales at retail outlets or via personal selling, mail-order, or websites. A significant, and highly competitive, segment of the market is for monogrammed goods for local groups, such as sports teams. This segment is supplied most commonly by local embroidery firms who sell in bulk at wholesale prices.

From a production standpoint, the industry may be divided into three types of firms: contractors, wholesalers, and retailers. A 2004 industry survey by Stitches magazine, an industry trade journal reported that respondents classified themselves as follows: 22.8% contractors, 16.6% wholesalers, and 59.7% retail. A simple way to understand this specialization of production is that contractors sell in large quantities through intermediaries. In a 2005 industry survey, the four largest firms in the U.S. each reported embroidering more than 3,000,000 pieces. However, it should be noted that a number of large firms reported that production volume was essentially flat year-on-year. This segment of the industry also faces significant foreign competition.

Wholesalers sell medium-sized lots to group purchasers such as local sports teams and clubs who may re-sell the products [hence the term wholesalers] for fund-raising. Although many wholesalers are small operations with few employees, they typically operate higher-capacity equipment in order to fill bulk orders quickly. Retailers, the segment subsequently entered by Louise and her partners, typically sell single items or small quantities to individuals. Although some may operate out of a mall kiosk, most retailers operate from home. A further indication of the structure of the industry is that, in the 2005 survey, only 18.6% of the 500+ respondents reported having 3 or more employees.

Barriers to entry into the industry are relatively low; an individual may enter the retail segment of the industry with a relatively low investment in production equipment or may enter as a reseller, or representative, selling the production of any small job-shop operation. Additionally, embroidered goods are not a necessity. While embroidered goods may convey the image of higher quality and embroidery has better wear characteristics [lasts longer], embroidery can be replaced by lower cost stenciling or screen-printing in many applications and in fact, many embroiderers also sell screen printed merchandise. Locally in San Antonio, 60 firms (not including The Stitch House) are listed as embroidery suppliers in the Yellow Pages directory. In summary, the industry is highly fragmented, with competitors of all sizes and a wide range of customer types and sizes. [Parsons, 2004, 2005, 2005]

START-UP DECISIONS ARE MADE

After dropping the idea of becoming thread bobbin suppliers, the partners decided to target a specific market segment: the baby industry. While there were many competitors trying to sell embroidered baseball caps to teams, she felt that was a strong potential demand for baby clothes with embroidered designs. Her mother told Louise that everyone liked baby clothes with embroidery – but no grandmothers had the time to do that by hand anymore. And unlike baseball caps – baby clothes get outgrown and have to be replaced often. It seemed like a great opportunity - not only would they make money on the embroidery – they would get a markup on the clothing item also.

Once the decision was made to produce embroidery, Louise also went to work to get the business going. She leased commercial space, got a friend of hers to create a web page for the business, and set about obtaining the necessary equipment. After some research, Louise was given a proposal by the firm that seemed to be the best equipment supplier; a bit concerned about the price, she asked for and was given an alternate proposal. Either option could be acquired via a lease with a fair market value purchase option at the end of the 45 month lease. The lease would be through a commercial leasing company that frequently worked with the equipment company. The two equipment choices and their costs are shown in the table below. Louise wanted to do this right – so she decided not to consider looking for used or re-conditioned equipment. They couldn't afford equipment that might break down when they needed to produce a big order. But at the same time, she was concerned about costs; Louise decided to lease the single-head embroidery machine.

	15 needle – 6 head*	15 needle – 1 head
Purchase price	$ 46,690	**$ 19,990**
Installation	1,295	**995**
Due at lease signing	9,098	**3,824**
Monthly lease payment	**1,144**	**487**
* the number "heads" determines the number of pieces that can be worked at one time, a 6-head machine can work 6 pieces, a 1-head machine – 1.		

READY FOR BUSINESS – BUT…

By late January they were ready to go. The equipment was in place, the website was up, and Luis was ready to start production. There was only one problem: orders were coming much slower that Louise had expected. Robert complained that it took much too long to make product with the single-head machine that Louise had leased. So, or at least he said, he couldn't go after the really big orders he needed to make real money. After four weeks, he abruptly quit. With what she had invested in the business – over $20,000 at this point – Louise decided that she couldn't quit now. She'd helped her ex-husband sell furniture, now she'd sell baby blankets, or caps, or whatever embroidered products she could sell to the many independent baby and clothing stores around San Antonio.

Orders proved extremely hard to come by. She couldn't even get a special order for ball caps from her cousins Little League team – they'd made the playoffs and wanted 60 special caps made in four days. While Luis said they could do it, they'd have to charge $1.00/cap more than another supplier and then they'd just cover their costs.

SHUT DOWN OR RE-START?

By April, Louise was ready to quit. Total revenues since startup were still less than $1,000. As the charges on her credit cards mounted she gave up the commercial space and moved the embroidery machine into her garage. A family member told her about an acquaintance of theirs who was working on an MBA degree at a local university – maybe she would have some ideas that could help Louise get the business back on track. After talking on the phone to the student several times, Louise was optimistic. This kid sounded pretty bright. She'd asked Louise to put together some information for their first meeting. After going through the reports she had from her accountant and remembering some of the things that had occurred, Louise wrote out the following on a legal pad:

1. with pattern, takes about 20 minutes to set up machine to stitch, takes about 5 minutes to stitch one blanket;
2. good blankets cost $4.00 wholesale, selling price after embroidery is $10.00 to a store;
3. use the same markup for caps and sweaters, they sell to stores for $4 and $10;
4. my costs:
   - A) rent + security service -- $1200/month [stopped]
   - B) advertising & website -- $ 600/month
   - C) equipment lease -- $ 485/month
   - D) general office expense $ 200/month

E) payoff Visa balance $ 350/month [balance is $7800]
F) Luis $ minimum wage + profit share

She sat back – looked at this way the numbers didn't look so bad. Yes she'd spent a lot of money getting started; in retrospect she should not have bought all new office furniture and equipment. But without the rent payment she ought to be able to make a success of this yet, she'd just have to get selling – and get used to having Luis working in her garage. But actually he was sort of cute, so maybe this would all work out after all…

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This case is based, in part, on an MBA project at the Bill Greehey School of Business, St. Mary's University, San Antonio, Texas. Names, dates, and exact financial data have been altered to preserve participant confidentiality. The financial, cost, and production data given herein approximate the actual situation.

SURVIVING KATRINA: A SMALL BUSINESS OWNER'S VIEW PANEL OF SMALL BUSINESS OWNERS

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ABSTRACT

On August 29, 2005 the New Orleans Metropolitan Area was hit by the 140 mph winds of hurricane Katrina. The small business community was devastated with some 20,500 small businesses being destroyed. A survey of 937 small businesses in the City of New Orleans found that levee protection was the number one problem or concern followed by the lack of a customer base, a lack of employees and communications. Lack of available housing and a depopulation of the area has resulted in a shortage of labor. Workers have no place to live.

This panel presents the trials of three New Orleans-based business owners whose businesses were destroyed or severely damaged by Katrina. Problems, solutions, and sources of help will be emphasized.

PANEL DISCUSSION

On August 29, 2005 the most destructive hurricane (Katrina) in the history of the United States hit the City of New Orleans (and surrounding parishes) and the Mississippi Gulf Coast. When Katrina landed just east of New Orleans it was a Category 4 hurricane, packing winds of 140 mph.

Eighty percent of New Orleans was flooded primarily due to levee failures (ultimately determined to be caused by poor design and maintenance). According to the Red Cross 283,838 housing units were destroyed by Katrina and another 73,172 sustained such damage that they were un-inhabitable, a total of 357,010 dwelling units (Scott & Richardson, 2005). Nearby St. Bernard parish sustained a loss of 23,000 homes and 4,000 businesses (Brown, 2005).

In New Orleans, the small business community was devastated. Some 20,500 small businesses were destroyed, 18,752 of those suffering catastrophic damage (Joyner, et. al., 2006). Only 21 percent of all restaurants in New Orleans were open in December, 2005. (McNulty, 2006). Employment in the New Orleans Metropolitan area is forecasted to be 336,700 jobs, a decline of 304,290 jobs (Scott & Richardson, 2005).

The impact of Katrina and the subsequent flooding and wind damage is felt in many ways. Entire flooded neighborhoods have been depopulated resulting in a reduced customer base and lost markets. Small businesses related to the tourist trade have faced a decline in tourists. In addition, suppliers to key industries have lost markets (Economic subcommittee, 2006).

At this time no one knows how many businesses will open and how soon. Many businesses cannot open or may have to limit their hours of operation due to the shortage of workers. Cash flow drain and the inability to get loans is a problem for many small businesses (Joyner, et.al., 2006).

Preliminary findings of a survey of 937 small business located in a 16 mile triangle including three major business streets in New Orleans found that: (1) local businesses are coming back and in greater numbers than national chains, and (2) primary goods and service outlets are not necessarily opening before stores that sell luxury items. Levee protection was ranked as the number one problem, followed by lack of customer base, lack of employees and communications (Calder, 2006). The lack of housing contributes to the shortage of workers. Some employees (and owners) commute 70 miles one way to work from Baton Rouge or communities north of Lake Ponchartrain. A free bus service is available from Baton Rouge to New Orleans and back. The FEMA trailer program has been less than successful. In fact, one small business owner had a FEMA trailer stolen from the lot next to his business.

How have small business owners coped with the adversity wrought by Katrina? Some have flooded homes as well as flooded business sites to complicate matters even more.

The purpose of this panel is to present the trials of three small business owners who have had to deal with the impact and aftermath of Katrina on their businesses and personal lives. Specific issues panelists will be asked to address include:

1. How has the hurricane impacted your business?

2. What have been your major problems?

3. What did you do to resolve the problems?

4. What sources of assistance did you go to for help?

The panel will consist of the following persons:

Dr. Kenneth J. Lacho (Co-moderator)
Professor of Management
University of New Orleans

Dr. Donald B. Bradley, III (co-moderator)
Professor of Marketing
University of Central Arkansas

Mr. Kim D. Jovanovich, MS, PE.
President, Omni Technologies Incorporated
New Orleans, LA

Mrs. Leah Chase
Owner
Dooky Chase Restaurant
New Orleans, LA

Mr. Paul Preu, President
Ad-Gas
New Orleans, LA

Dr. Michael Cusack
Business Counselor, UNO-Small Business Development Center

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STATE OF THE ENTREPRENEURIAL BLOGOSPHERE

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ABSTRACT

Existing scholarly research on blogging is limited, despite the widespread and rapidly growing use of weblogs in actual practice among small businesses and the rise of a new business sector comprised of professional entrepreneurial bloggers. One publisher's brand new "flagship" entrepreneurial and small business academic textbook used in college and university entrepreneurship courses (copyright 2007) fails to index either the term "blog" or "weblog." Several other leading textbooks also fail to index the aforementioned terms. There is a paucity of research expressed in scholarly journals in general, with virtually none published in entrepreneurship oriented journals. It is presumed that the lack of coverage within leading entrepreneurship textbooks is a reflection of scant research in the literature.

Nevertheless, the blogging phenomenon is now so large that it has become known as the "blogosphere." The popular press has documented blogging as what could be described as nothing less than a paradigm shift. Blogging is having a profound impact in the business community, with implications for practice on several fronts. This paper is necessarily exploratory in nature, and presents an overview of blogging and its impact within the business community, with an emphasis on possible implications for future entrepreneurship research.

POTENTIAL IMPACT

Blogging is has been clearly recognized in the popular business press as a phenomenon of profound proportions. From a technological vantage point, blogs are essentially a form of content management system. As such, they are able to capture and present for either private or public view, the expressed knowledge and experiences of organizations. Professionals are using blogs to chronicle their observations, advice, and commentary as well as specific responses to public posts in a forum-like atmosphere.

Blogs are being used for purposes of marketing outreach. Individual bloggers are expressing their views from within or outside organizations, and developing audiences as a result of their commentary. Other implications arise, such as the fact that blogging has emerged as a business unto itself, and a technology and marketing support community has arisen specifically to service the needs of small business and professional bloggers. According to some estimates, there are over thirty million blogs in existence today, and one out of every twenty persons in the United States has created a blog. Hence, the topic this paper addresses should inspire lively discourse about the implications for entrepreneurship teaching, research, and practice.

DEVELOPING A REPUTATION FOR SUCCESS IN CHINA

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ABSTRACT

China is the fastest changing economy in the history of the world. It is a transitional economy moving from a command based to market based mechanism. In the 25 years since the "opening to the West", China has moved 300 million people out of poverty and quadrupled the average person's income. This rush forward has not been without issues, not the least of which has been the need to redefine the meaning of government, firms and economic leadership. This redefinition has called for a change in the responsibilities of each of these sectors. It has also called for changes in the public perception of success and the dimensions by which this success is measured. This paper seeks to explore the public perception of success in China and changes in strategies necessary to build a reputation for success. This paper finds its base in empirical research in the areas of societal strategy, branding, and technology transfer done by these authors in China over the course of the last 15 years.

In market based economies, Adam Smith's description of the purpose of the firm holds and the success of the firm in determined by the ability of the firm to increase shareholder wealth by maximizing current profit and optimizing future profit potential. The dimensions along which success are measured are growth and profitability. The theory of corporate societal strategy suggests that maximization of current profit and the optimization of future profit potential are dependent on the ability of the enterprise to balance power and to develop legitimacy by satisfying stakeholder aspirations and expectations (Ansoff, 1979; 1985). Raymond Kao (1985) suggests that, in as much as "a corporation is a community of entrepreneurs created for the purpose of creating wealth for the individual and adding value for society", part of the mandate of corporate strategy is the linking of the corporation to the environment through the establishment of understandable realistic stakeholder expectations. Corporate reputation is built on the public recognition of the ability of the firm to live up to this expanded purpose. Advertising and branding are the means through which the public comes to recognize the firm and its products or services. The quality and innovativeness of the products and services sustain the corporation's reputation.

In a command economy, such as China in the days before the opening to the West and continuing on in the State Owned Enterprises of today, ownership was/is with the government and profit may be seen as less important than full employment and social harmony. Speaking before the Asia Society's "Asia Goes Global Conference in Seoul (1996), Madame Li Guohua, Vice-Minister of Foreign Trade and Economic Cooperation, reported a 16.5% annual rate of expansion for China's economy. She credited foreign investment and joint ventures as the engine driving this growth. By the end of 1995, a total of 120,000 projects with foreign investment had started operation with paid-in investment amounting to $135.4 billion USD; "China must stick to the policy of reform and opening - up in order to keep the momentum of the Chinese economy only by maintaining social and political stability can we guarantee the success of opening-up". The implication was that if growth falters, frustration of popular expectations of middle class life styles

coupled with growing political consciousness would result in social and political unrest. To keep power in the hands of the current regime, China will continue to improve the investment climate, perfect relevant laws and regulations, and enable foreign invested enterprises to gradually enjoy national treatment". At the same time, the government will stay active in the loop in that: "Industrial guidance and regional orientation of foreign investment will be put into practice" (Li, 1996). Growth and profitability are the means to an end rather than the end itself. The reputation of the corporation is intrinsically linked to the favor of the government and the personal relationships between corporate leaders and government officials.

METHODS AND SOURCES OF GAINING HUMAN CAPITAL IN THE BIOTECHNOLOGY INDUSTRY

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ABSTRACT

Two factors are essential to the lifeblood of entrepreneurial companies. They are financial capital and human capital. The relative importance of these two factors vary by industry. In the biotechnology industry, both financial capital and human capital are equally vital for survival and ultimately success. Innovations have driven the recent phenomenal growth in the biotechnology industry. However, due to the very sophisticated technologies and processes required to accomplish these innovations, biotechnology firms necessitate high levels of skill and intellectual capital in their employees. This paper focuses on the methods and sources utilized by biotechnology firms to get qualified and competent employees who can enhance their survival and success.

NEW PRODUCT DEVELOPMENT FOR TURBULENT ENTREPRENEURIAL ENVIRONMENTS

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ABSTRACT

New products are essential to firm growth and prosperity, and are becoming the basis on which many firms' compete. Indeed, the ability to create a stream of innovative new products can represent an enduring competitive advantage for firms. Small and medium-sized enterprises are no exception.

Perhaps more notable however, is that new product development (NPD) is a form of innovation that allows firms to adapt to rapidly changing conditions. As a result, NPD may be particularly useful to entrepreneurs in exploiting opportunities created by those changes. As Drucker observed, "Innovation is the specific tool of entrepreneurs, the means by which they exploit change."

However, scholars observe problems with each of the various new product development approaches noted in the literature. The bulk of these problems are centered on the apparent dichotomy of structure and flexibility.

In this study, we propose and test a novel approach to new product development that combines structure with flexibility. We begin by providing a brief overview of various NPD approaches – emphasizing their benefits and drawbacks. We then propose our approach to NPD that builds on the existing literature. We then develop a theoretical framework and hypotheses focusing on two of the most significant contributions of NPD processes: meeting cost expectations and new product success.

Critics have charged that structured NPD approaches may be too rigid and therefore inappropriate for the turbulent environments encountered by entrepreneurs – instead choosing to advocate less-structured approaches. However, less-structured approaches discount the value of planning that has been strongly linked to new product success.

Our approach to NPD provides an intriguing example of the possibilities of combining the robust control mechanisms associated with highly structured approaches, with the flexibility inherent in less-structured methods. Consequently, by offering an approach that utilizes control and high adaptability, we demonstrate how entrepreneurs can utilize structured NPD approaches on which to further build highly agile, well-managed processes.

VENTURE START-UP: ENTREPRENEURIAL TEAM VERSUS SINGLE ENTREPRENEUR

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ABSTRACT

According to a recent study, more than half of all new business ventures in the United States are started by "teams" of entrepreneurs. This finding raises a number of issues that go beyond the topics examined for business ventures started by a single entrepreneur. First, in what situations is an entrepreneurial team versus a single entrepreneur more likely to succeed (and vise versa)? That is, why do some entrepreneurial teams succeed and others fail? Further, what characteristics or traits should entrepreneurial team members have or what are the characteristics of an effective entrepreneurial team?

The first purpose of this study is to review past research on teams, teaming and team work. In a business context, this literature is contained in the organization theory and organizational behavior fields. The outcome here will be to present a list of key characteristics of an effective team. The second goal is to apply these findings to entrepreneurial teams. Part of this discussion will be to examine strategies entrepreneurial teams can use to acquire effective team traits.

SUPPLY CHAIN MANAGEMENT: A PROFILE OF MICRO ENTERPRISES

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ABSTRACT

Micro enterprises (firms with less than nine employees) represent an increasingly important component of the economy. Most small businesses are typically defined as less than 500 employees, which incorporates micro firms into this broader definition. However, little is known about micro entities. The research study focuses on micro organizations and develops a profile of their supply chain management practices and methods, the factors that encourage or discourage implementation of supply chain management and the impact of supply chain management on firm performance. The findings of the study indicated that micro enterprises tended to incorporate and implement supply chain management methods and practices. Additionally, micros were prone to utilize supply chain management more if their strategy was conducive to supply chain management processes. Furthermore, supply chain management appears to increase micro firm performance.

URBAN vs. RURAL: HUMAN RESOURCE MANAGEMENT IN SMEs

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ABSTRACT

Human resource management (HRM) practices, support systems and personnel profiles were examined in urban and rural enterprises. The investigation is an exploratory descriptive study employing a discussion of the results of a questionnaire. The authors' hypotheses are that urban and rural small and medium sized enterprises (SMEs) would differ significantly in HRM practices, support systems, and personnel profiles. Data were analyzed using t-tests and chi-square tests, as appropriate, to detect statistically significant differences between urban and rural SMEs. No interventions were performed; data were self-reported responses to questions on a survey instrument. The research findings suggest the authors' hypotheses are generally incorrect. The results from the study may advance the concept that technology and information availability have developed equity in HRM activities and functions in both urban and rural enterprises. Moreover, rural firms are performing at a higher level of sophistication and experience in HRM practices, support systems and personnel profiles.

THE NON-MOVER ADVANTAGE? SELF-EMPLOYMENT RATES IN NON-METROPOLITAN AREAS

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ABSTRACT

Non-metropolitan areas have traditionally been at a disadvantage in terms of economic development. The community characteristics that are conducive to the birth and survival of small businesses are often found lacking in rural areas. However, some studies have found the rate of self-employment to be higher in rural than in urban areas. While economic decline has led many workers to migrate to more developed areas, others have chosen to create their own jobs rather than to relocate and give up their way of life. This study seeks to provide further insight into this issue by examining the self-employment rates of movers and non-movers in urban, suburban and rural areas. The results show that although people in non-metropolitan areas generally have higher rates of self-employment than those in more urban locations, natives of non-metropolitan areas have even higher rates than those who moved to the rural area.

INTRODUCTION

Self-employment provides a work opportunity not only for those who seek independence and job flexibility, but also for those who cannot easily find suitable work due to their location or other limitations. Lichter (1989, p. 199, 200) points out that rural women in particular "have been an economically disadvantaged group historically" and face restricted employment opportunities. Both the quantity and quality of jobs in rural areas have been seriously affected by decreases in rural industries, including farming, and increased foreign competition (Lichter, 1989). This economic decline has led many workers to migrate to more developed areas, further decreasing the population and purchasing power in non-metropolitan areas.

Some rural residents may choose to create their own jobs rather than relocate. Previous research (e.g Clark & James, 1992; Robinson, 2003, 2002) has shown that non-metropolitan (non-metro) residents often have higher rates of self-employments than their metropolitan (metro) counterparts. In their study of business owners in South Dakota, Tosterud and Habbershon (1992) found that many of those people had started businesses in order remain in their chosen location, which, in most cases, was very close to where they were born and raised. This study examines this issue further by comparing the 2005 self-employment rates of those who have and have not moved from their original locations, concluding that non-movers consistently have higher self-employment rates, especially in non-metro areas.

PROBLEMS AND OPPORTUNTIES FOR RURAL BUSINESS OWNERS

Numerous factors put rural areas at a disadvantage in terms of economic development and encouragement of entrepreneurship. Naturally, rural areas have lower populations, but these residents also have less aggregate and individual buying power (Barkley, 1993; Kean, Gaskill, Letstritz, & Jasper, 1998). Metro and non-metro areas often have very different business environments due to such elements as geography, demographics social structure networks (Beggs, Haines & Hurlbert, 1996; Frazier & Niehm, 2004). Lower levels of economic development, scarcity of affordable professional services, and smaller markets can present significant challenges to rural business owners (Chrisman, Gatewood, & Donlevy, 2002; Fendley & Christenson, 1989; Kale, 1989; Lin, Buss, & Popovich, 1990; Small Business Administration, 2001; Tigges & Green, 1994; Trucker and Lockhart, 1989). In addition, per capita income has been lower in non-metro than in metro areas since 1979, meaning businesses in these areas are likely to face a more difficult market (Barkley, 1993; Kean et al., 1998).

Despite these problems, some studies have determined that rural businesses do not necessarily lag behind their metro counterparts in terms of venture creation. Taking population into consideration, Clark and James (1992) found the rate of business ownership to be higher in non-metro areas of the midwest. Lin and associates (1990) found no significant differences between rural and urban areas when comparing the rates at which new firms and jobs were created. Self-employment rates have been found to be higher in Pennsylvania's non-metro counties (Robinson, 2003). In addition, Hout and Rosen (2000) found that the sons of farmers, who are usually rural residents, had higher rates of self-employment than did sons of clerical, retail, and manual workers.

Studying new business owners in South Dakota, Tosterud and Habbershon (1992) found that the majority of those people had started their businesses in order remain in their chosen location, which, in most cases, was less than 30 miles from where they had spent their entire lives. This study further examines the self-employment of people who have not relocated from original areas, especially those who live in non-metro areas.

METHODOLOGY, RESULTS AND ANALYSIS

Data regarding the number of men and women who are self-employed, their location and migration status were gathered via Data Ferrett from the 2005 Current Population Survey's Annual Social and Economic (March) Supplement. People who moved were categorized by the location and direction of their move--MSA to MSA, non-MSA to MSA, etc. For the purposes of this study, everyone who had moved was grouped into one category for comparison with non-movers. The number of self-employed (limited to the unincorporated self-employed) was taken from the variable "class of workers," which includes people with and without jobs. People under age 18 were not included. The geographic categories in this study are based on the Census Bureau's classifications of principal city, balance metro and non-metro.

Chi-square analyses were performed on these data to determine if there were significant associations between the number of people who were self-employed and the categories of movers/non-movers and principal city/balance metro/non-metro. Totals were compared, as were the sexes, such that men were compared to men, and women to women. In every case, the resulting chi-square statistics were very high and $p<.000$.

As shown in Tables 1, 2 and 3, non-metro residents had higher proportions of non-incorporated self-employment. However, these proportions, which were determined by dividing the number of self-employed by the total number of people in that category (non-movers in non-metro areas, for example) were even higher among non-movers. In fact, non-metro non-movers were almost 70% more likely than non-metro movers to be self-employed. Among men, non-metro non-movers were 53% more likely to be self-employed, but among women, non-metro non-movers were twice as likely to be self-employed. In fact, non-mover non-metro women's 7.93% was second only to non-mover non-metro men, topping all other groups of women and men.

Table 1. Self-employment Rates Among Movers and Non-movers By Geography

Total	Total	Principal City	Balance Metro	Non-metro
Movers	18,436,215	6,884,967	8,457,011	3.094,236
-Self-employed	973,799	336,076	441,157	196,566

	Total	Principal City	Balance Metro	Non-metro
	5.28%	4.88%	5.22%	6.35%
Non-movers	106,799,162	30,090,706	56,159,254	20,549,202
-Self-employed	8,104,046	2,041,096	3,863,518	2,199,431
	7.59%	6.78%	6.88%	10.70%

Table 2. Self-employment Rates Among Men Movers and Non-movers By Geography

	Total	Principal City	Balance Metro	Non-metro
Men movers	10,137,447	3,788,213	4,750,830	1,598,403
-Self-employed	973,799	336,076	441,157	196,566
	6.55%	6.11%	6.20%	8.62%
Men Non-movers	56,947,896	15,970,804	30,101,047	10,876,045
-Self-employed	5,038,245	1,255,769	2,350,394	1,432,081
	8.85%	7.86%	7.81%	13.17%

Table 3. Self-employment Rates Among Women Movers and Non-movers By Geography

	Total	Principal City	Balance Metro	Non-metro
Women Movers	8,298,768	3,096,754	3,706,181	1,495,833
-Self-employed	309,608	104,454	146,431	58,722
	3.73%	3.37%	3.95%	3.93%
Women Non-movers	49,851,266	14,119,902	26,058,208	9,673,157
-Self-employed	3,065,801	785,327	1,513,124	767,350
	6.15%	5.56%	5.81%	7.93%

Overall, the results of this study provide deeper insight into unincorporated self-employment rates in urban to rural areas. Considering past research relating some rural small business owners' desire to live in the locations where they were born and raised, this study supports the notion that rural residents may prefer to create their own jobs than to move away. This may be especially true among non-metro women, who are likely to have fewer job opportunities that meet their needs. Another possible factor may be that people who have grown up in a given area could have developed strong social networks that encourage them to start businesses.

CONCLUSION

Entrepreneurship provides rural residents an avenue for financial improvement and independence without giving up their unique way of life (Tosterud & Habbershon, 1992).) Established social networks can make it easier for residents in tightly-knit rural communities to start and maintain businesses (Cooke & Morgan, 1998; Frazier & Niehm, 2004; Jenssen & Keonig, 2002; McQuaid, 1997; Robinson, 2001; Sullivan et al., 2000). These social bonds are likely to be influenced by migration status and the number of other people who were born and raised there (i.e. non-movers). This would be consistent with qualitative data from Robinson and Watson (2001) in which a respondent is quoted as saying, "If I lived in a more populated area…I might not have done it as quickly." However, even in principal cities, non-movers had higher rates of self-employment, which could suggest that people who are natives to a given location are more willing to open businesses there. Future research should continue to examine the differences in self-employment rates according to the degree of rurality and the reasons rural residents, especially natives, choose to start businesses. An understanding of these factors would help authorities and educators provide assistance to potential entrepreneurs.

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