eJOURNAL USA

ECONOMIC PERSPECTIVES

JANUARY 2006

ENTREPRENEURSHIP AND SMALL BUSINESS

U.S. DEPARTMENT OF STATE / BUREAU OF INTERNATIONAL INFORMATION PROGRAMS

ECONOMIC PERSPECTIVES

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ECONOMIC PERSPECTIVES

U.S. DEPARTMENT OF STATE / JANUARY 2006 / VOLUME 11 / NUMBER 1

http://usinfo.state.gov/journals/journals.htm

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INTRODUCTION

Successful small businesses are critical to maintaining a robust U.S. economy. The numbers almost speak for themselves:

• 99 percent of all American businesses are small;
• small businesses provide approximately 75 percent of the net new jobs added to the U.S. economy every year;
• small businesses represent 99.7 percent of all employers;
• small businesses employ 50.1 percent of the private workforce;
• small businesses provide 40.9 percent of private sales in the country.

It is truly the innovation, resilience, and determination of small-business owners that centers them at the heart of the American economy. Small businesses broaden the base of participation in society, create jobs, decentralize economic power, and give people a stake in the future. Owning a small business is hard work, but it is not without its rewards. Small-business ownership encourages personal freedom and individual empowerment. It builds and perpetuates social and political stability. And it spurs the kind of innovation that creates gains in productivity, thereby increasing local, and even national, prosperity.

But small businesses cannot do it alone. The U.S. government plays a crucial role in creating an environment in which entrepreneurs can flourish. We implement policies to reduce burdensome regulations and remove red tape so as to create a small-business-friendly environment that supports the perpetuation of neighborhood grocery stores and local tailors. Without careful attention, government policies could crush the small-business sector of any economy.

In order to create an environment in which U.S. small businesses can prosper, President George W. Bush has joined with private-sector, nonprofit, and community and faith-based organizations to focus talent, expertise, and other resources on facilitating economic growth and enterprise all across America, and particularly in otherwise neglected areas. Together these groups are educating interested Americans about entrepreneurship. They are offering classes on how to hire employees, negotiate contracts, and market products.

Government investment in small businesses benefits not only the businesses themselves but also our national economy and our society at large. A healthy small business creates jobs in the community and gives both employer and employees a stake in the success of the neighborhood. When times are tough, it is the corner store that sees us through to the brighter days. It is the government's responsibility to ensure that its policies are helping—not hurting—enterprises, creating the conditions for small business to flourish, and encouraging citizens to give small-business ownership a try.

Hector V. Barreto
Administrator
U.S. Small Business Administration

HOW SMALL BUSINESSES CONTRIBUTE TO U.S. ECONOMIC EXPANSION

Derek Leebaert

Small businesses contribute much more to the U.S. economy and society as a whole than can be calculated just from the spending and profit that they generate. These businesses tend to be more economically innovative than larger companies, more able to respond to changing consumer demand, and more receptive to creating opportunities for women and minorities, and activities in distressed areas. "Building, running, and growing small business is a part of a virtuous cycle of creativity and increasing prosperity that can be applied by dedicated and thoughtful people anywhere," the author says. "There are no secrets, and frequently money is less important than a considered combination of imagination and effort."

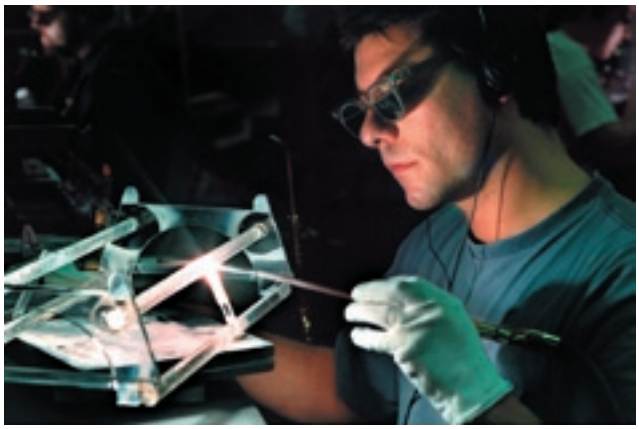
***Derek Leebaert** is a professor of government at Georgetown University. He is co-author of The MIT Press trilogy on the information technology revolution, and serves as an adviser to Management Assessment Partners (MAP), a global consulting firm.*

A visitor to the United States will encounter many newspapers and magazines devoted to business: *The Wall Street Journal, Fortune, Forbes, Business Week, Barron's.* On television and radio, he or she will hear about the Dow Jones Industrials and the S&P 1000—statistics that reflect the stock market's highs and lows, as shown by the value of the largest U.S. companies. The very term Fortune 500, coined 50 years ago by *Fortune* magazine, ranks the leading companies in the nation: General Motors, General Electric, DuPont, and, more recently, Microsoft and Oracle. Moreover, brand names such as Ford, Coca Cola, and IBM likely have been commonplace in his or her own country for decades. Against this background, our visitor might get the impression that America's economy, employment, innovation, and exports are propelled solely by such behemoths.

Many Americans share that impression, and it is wrong. To be sure, the largest 500 or 1,000 corporations offer exciting material for journalists, as shown by the chronicling of boardroom scandals and corporate takeovers. These enterprises are visible, politically influential, and—because of their size and relative stability—the repositories of pension fund and other long-term investment for many Americans. They make up much of the nation's total output of goods and services. But to understand the full scope of national output, as well as of job creation and innovation in the U.S. economy, let alone where those huge corporations originated, we have to look beyond the headlines.

FUELING AMERICA'S GROWTH

Small and large businesses are not distinct segments of the U.S. economy: They buy each other's products and build on each other's innovations to generate economic growth. The smaller businesses are frequently younger ones created by self-employed entrepreneurs. Such activity contributes further to economic growth by challenging traditional technologies and practices. In turn, economic growth promotes entrepreneurial activity by providing markets and financing for men and women bold enough to venture alone into the stormy seas of a consistently expanding economy.



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An employee of MGI Products Inc. welding a portion of a quartz wafer carrier, a device for holding a wafer for processing in semiconductor manufacturing.

Because of this widespread drive to start and build businesses, the United States benefits more from such a growth cycle than do other industrial economies. To varying degrees, entrepreneurship is apparent in every American neighborhood, and it is by no means limited to the high technology that is often chronicled by the press. Nor must a small business necessarily be a new one—but to sustain it requires the agility of an entrepreneur merely to avoid falling prey to the advantages of cash, reach, and buying power enjoyed by big corporations.

A small business is not defined solely by revenue or number of employees, let alone by how long it has been open, but by its function in the economy. For example, a "small" manufacturing company is one with fewer than 500 employees, whereas a "small" wholesale trading company may have no more than 100 employees. Because of the different costs to the owner of his or her materials, a carpet cleaning business, for instance, is considered "small" if its annual revenue is less than $4 million, while a "small" construction company can have revenue as sizable as $30 million. Such precision is required by statisticians in order to align these businesses with government programs designed to provide loans, training, and tax relief to these sources of growth.

Indeed, there are "micro-businesses" that have annual revenues under $1 million—relatively insignificant in the business world, one might think, until we consider that such microenterprises represent as much as 15 percent of the U.S. economy. At the other extreme of our definition, we can find those "small manufacturers" with up to 500 workers, though most are still family-owned—and include about 330,000 separate companies employing roughly 7 million workers.

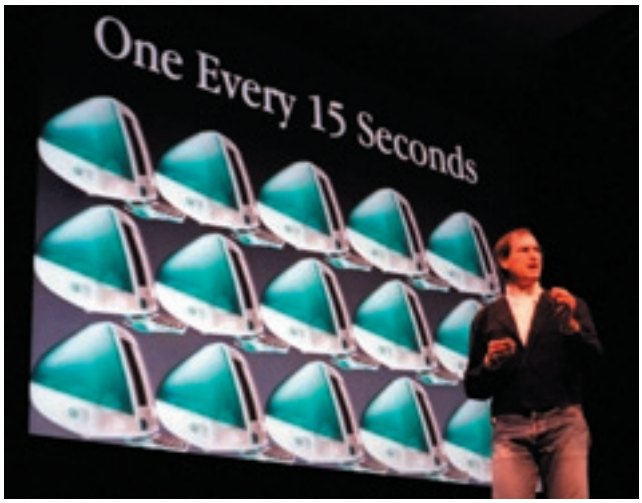
From a two-person software start-up to a fleet of trucks helping to build cities, the small-business sector catalyzes economic expansion by:

• making up 99.7 percent of all U.S. employers, meaning that only 17,000 companies, or 0.3 percent of all employers, have 500 or more employees;

• generating half the nonfarm output of the U.S. economy, and employing about half of all Americans not working for government, while adding 60 to 80 percent of net new (nongovernmental) jobs annually;

• comprising 97 percent of exporters and producing 29 percent of all export value—key points when we consider that exports have accounted for about 25 percent of U.S. economic growth over the past decade and support an estimated 12 million jobs;

• winning nearly 24 percent of all government contracts, ranging from ship construction to printing brochures.



AP/Wide World Photo

Steve Jobs, founder of Apple Computer, displaying images of iMac computers at a convention.

Small businesses are often the beginnings of large ones, as we are reminded by the 30th anniversary of Apple Computer, which was founded in 1976 by three members of the Homebrew Computer Club. Yet not all of America's 23 million small businesses aspire to the Fortune 500. There are companies—such as the brewer Anchor Steam—that realize that profits can come from resisting the temptation to expand. Their contribution to the economy is to offer niche products and services not offered by big corporations—and often to charge more for such specialization. It is the diversity as well as the dynamism of an economy that assures a continually upward path.

Shaping Innovation and Flexibility

Small businesses provide catalytic benefits to the economy. They contribute to national output, and to the society as a whole, beyond the spending and profit they generate. Consider the following.

In terms of economic innovation:

• small businesses produce 13 to 14 times more patents per employee than do large firms;

• small businesses' patents are twice as likely as those from the larger firms to be among the 1 percent most cited (that is, the most significant);

• small businesses employ 39 percent of high-tech workers such as scientists, engineers, and information technology workers, generating the majority of innovations that come from U.S. companies;

• these businesses are able to pioneer new alliances

and partnerships, in contrast to large businesses with demarcated competitive interests, as shown by biotechnology companies vis-à-vis the U.S. pharmaceutical giants.

In terms of economic flexibility:

• high spending on information technology enables agile responses to changing customer requirements: small and mid-sized firms account for 45 percent of U.S. technology spending;

• firms of 100 to 1,000 workers are spending eight times faster on technology than are big corporations, further enabling the close touch of business owners with the end users of their products or services;

• by deploying flexible production techniques enabled by both technologies and newly efficient practices, small businesses can adapt faster to shifting economic conditions;

• small businesses act as a shock absorber for fluctuations in employment caused by downsizing and globalization: 53 percent of small businesses operate out of an individual's home, from hair styling for neighbors to consulting for other businesses large and small.

In terms of social cohesion:

• small businesses serve as an entry point into the economy for new or previously slighted workers: women-owned small businesses, for instance, generate nearly a trillion dollars in revenues annually and employ more than 7 million workers;

• small businesses increasingly generate entrepreneurial opportunities for minorities, which census data show as owning 4.1 million firms that generate $695 billion annually and employ 4.8 million workers;

• small businesses bring economic activity to distressed areas: about 800,000 companies (90 percent of them microenterprises) are located in the poorest areas of the 100 largest U.S. cities;

• small businesses offer job satisfaction and autonomy: studies show that most businesses are started to improve one's condition, rather than for lack of an alternative, with some half a million new businesses started each month.

"A Virtuous Cycle"

The small-business sector constitutes a large part of the U.S. economy, but its influence transcends its already significant size. As economies prosper more from how they apply knowledge rather than materials, there is an ever-greater premium on innovation, flexibility, large-scale customization, and specialization—whether in serving sandwiches or programming software. While the percentage of Americans employed by Fortune 500 companies steadily drops (from 20 percent of the workforce in 1980 to less than 9 percent today), an average of 9.36 percent of the population could be found over the last decade starting their own businesses.

© Mark Ludak/The Image Works

A freelance writer working at his home.

There are successes—two-thirds of new businesses with more than a single employee are still open after two years—and honest failures, which bring no social stigma in the United States. One can try again, perhaps with a more refined innovation, a better understanding of the market, and new entrepreneurial allies. Building, running, and growing small business is part of a virtuous cycle of creativity and increasing prosperity that can be applied by dedicated and thoughtful people anywhere. There are no secrets, and frequently money is less important than a considered combination of imagination and effort. ■

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SMALL BUSINESS IN U.S. HISTORY

Christopher Conte

Americans have long revered small businesses for not only building the economy but also bolstering democracy. For more than a century, the United States has implemented laws aimed at preventing big business from competing unfairly with small businesses. Whether small businesses create a disproportionate number of jobs is not clear, but they clearly have influenced big businesses, which have adopted the flexible practices of smaller companies.

Christopher Conte, *a former editor and reporter for* The Wall Street Journal, *is a freelance writer who reports on a variety of public policy issues.*

Calvin Coolidge, the president of the United States during the "roaring" 1920s, famously declared that "the business of America is business." For the first century of the country's existence—until the 1880s—it would have been equally accurate to say that the business of America was *small* business since virtually all businesses in the nation were small in those years. Large-scale enterprises have eclipsed small business to a significant degree since then, of course, but the vast majority—almost 90 percent of American employers have fewer than 20 workers—are still small. Moreover, small businesses continue to have a strong hold on the American imagination.

Businesses had no choice but to be small in America's early days. Transportation was slow and inefficient, keeping markets too fragmented to support large-scale enterprise. Financial institutions also were too small to support big business. And productive capacity was limited because wind, water, and animal power were the only sources of energy. Whatever the reason businesses were small, Americans liked it that way. Small business, they believed, cultivates character and strengthens democracy. As Thomas Jefferson, the third president of the United States, put it, a nation of farmers and small businesspeople would avoid dependence, which "begets subservience and venality, suffocates the germ of virtue, and prepares fit tools for the designs of ambition."

The American belief in small business was put to the test beginning in the late 1800s. Railroads, the telegraph, the development of steam engines, and rapid population growth all created conditions in which some businesses —especially capital-intensive ones such as primary metals, food processing, machinery-making, and chemicals— could become bigger and, in the process, more efficient. Many people celebrated the higher wages and lower prices that came with large-scale enterprise, but others worried that the qualities Jefferson extolled might be lost in the process. "Even as they embraced what they viewed as the superior efficiency and productivity of big business," wrote historian Mansel Blackford in *A History of Small Business in America,* "Americans continued to revere small businesspeople for their self-reliance and independence."

AP/Wide World Photo

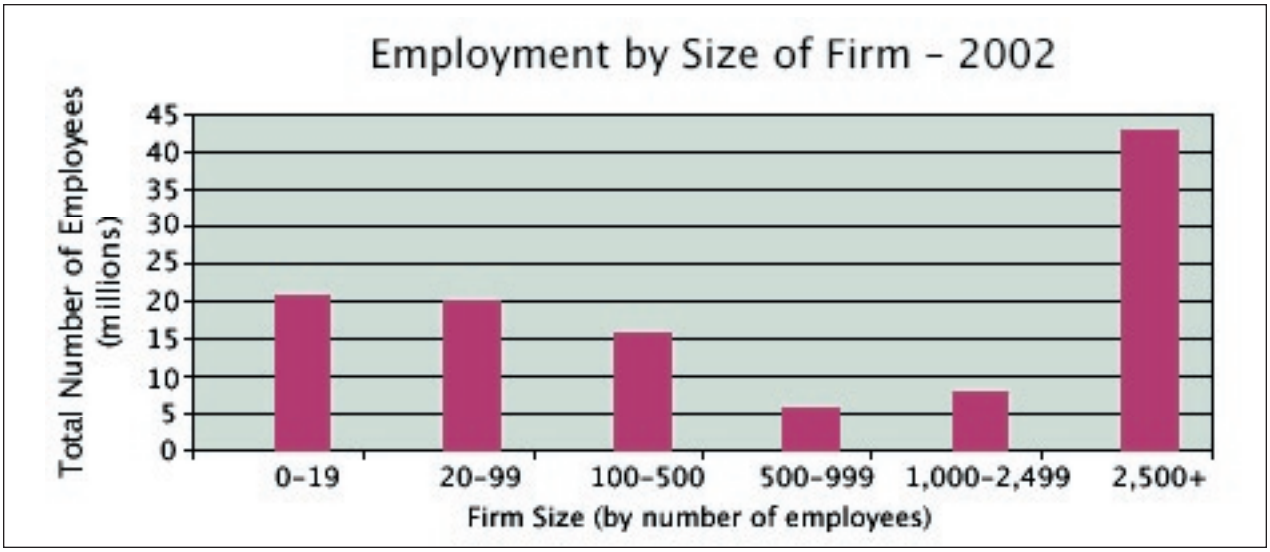
In the early 1900s, employees at the retail chain store Woolworth, which grew from a single store opened in 1879.

Legislation vs. Economic Reality

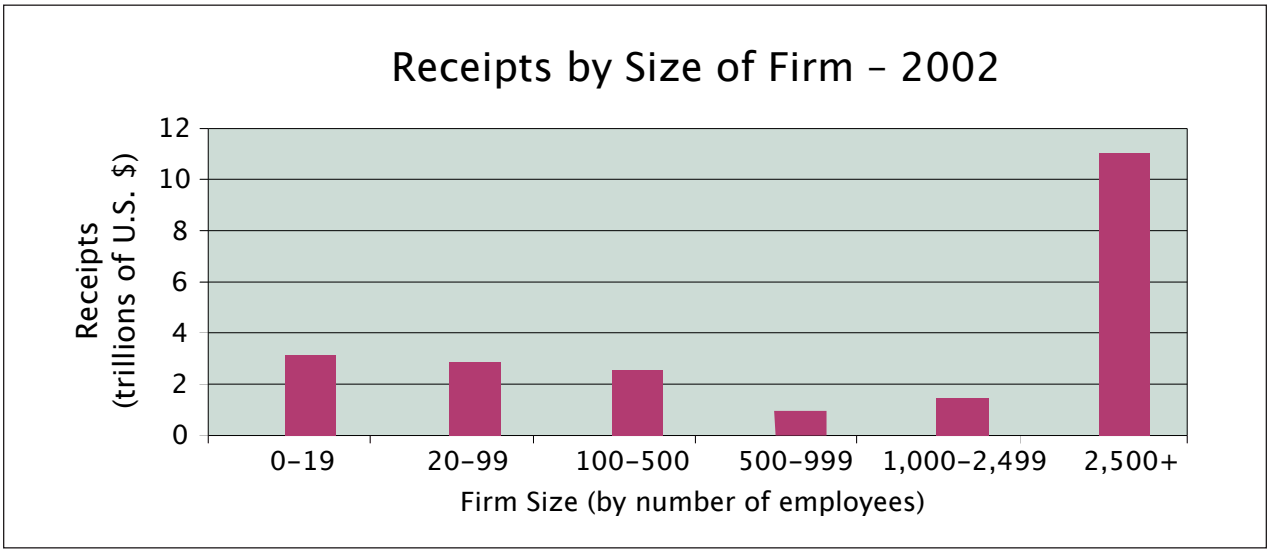
As Blackford describes, policy-makers have sought repeatedly to reconcile Americans' appreciation for the benefits that big business brings them with their reverence for the small businessperson. In 1887, the U.S. Congress enacted the Interstate Commerce Act to regulate railroads, partly to protect smaller businesses from what was deemed a natural monopoly. Then, the Sherman Antitrust Act (1890) and the Clayton Antitrust Act (1914) sought to prevent big companies from exercising

WHERE DO AMERICANS WORK?

Most businesses in America are small. In 2002, 88 percent of the nation's 5.7 million businesses employed fewer than 20 people, and 99.7 percent employed fewer than 500 people. But almost half of all Americans work for companies that employ more than 500 people, and two-thirds work for companies that employ more than 100 people, as the chart below demonstrates.



Big companies also account for a larger share of the nation's output than gross figures on the number of firms suggest. The chart below shows that although small firms outnumber large ones, the largest ones—those with more than 2,500 employees—collect 50 percent of all receipts.



Source: U.S. Small Business Administration, Office of Advocacy

excessive power in the marketplace. Later, the Robinson-Patman Act of 1936 and the Miller-Tydings Act of 1937 aimed to rein in large chain-store retailers.

In each of these laws, however, small-business enthusiasts had to mollify legislators who opposed government interference in the economy and saw big business as more efficient than small business. The result was a series of compromises that limited the ability of big businesses to use their power to stifle competition at least somewhat, but did not prevent them from growing big through methods deemed fair. The Sherman Act, for instance, did not crack down on bigness per se, and in fact often was used to prevent collusion among small businesses as well as big ones. Similarly, the Clayton Act did not outlaw bigness itself, but merely prohibited "unfair" methods of competition.

In 1953, lawmakers took a different approach: They established the Small Business Administration (SBA), a federal agency that provides training and helps small enterprises secure financing, land contracts with government agencies, and raise equity capital. The SBA's actual impact is difficult to gauge. But economists believe small business has survived over the years more as a result of economic realities—and its own ingenuity—than as a result of legislation. In some industries—furniture-making, lumber milling, and many service businesses, for instance—small businesses continued to play an important role because the kind of economies of scale that allowed businesses to grow big in other sectors were largely absent.

In some sectors, small businesses found market niches where there was too little demand to require large-scale production. Blackford cites Buckeye Steel Castings Company of Columbus, Ohio, which was formed in 1881 and thrived for many years by producing automatic railroad car couplers, for instance. He also describes how a variety of small, Philadelphia-based textile companies survived into the 20th century by producing for the constantly fluctuating seasonal-clothing market. More recently, a number of information technology companies have emerged to produce software for highly specific computer applications, and numerous small Internet companies sell products aimed at narrow market segments.

Some businesses have stayed small simply because their owners don't want them to grow bigger. And economists have noted one other role of small businesses: In economic downturns such as the Great Depression of the 1930s and the recessions of 1973-1975 and 1980-1982, many people who lost their jobs in larger companies

David Paul Morris/Getty Images

The Palo Alto, California, garage where electronics giant Hewlett-Packard started in 1939.

formed their own small businesses to stay afloat through the hard times.

Overall, while the dream of running one's own business has fueled a steady rise in the number of small businesses in America, the general trend since the 1880s has been for small businesses to grow in number along with the population, but for their relative share of economic output to decline as large corporations have emerged in various sectors. The SBA itself has tacitly acknowledged the trend toward largeness by redefining small business upward. In the 1950s, the agency counted any manufacturer employing fewer than 250 people as small, but today it considers companies with as many as 500 employees to be small. Still, the vast majority of American businesses are small. In 2002, for instance, there were only 16,845 companies employing more than 500 people, compared to 5,680,914 employing fewer people, according to the SBA.

The Significance of size

Small business demonstrated its durability during the 1970s and 1980s in particular. At the time, foreign competition led to a decline of basic, large-scale manufacturing companies in such industries as steel, automobiles, and textiles. In the new global economy, services became relatively more important while manufacturing became less important, and that meant a growing role for small companies, which traditionally have dominated many service sectors. But some economists saw additional reasons why small business would become a more important part of the economic landscape. In the highly competitive and rapidly changing global economy, they argued, companies that could innovate, customize products, and adapt quickly

AP/Wide World Photo

A repairman from consumer electronics chain store Best Buy making a housecall to set up a computer.

to changing circumstances would have an edge. Small business, with less hierarchical management systems and less unionized workforces, seemed to have just these strengths. What is more, small businesses got an extra boost because declining transportation costs and the emergence of the Internet made it easier than ever for them to compete on the global stage.

The surge in enthusiasm about small business peaked in 1987, when David Birch, an economist and founder of the research firm Cognetics Inc., wrote that small businesses create most of the new jobs in the economy. Birch's findings attracted enormous attention and are still cited to this day. But many economists dispute them. In a 1993 study, for instance, the National Bureau of Economic Research found that while firms employing fewer than 500 people really did create more jobs between 1972 and 1988, they also went out of business far more often. Their net impact on job creation was thus no greater than that of larger firms, the private, nonpartisan research organization concluded.

In any event, small business may have held its own in recent years, but it has not regained the market share it lost to big business over the previous century. In part, that's because big businesses have become more competitive themselves by learning some lessons from their smaller competitors, according to *The Economist* magazine. In 1995, the British publication reported that big businesses increasingly are behaving like small ones, "pushing decision-making down through management ranks, restructuring themselves around teams and product-based units, and becoming more entrepreneurial."

Today, large and small enterprises appear to have reached some kind of equipoise. The small business share of the U.S. gross domestic product, for instance, which was 57 percent in 1958, has hovered at around 50 percent since 1980. If Calvin Coolidge were still alive, he might view such figures and stand by his belief that the business of America is business. But he might add that business in America comes in all sizes, large to small. ■

The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. government.

GOVERNMENT'S ROLE IN ENCOURAGING SMALL BUSINESS

Steve Strauss

With most of the world's business being conducted by small entrepreneurs, it makes good economic sense for governments to implement policies that encourage small-business growth. The five ways in which government can have the most positive effect are by making capital more accessible, facilitating business education, promoting entrepreneurship, reducing regulatory burdens, and protecting intellectual property.

Steve Strauss, *a lawyer, author, television commentator, and* USA Today *business columnist, is one of America's leading experts on entrepreneurship and business development.*

In the late 1970s, a commune in communist China was so broke, and the peasants who ran the commune so hungry and poor, that they decided to risk their lives and do the unthinkable: The peasants secretly privatized and divided up the land. Each farmer had his own plot with which to grow his own food, use it, and sell the extra, if any.

Within a year, that commune became one of the most prosperous in China and, not surprisingly, caught the eye of communist officials. Yet rather than condemn what was a decidedly noncommunist idea, the government gave private commune plots an official blessing. The rest, as they say, is history. China's capitalist turn became the greatest antipoverty program in the history of the world, freeing millions of people from poverty in a few short decades.

That government policies can have a huge impact on the growth and promotion of small business is a vast understatement. In a world beset by too much hunger and need, small business is one thing with a proven capacity not only to ease suffering, but also to create a solid middle class, generate a secure tax base, and foster social stability. All in all, small business is good business.

AP/Wide World Photo

A branch of Philadelphia's Sovereign Bank, a major lender to small businesses.

Which raises the question: For those countries wishing to promote small business, what policies can be adopted to encourage its growth? I suggest that there are five main areas where appropriate government policies can have a huge impact on small-business growth.

MAKE CAPITAL EASILY AVAILABLE

When I was a young boy, my father owned several carpet stores. One day, I was given the assignment in school to write an essay about what he did for a living. Because "retail carpet store owner" was hard for me to describe, I asked him what he did. "Well," he said, "I'm an entrepreneur." A bit confused, I asked him what that was, and he replied, "An entrepreneur is a person who takes a risk with money to make money."

That remains as good a description as I have ever heard, although since then I have learned that entrepreneurs actually like to take small, calculated risks. Therefore, if a government wants to promote small business, it must advance policies that reduce the risk inherent in entrepreneurship. That way, people will be

more willing to leave the comforts of their jobs and start new businesses.

So the first policy necessary to promote small-business development is one that assists would-be entrepreneurs find the money they need to get started.

In the United States, we have a government agency called the Small Business Administration (SBA), whose duties include helping entrepreneurs get the money they need to take the risks necessary to start small businesses. Interestingly, the SBA does not actually make these loans, but it does guarantee them. Banks are more likely to loan money to risky new businesses when they know that the SBA and the U.S. government will guarantee repayment, even if the borrower defaults. The result is a vibrant U.S. economy in which 99 percent of all businesses are small businesses.

So the first thing any government seeking to promote small business should do is to establish a pool of federally guaranteed loans. Easy access to capital creates the foundation for a lively small-business sector.

AP/Wide World Photo

A New Jersey beauty salon that got free start-up assistance from a center sponsored by the federal Small Business Administration.

Teach Entrepreneurship

There are many things that go into creating a successful small-business economy, but surely a significant one is a collection of entrepreneurs willing to start new businesses. For that to occur, citizens must be able to learn business skills. There are several ways in which governments can assist them in doing this:

- **Create "business incubators."** A business incubator is a facility that offers start-up businesses a place to grow. Typically, business incubators are associated with universities, and professors and other experts donate their time and expertise teaching new entrepreneurs everything from sales and marketing to law and taxes. Once the would-be small-business owners conclude this crash course in business, they move on and start their businesses, and new entrepreneurs come in to take their place. Governments can offer universities financial incentives for creating on-campus business incubators.
- **Use the Internet.** The SBA has online tutorials that teach business skills and ideas to anyone with Internet access—http://sba.gov/training/coursestake.html. Any government that wishes to promote small and medium-sized enterprises should consider doing something similar.
- **Hire experts.** Likewise, private-sector small-business experts can be hired to teach business skills online. I write a weekly online column for the newspaper *USA Today* that does this: http://www.usatoday.com/money/smallbusiness/front.htm.

Celebrate and Foster Small Business

Not only must new entrepreneurs be taught the skills necessary to succeed, but existing entrepreneurs should be promoted so as to encourage more people to start small businesses. In Costa Rica and Uruguay, small-business fairs and expos recognize small business and entrepreneurship. Uruguay also has awards for small businesses that contribute to society. Indeed, there is plenty a government could do to promote small business. For example:

- **Sponsor an "Entrepreneur of the Year" award.** A yearly award, on both the local and national levels, if well publicized, could do much to create an entrepreneurial mind-set.
- **Tap the expertise of business leaders.** A country that wants to promote small business must work to have its population look up to entrepreneurs. One way to do this is for the government to tap business leaders to help solve various issues and problems. Blue-ribbon government panels should take advantage of the expertise of entrepreneurs.

Create the Proper Tax and Regulatory Environment

A country's tax code is one of the best tools it has for promoting small-business growth. In the United States, for instance, the tax code is changed often with the idea that

certain tax credits, deductions, or reductions can be used to foster growth in one segment or another.

Here is another example: Nearly 98 percent of all Canadian businesses are small businesses. The Certified Management Accountants of Canada recently recommended to the Canadian Parliament that the best way to foster even more small-business growth is through changes in Canada's tax policies, such as:

- reducing the corporate tax rate;
- offering tax credits for investments in training and education;
- increasing the deductions for investments.

Aside from lowering taxes to encourage business formation, it is important to reduce and eventually eliminate those government regulations that stymie business growth. The simpler and more expedited the regulatory process, the greater the likelihood of small-business expansion.

Protect Intellectual Property

Any government that wants to encourage small business needs to produce laws that protect the innovations of entrepreneurs. Innovation is at the very heart of small-business growth, but if innovations are not legally protected, entrepreneurs will be unlikely to engage in the risks necessary to invent new solutions to societal problems. Accordingly, policies that protect patents, copyrights, and trademarks are critical if small business is to flourish.

In the end, any government wanting to promote small business needs to implement policies that help entrepreneurs take less risk and make more money. Do that, and small business success is yours. ■

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AMERICAN BANKRUPTCY LAWS: Encouraging Risk-Taking and Entrepreneurship

Nathalie Martin

Business failure in the United States, unlike in many other countries, is not regarded negatively. In fact, U.S. bankruptcy laws are structured so that those who fail in business are encouraged to continue entrepreneurial pursuits. "If a business in the United States fails, the individual can move on with his or her life without living in shame or total poverty," the author writes. "The ability to start over is what makes some Americans willing to take risks in business, which can be good for the overall economy."

Nathalie Martin, *Dickason Professor of Law at the University of New Mexico, recently served as the Robert M. Zinman Resident Scholar at the American Bankruptcy Institute.*

The United States relies heavily on the use of credit by both individuals and businesses to fuel its economy. The country also has forgiving bankruptcy laws that protect individuals and businesses if they become financially insolvent. As such, these laws support capitalism and the growth of small businesses by encouraging people to take business risks.

For individuals, there are two main types of bankruptcy:

- One type, known as Chapter 7, allows people in financial trouble to "discharge"—be forgiven for—most debts for which there is no collateral (security). This type of bankruptcy does not help a person become current with secured debts, where the borrower has pledged some form of collateral, such as property.
- The second type, known as Chapter 13, allows people in financial trouble to pay back a portion of their debts through a payment plan extending over three to five years. At the end of the period, assuming the debtor has contributed all of his or her disposable income to the payment plan, the remaining debts are forgiven. This type can be used to pay off past-due secured debt and thus keep the collateral.

Tim Boyle/Getty Images

An Illinois furniture store that filed a Chapter 11 bankruptcy petition.

For businesses, the law is a bit different. Some can stay in business under Chapter 11 while they reorganize their debts. Thus, unlike most bankruptcy systems around the world, U.S. laws allow a bankrupt company to continue in operation, with the same management, while it tries to restructure its debts. In other words, typically, no trustee or custodian is appointed. Some people think this system, known as a debtor-in-possession system, promotes economic and job growth because more companies remain in business and their assets are protected. Businesses can also simply liquidate their assets under Chapter 7 and use the sale proceeds to pay creditors.

THE UNDERLYING PHILOSOPHY

The American economy is extremely vibrant and active. The more activity in the economy, the stronger the economy will be. The U.S. regulatory structure has been developed to encourage people to create businesses, with the hope that they will succeed, hire employees, pay taxes, and otherwise improve the economy as a whole. We acknowledge that in the process, some businesses will fail.

Thus, as a culture, we value a person's willingness to risk his or her job and money (and borrowed money, too) for the chance to succeed.

These ideas are not new. As a society, Americans have always encouraged economic activity through the extensive use of credit. As early as the 1700s, when the U.S. economy was competing with much more developed European economies, it grew faster than anyone could have imagined and quickly became the world's largest economy.

The extensive use of credit in the early U.S. economy was unique in the world, with some people being paid for goods and supplies months and even years after the credit was granted. This allowed people to start businesses without much money in their pockets. The availability of credit caused economic activity to soar, and a strong credit-based economy was born.

Having this much credit in the system had a downside as well. Some of the businesses failed. Even so, America was friendly to the capitalist spirit since its goal was to encourage people to take risks in business in order to fuel its young economy. A legal culture of tolerance of nonpayment developed that encouraged people to continue entrepreneurial pursuits, even if they had failed before.

The relative lenience of American bankruptcy law, as compared to the law on the European continent, shocked some people, including French philosopher Alexis de Tocqueville, who, in the early 1800s, commented on the "strange indulgence" shown to bankrupt companies in the American union. He claimed that in this respect, "the Americans differ not only from the nations of Europe, but from all the commercial nations of our time."

Modern Bankruptcy Laws in Practice

If a business in the United States fails, the individual undertaking it can move on with his or her life without living in shame or total poverty. This is more than just a nice theory.

Many of America's most successful businessmen failed in early business endeavors, including ketchup magnate John Henry Heinz, Henry Ford of Ford Motor Company, and Phineas Barnum, who founded the American circus. All of these men eventually became very rich, in part because they were given a chance to try a business, fail, and start over.

Small businesses in the United States are the driving force behind the economy, employing more people than

AP/Wide World Photo

A photo film processing store going out of business in an economically depressed section of Pittsburgh, Pennsylvania.

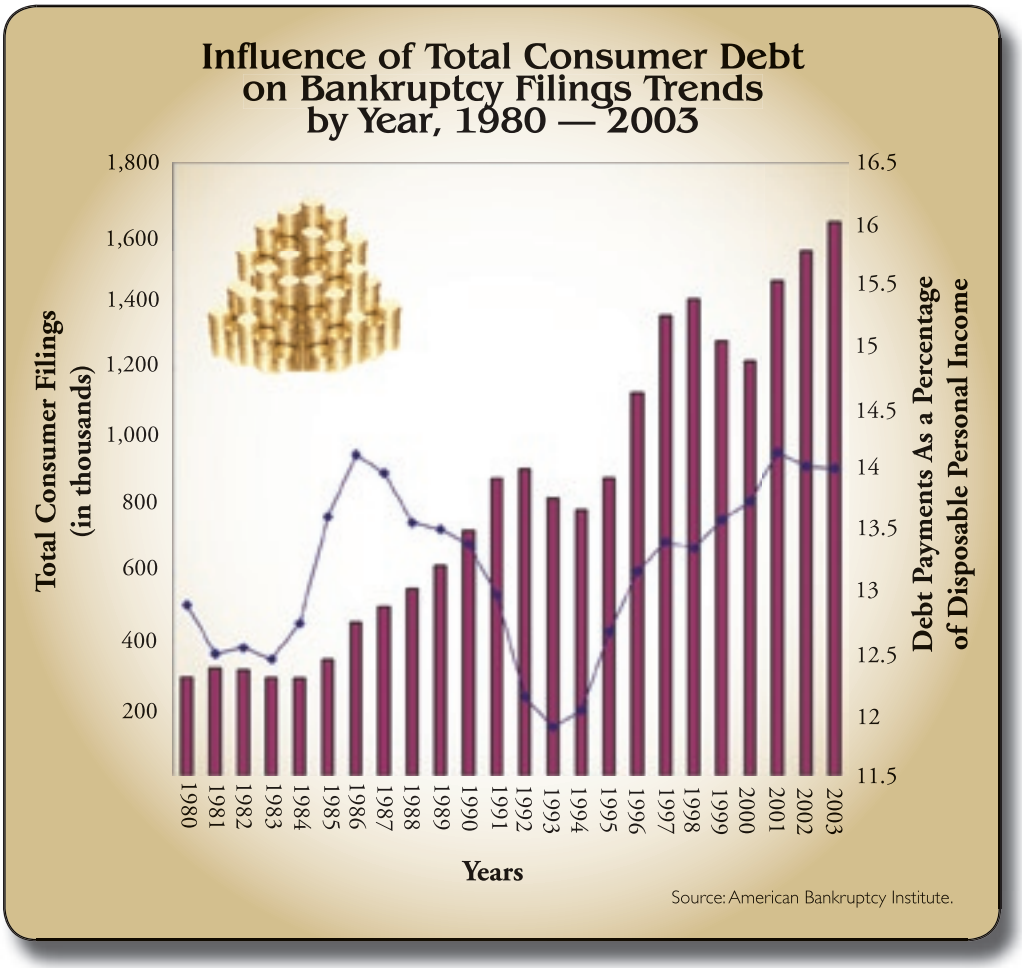
do huge, multinational companies. The credit system and its counterpart, the bankruptcy system, clearly support small businesses and entrepreneurship. Yet the sheer amount of credit available in the United States is daunting by global standards, with many average Americans able to get credit of $50,000 or more from bank loans, credit cards, and other sources, even without posting collateral. Many new entrepreneurs start their businesses with money from these sources.

Many people outside the United States find the U.S. bankruptcy laws odd, in part because they are so different from the laws in their own countries. Debt is not easily forgiven in most parts of the world, and there often is a stigma associated with financial failure. In many parts of Europe, any business failure is viewed as an embarrassment, even if you work for someone else's business and it fails. Someone associated with a business failure may even have trouble finding another job. In some parts of the world, such as Japan, my research has found that the stigma from financial failure is strong enough to lead people to commit suicide.

Nevertheless, other countries—including Japan, Italy, France, the United Kingdom, and Germany—are starting to make their own laws more forgiving in order to promote entrepreneurialism and to fuel more active economies. In some places, lawmakers believe that a more forgiving bankruptcy system will save assets and fuel economies that are not growing quickly. Deflationary Japan is one example of a country attempting to use more forgiving bankruptcy laws to create more borrowing and more economic activity. Since most of these laws are quite new, it is not yet clear whether these changes will help promote small-business development. Sometimes, cultural factors might also keep people from availing themselves

of these new, more forgiving laws.

There is much less stigma associated with a failed business in the United States. Some prospective employers might even consider an employee from a failed company to be more valuable because of the lessons learned at the prior job. Moreover, research shows that many U.S. owners who do well in business have failed in prior business ventures. The ability to start over is what makes some Americans willing to take risks in business, which can be good for the overall economy. The extensive availability of credit is also very helpful for the new entrepreneur.



The Economic Role of Consumer Debt

In addition to the debt Americans take on to start businesses, they also use credit to buy consumer items such as homes, cars, furniture, and clothing. Americans use credit cards rather than cash more frequently than people in other parts of the world. As a group, they also buy more consumer goods, even more than people living in other rich countries such as Japan and Canada. Maintaining a high level of consumer spending is great for the American economy, particularly when business spending is down.

However, U.S. bankruptcy laws are not as forgiving as they are for business for those individual consumers who use credit extensively to buy consumer goods. As the accompanying chart shows, there is a strong correlation between consumer debt and financial failure, and bankruptcy resulting from consumer spending.

Moreover, individuals who overextend themselves financially on consumer goods will find it harder to discharge their debts. This is the result of a recent change in U.S. consumer bankruptcy laws designed to reign in consumer spending.

A Final Word

Fueling an active economy in the United States can be seen almost as a civic duty. Taking on credit risks to start a business can provide great financial rewards. If the business does well, the entrepreneur will flourish. If it fails, the person will get a second chance. Taking on extensive consumer debt carries the same risks with almost none of the rewards. ■

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SO YOU WANT TO START YOUR OWN SMALL BUSINESS

Phil Holland

Anyone thinking about starting a small business should first consider his or her temperament, experience, and knowledge, as well as the most crucial decision to be made —what kind of specialized product or service to sell. After defining the market, the entrepreneur should write a business plan, fulfill all legal obligations for doing business, and find some start-up money. Starting out part time with a small investment is not a bad idea.

Phil Holland, *founder of Yum Yum Donut Shops Inc., is chairman of My Own Business Inc., which offers online a free course of instruction for small-business owners and aspiring entrepreneurs at www.myownbusiness.org.*

Owning and operating a successful business can be a very satisfying way to earn a living and, at the same time, become financially self-reliant. But before starting, one should take careful measure of some of the factors that can nurture success and minimize failure. People who are successful at operating businesses of their own normally will score high marks on the following attributes:

- possessing a strong desire to be self-reliant;
- enjoying and gaining satisfaction from operating the business;
- focusing on a specialized service or product that fills an ongoing need;
- possessing previous hands-on experience in the business;
- possessing a basic knowledge of accounting and cash flow control.

There are some important advantages in starting a business on a part-time basis before quitting your present job. During the early and uncertain phase of start-up, your present job can continue to provide income and benefits. Perhaps family members, already a built-in organization structure, can help run the business while you are at your job. And your children can learn about the challenge and benefits of being in business.

Defining Your Market

Defining the market is the single most important decision to be made by anyone starting a business. Most businesses do best when serving a specialized market. For example, in the United States the most successful fast-food chains market a very limited line of products, such as ice cream, doughnuts, chicken, or hamburgers. Fast-food restaurants that attempt to be good at a widely assorted menu often fall by the wayside. Seek out a single, specialized need and fill it exceptionally well. I would also recommend that you not tackle a market that may be too challenging. It is better to identify a more modest business opportunity than a higher risk one, better to jump the smaller hurdle than the larger one.

It is a good idea to avoid markets that deal in commodities. In a commodity market, you must compete entirely on the price of your product, and you must have the lowest cost to survive. If you live in a country where labor costs are low, you may find opportunities to export your product to countries where labor costs are significantly higher. On the other hand, if your product is made in a high-labor-cost country, you take the risk that someone somewhere will gain a cost advantage over you and become a serious threat to your business. In this case, you might want to consider contracting out your production to a supplier in another part of the world that has lower costs.

Many small retailers are no longer in business because huge stores such as Wal-Mart provide more choices of goods to the customer and often at cheaper prices. Businesses that market services tend to have more "pricing power" than businesses marketing goods. Pricing power is the ability to lessen the threat of losing your market because a competitor can command greater customer loyalty. In a service type of business, whether it is tool rental or house painting, your customers usually will be more willing to pay a fair price for dependable

THE BIGGEST MISTAKES PEOPLE MAKE IN STARTING A BUSINESS

• The single biggest mistake that people make is not picking the right business. Take your time. What is said about real estate—"There is no such thing as the last great location"—also applies to business: There is no such thing as the last great opportunity. If there is a business for which you have special insights that will give you a competitive advantage, it would be a mistake not to include it at the top of your list of businesses to evaluate for yourself.

• Don't depend entirely on outside resources to furnish the money to start a business. The first resource should be your own personal savings; if you haven't started already, start now to begin saving cash. And when you do ask someone for money, be prepared to provide a comprehensive business plan that includes your source and schedule for repayment.

• Many entrepreneurs rush into a business prematurely. If you are working in a job, don't quit your job until you are fully qualified and prepared in every respect to start your business full time. Or perhaps better still, start your business part time without quitting your job.

• Many start-ups make the mistake of not seeking advice from others. People like to talk about their businesses—don't be afraid to ask questions. Gain the advantage of learning what the worst problems are based on the experience of those who have been there.

• It is a mistake not to have a lawyer when signing a lease, a partnership agreement, a franchise agreement, or any other important document. Remember that when you agree to a five-year lease for $1,000 per month, you incur a liability of $60,000.

• Would you engage in a sport without knowing how to keep score? Think about how big a mistake it would be to risk your assets on a business without knowing about accounting and cash flow. Your business will be judged by your financial backers on classic financial measures: the balance sheet, the profit-and-loss statement, and the cash-flow statement. Your ability to be able to predict future liquidity through cash-flow control is essential.

• Don't fail to exercise rigid internal financial controls. Your goal is to make sure that your business receives all of its income, without any of it being siphoned off by waste, fraud, dishonest employees, or simple carelessness. And while you need to learn to delegate responsibilities to your

Illustration by Scott Menchin © 2006 c/otheispot.com

employees, do not delegate to anyone the authority to sign checks or even purchase orders.

• It is a mistake to begin expanding a business before establishing a stable and profitable operation. Carefully work out the problems, including achieving a money-making model from which to expand. It is a good idea to test-market your product or service on a small scale first. As you expand, create cash incentives for your managers that are based as much as possible on their own individual contributions to profits rather than incentive compensation based on the company performance as a whole.

• Many entrepreneurs fail to take prompt action when major business problems or recessions occur. When you experience business downturns (and you will), identify and acknowledge your problems and don't hesitate to cut costs promptly in order to maintain a positive cash flow. Also, look for opportunities in adversity: When your business is in a recession, your competitors are struggling too, and some may be for sale at bargain prices. Remember that businesses have cycles; stick to the business you know best and ride out the adverse periods.

— Phil Holland

and superior service rather than seek out a lower-cost competitor.

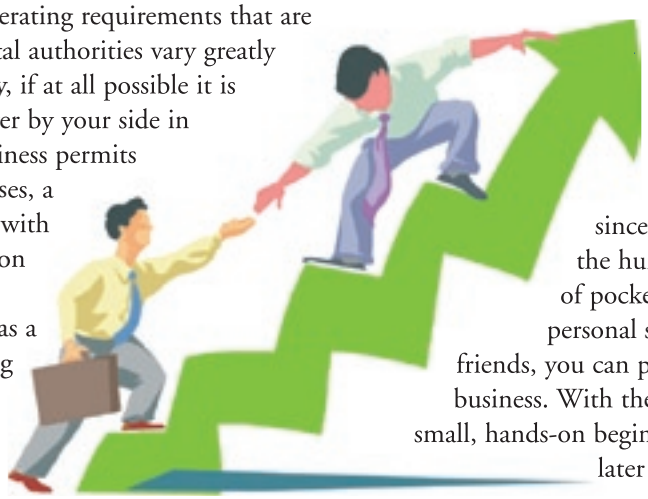
Writing a Business Plan

Writing a business plan is an essential step for any prudent business owner, regardless of the size of the business. The main value of a business plan is to create a written outline that evaluates all of the economic prospects of a business. The business plan will define and focus your objectives. It can be used as a selling tool in dealing with your lenders and investors. It can uncover omissions and weaknesses in your planning. And it can be used to solicit opinions from people already in your intended business, who usually will be happy to share invaluable advice.

Most start-up entrepreneurs ignore this important tool because they are inexperienced about the format and content of a good plan. To encourage entrepreneurs not to sidestep the preparation of a business plan, the Web site that I founded to foster successful entrepreneurs contains free templates that can be filled in and printed off to produce a useful and attractive business plan document (http://www.myownbusiness.org/plans/index/html).

Complying With the Laws

There are many laws that apply to owners of small businesses. Since the operating requirements that are imposed by governmental authorities vary greatly from country to country, if at all possible it is advisable to have a lawyer by your side in obtaining necessary business permits and licenses. In most cases, a lawyer will provide you with an initial free consultation in exchange for your considering him or her as a member of your ongoing advisory team.



In many countries, business owners must select a form of organization to use for their business. Some of the commonly used business forms are sole proprietorship, general and limited partnerships, and various formats for corporations. Each form carries with it a different set of local and federal reporting requirements for the small-business owner and various levels of exposure to liability, again making the case for sound legal advice.

Finding Partners

There are a number of reasons to consider starting a business with a partner. For one thing, there is safety in numbers. You have two heads instead of one to make decisions. You will also have a highly motivated co-worker with skills complementary to your own. If you are good at making your product, it might be appropriate to have a partner who will be good at selling it. In some cases, it may be necessary to have a partner to contribute capital and share the financial risks of starting and operating the business.

Some arguments against having a partner include having to share the rewards of the business and the control in making business decisions. The worst possibility is to have a partner whose judgment is poor and whose work habits and ethics are different from your own. The details of any partnership should be spelled out in writing with what is known as a buy-sell agreement in place to determine the disposition of the business in the event of serious disagreements between the partners or the death or disability of one of the partners.

Financing Your Business

Many prospective business owners are disappointed to learn that banks do not make loans to start-up businesses unless there are outside assets to pledge against borrowing. Finding start-up money is usually considered to be the biggest hurdle in starting a business. But I don't agree with this general perception, since most businesses can be started with the humblest of beginnings and the smallest of pocketbooks. By starting small and using personal savings and money from family and friends, you can participate in every aspect of the business. With the experience you gain from such a small, hands-on beginning, you will not be easily fooled later on as to what does and does not work as your business grows.

By starting small, you can utilize the combined power of hard work and mathematical compounding. If a business can start with sales of, say, $10,000 the first year and double its sales volume in each of the next three years, the fourth-year sales will be $80,000. And if sales increase by 25 percent per year for the next 10 years, the 14th year will be very near to $750,000 in sales.

Promoting Your Business

Most business sectors have specific marketing strategies that work best and have already been put into practice. You can benefit from the experience of your competitors by copying their successful marketing plans, including selling methods, pricing, and advertising. Make a list of your most successful competitors and study them. Consider using a pre-opening checklist to evaluate your market readiness. Your checklist might consider the following:

• Will your customers be looking for convenience, pricing, quality, and service?

• Are you focused on a specific or specialized product or service?

• Do you have the necessary e-commerce tools in place, including an informative Web site and provision to market your product or service online?

• If you plan to sell to your buyers on credit, is your credit-rating policy in place?

• Have you test-marketed your product before launching a broad marketing program?

• Does your one-year cash flow projection indicate that there will be ongoing money in the bank during your start-up period?

Once your marketing programs are in place, you are ready to begin the exciting journey to success in your own business. ■

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SMALL BUSINESSES AT WORK

When the editors of Economic Perspectives *attempted to come up with a common thread to describe small business in the United States, it was soon obvious that there was no single answer. Clearly, to be successful, small-business owners must be hard working. And most are passionate about the product or service they are providing. We interviewed five small-business owners who described for us how they started and the continuing challenges they face. The five include a family business, one owned and operated by a woman, another operating in a foreign country, a fourth that sells in foreign markets, and a fifth that turned a small business into a big business.*

Courtesy Flickerwood Wine Cellars, Kane, Pennsylvania

The Flickerwood bottling area, with six-bottle filler and semiautomatic corking machine.

FLICKERWOOD WINE CELLARS: A FAMILY BUSINESS

In 1998, when Ron Zampogna retired from the U.S. Forest Service, he was only 56 years old. "I'm not much for sitting around," he says. Zampogna did have a lifelong hobby: Like others in his family, Ron had developed an impressive skill at winemaking. His son Rick suggested that Ron explore the possibility of starting a winery. Today, Flickerwood Wine Cellars sells 5,000 to 6,000 gallons of Strawberry Fields, Flickerwood Dew, and two dozen other varieties to retail and, where permitted, mail-order customers. It also operates a successful wine-tasting bar and a gift shop offering wine-related products, gift baskets, and numerous unique items.

From Rick Zampogna's first suggestion that his father become a professional vintner, Flickerwood has been a family business. Ron's wife, Sue, is the business manager, tending carefully to the finances; a daughter, Julie, designs the distinctive labels that adorn each Flickerwood bottle; and a daughter-in-law, Tammy, helps Ron at the many wine festivals at which Flickerwood makes new customers. Father and son work together at the actual wine production. The business has also grown to include several part-time employees.

When the Zampognas resolved to open a winery, they turned to a Pennsylvania Small Business Development Center (SBDC) located at Clarion University, in Clarion, Pennsylvania. Based in 16 universities and more than 90 outreach locations, these centers provide consulting services and educational programs to Pennsylvania small-business entrepreneurs. They might, for instance, help prospective business owners test a new business proposition, shape a business plan, or investigate funding opportunities.

The Clarion SBDC helped the Zampognas craft a business plan, a necessary step for persuading investors to offer the required financing. It took six months to complete the plan, but it enabled the Zampognas to raise nearly $120,000—80 percent, Ron says, of the funds needed to start Flickerwood. Sons Rick and Tim Zampogna, both carpenters, constructed the almost four-meter-high wine cellar. Their labor helped reduce the need for start-up capital.

Ron Zampogna speaks lovingly of the winemaking process. Because wine grapes are not successfully cultivated in Pennsylvania's McKean County (where the winery is located), Flickerwood imports its grape juice (or *must*) from vineyards elsewhere in Pennsylvania. Ron can explain at length the processes of compound adjustment and fermentation, stabilization and bottling, but the strongest message is simply that he enjoys and takes pride in his work. Flickerwood wines have captured multiple prizes in the Pennsylvania Farm Show Wine Competition and from the Pennsylvania Wine Association. Business continues to increase at the rate of 15 to 20 percent annually.

Flickerwood demonstrates a number of the elements common to small-business success stories. Ron Zampogna's winemaking skill and knowledge were essential. Important, too, were the SBDC professionals who shared their practical business experience to nurture a small business such as Flickerwood as one pillar of a healthy regional economy. Investors who saw diligence and preparation in Flickerwood's business plan were

willing to bet their capital on the Zampognas' prospects of success.

Ron lists working with Sue as one of the many benefits of running a family business. He also believes that Rick, who originally worked only nights at Flickerwood but is now a full-time wine entrepreneur, will continue to run the company when Ron finally decides to move on. But that won't happen any time soon. "I never want to retire," he says.

— Michael Jay Friedman

Courtesy TLC Adcentives LLC

TLC Adcentives president Terri Hornsby.

TLC Adcentives: A Woman's Recipe for Success

Terri Hornsby moved to Houston, Texas, in 1994 with a degree in broadcast journalism, but she could not find a job. In a Houston newspaper, she saw a help-wanted ad for an advertising specialty representative.

"I did not have a clue as to what that meant," Hornsby says. Even so, she got the job—selling pens and pencils branded with a client corporation's logo. Although she lacked sales and advertising experience, Hornsby quickly mastered her job and began to attract more corporate customers for her employer.

After a while, some customers started asking her why she didn't go into business for herself. So she did, part time at first. But when Hornsby landed a big contract, she decided to give up her job and instead operate her full-service promotional advertising company, TLC Adcentives, on a full-time basis. That was in May 1995.

"We take companies' names and logos and help further 'brand' them in the marketplaces that they're trying to reach through the promotional products we provide," Hornsby explains. For her first big customer, Shell Oil Company, that means arranging the production of awards, jackets, caps, golf balls, umbrellas, pens, pencils, and all sorts of executive gifts, all featuring the Shell logo. Hornsby and her four or five employees now serve major oil companies, technology giant Hewlett Packard, a major hospital, and some medium-sized and small businesses.

The biggest projects are called catalog fulfillment programs. For these, TLC Adcentives stocks a warehouse with 70 or so products featuring a client company's logos and fills its customers' weekly orders on demand.

Hornsby advises the owners of smaller businesses on how to promote themselves in the marketplace by using the correct promotional products. "I tell them we don't 'do cheap,' " Hornsby says. "We will find things within your budget, but we don't do cheap because if someone receives something cheap from a trade fair ... and they walk away and say, 'You know, that was really cheap,' then there goes all your branding."

Hornsby has made mistakes and faced challenges in her business. That's part of the learning curve, she says. For example, she hired someone to manage the company's financial records who she realized too late was doing a poor job. "That was a lesson learned because it was a very costly lesson," Hornsby says.

She also purchased a $7,500 software program that was so complicated that no one in the company could figure out how to use it. And she borrowed money for the business on credit cards, "which becomes very costly," she says.

Hornsby's biggest challenge came in 2003 when she was diagnosed with breast cancer. "I just maintained the business. I didn't try to grow it," Hornsby says. "That year was probably our toughest year, but we survived."

However, she considers herself lucky that throughout the ordeal of chemotherapy, she needed to take off only a single day from work … and that her corporate customers provided her support and comfort. Staying at work might have even assisted her recovery, she says. "I wasn't just thinking, 'OK, I'm sick—I'm going to lie in bed for the next six months.' I think [the business] kept me motivated."

Hornsby's advice to novice entrepreneurs is simply to give the customer good service. When a customer's order gets messed up, for whatever reason, spend the money to make it right. "Then in the end everybody wins," Hornsby says. "The clients are happy; they refer you to

somebody else, and they come back to do business with you again."

— Bruce Odessey

Timberline Tractor & Marine: Providing Services to the World

Lori Scholtz never believed that she and her husband, Joseph, would own a business, let alone one that services engines throughout the world. Their story demonstrates how a combination of skill, hard work, and a willingness to seize opportunity when it arises can lead to business success.

Joseph Scholtz is a talented engine mechanic. For about 15 years, he worked for Caterpillar Tractor, a leading manufacturer of diesel and natural gas engines. During this time, Scholtz aggressively honed his skills, not least by taking classes in advanced engine repair and obtaining certifications demonstrating his expertise in the repair of more complex motors.

Around 1981, Scholtz was approached by a Caterpillar competitor, the manufacturer of an "after-market" parts line. As with automobiles, the owners of bulldozers, front-end loaders, and other complex machinery may choose to repair their equipment with often less-costly after-market parts. This parts manufacturer offered the Scholtzes the opportunity to start their own business. The manufacturer would supply the parts, and Joseph Scholtz would perform the repairs. The arrangement meant leaving Caterpillar, but it offered the Scholtzes the chance to be their own bosses.

The business diversified and grew. In addition to bulldozers, Joseph Scholtz worked on engines used by hospitals, as well as on boat engines. Marine engines especially can be very complex and require much work; repairing one is a big job, one that could tide over a small business in slow times.

When the parts supplier wanted the Scholtzes to concentrate on tractors and bulldozers to the exclusion of marine work, they instead severed the relationship and struck out on their own, incorporating as Timberline Tractor & Marine.

The biggest obstacle facing the young company, says Lori Scholtz, was cash flow. But Timberline possessed important assets. Joe's technical skill was the most obvious one. Joe also had maintained his contacts at Caterpillar and at several boat companies around the U.S. Great Lakes. These contacts would prove instrumental in growing the marine part of the business. The transition to becoming an international business flowed naturally from Timberline's expertise in marine engines.

Courtesy Timberline Tractor & Marine Inc., Cleveland, Ohio

Timberline owner Joseph Scholtz measuring the connecting rod bearings of a marine engine.

When a freighter, cruise ship, or other large vessel requires engine repair, the motor is not removed and shipped to the mechanic; rather, mechanics travel to the boat, sending ahead their tools and parts. Joe Scholtz and a team of craftsmen have traveled to Singapore, Italy, and other countries to service complex motors.

Despite its international presence, Timberline remains a small business. Aside from Joe and Lori Scholtz, it employs three secretaries and one other mechanic, although additional mechanics may be engaged to help with a particularly large job.

Lori Scholtz, who previously worked for a medical company, never expected to run a business. She nevertheless finds the role of business owner a rewarding one, and she considers the pressure to give up their marine customers—the impetus for starting Timberline—"a blessing."

— Michael Jay Friedman

LYNKA: Operating a Small Business Overseas

The U.S. owners of LYNKA, the leading promotional products company in Poland, have prospered by overcoming the same kinds of challenges businesses everywhere face, plus some others specific to operating in a foreign country, according to co-owner John Lynch.

"Most of what we're dealing with are just the same commercial issues that other businesses are dealing with—getting rate systems in place, training your people, coming up with a good marketing program, improving your product quality," Lynch says.

Lynch and co-owner Anne Kalin together operate LYNKA, headquartered in Krakow, producing T-shirts, jackets, pens, coffee mugs, leather bags, and thousands of other products bearing the logos of corporations, schools, and government agencies.

The two came to Poland in 1991 as part of a U.S. Agency for International Development program to give advice to Polish companies about how to operate in a market economy. They decided to stay and go into business for themselves.

"It was very much the wild, wild East," Lynch recalls.

In 1992, Lynch and Kalin started doing consulting work. In 1993, they got the idea for producing clothing and other products bearing a company brand that the company could use as gifts to customers, promotional giveaways, rewards to employees, and so on. They started with three employees, one machine to make the imprints, and about $20,000 in personal savings.

In 1994, they borrowed money from local banks and from relatives for expansion, and in 1995 the company made more than $1 million in sales. By 2004, LYNKA employed about 150 people; had offices in Warsaw, Gdansk, Poznan, and Silesia; and had sales of more than $20 million.

According to Lynch, he and Kalin succeeded by working hard to produce quality goods and services, treating their employees well, meeting all of their obligations to the government, and following good business ethics.

"We did it all ourselves, from scratch, without any real outside partner ... and that was in rather hardship conditions because [Poland at first] was a country with an underdeveloped infrastructure," Lynch says. "Just learning Polish was a challenge in itself, and just getting to know the local business culture—there are lots of risks in doing business in foreign countries."

The infrastructure—telephones, roads, railways, air travel—is "a hundred times better" now, he says. The government regulatory burden is decreasing somewhat, but still takes up too much time: reports to the statistical office, monthly tax audits, health and safety audits, and lots of permits. "Businesses are constantly going to various government offices to wait in line for two or three hours to get things stamped ... and that is an inherent part of the Eastern European system," Lynch says. "It's getting better, but they're still slow."

He adds, however, that the biggest problem is not regulation but unethical competition. He says that his company offers good value to attract business, but that other companies offer kickbacks—bribes paid to a customer's purchasing agent. "There are still lots and lots of kickbacks in purchasing and marketing departments in all different

Courtesy LYNKA

A LYNKA corporate logo imprinting machine.

types of industries," Lynch says. "You have to find the clients who are decent, honest clients who are buying based on quality and service. And so there's a definite part ... of business that you lose." Nevertheless, Lynch feels that doing business in Poland is mostly a pleasure, even better now since the government cut the business tax rate from about 40 percent to 19 percent and since Poland joined the European Union (EU). Exports to 22 of the 25 EU member countries account for about 25 percent of LYNKA sales now, up from just 5 percent three years ago, he says.

"Thanks to the EU, we're experiencing dynamic growth of exports because we have Western quality, and we still have a competitive advantage on costs" because Polish labor costs less than that in other EU countries, he says. Polish membership in the EU is "the best thing that happened to us."

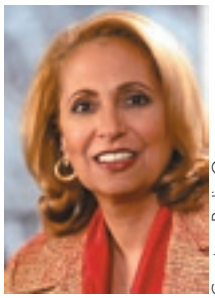
— *Bruce Odessey*

Radio One: A Small Business That Grew Large

Catherine Hughes struggled at first to keep her small business afloat, but her perseverance was rewarded: Radio One is today the seventh-largest radio broadcasting company in the United States. It owns or operates 69 radio stations targeting an African-American audience and employs about 2,400 people. She credits her success to an unwavering commitment to her business goals and to being involved in every aspect of the company.

Back in the 1970s, working at Howard University in Washington, D.C., Hughes devised a music format for the university's radio station that increased station revenue many times over. When the university declined to license the format, she decided to go to work for herself.

"I was determined that I would never be in a situation again where I was blessed with coming up with a billion-



Courtesy Radio One

Radio One chairperson and founder Catherine Hughes.

dollar format and people not taking it seriously," Hughes says.

In 1980, Hughes took out a $1 million loan to buy her first radio station, WOL. She programmed it ambitiously, with talk shows—an expensive kind of programming—aimed at African Americans. When interest rates shot up to nearly 28 percent, she struggled to keep up her repayments.

"I literally had to sacrifice everything," Hughes says. "My car was repossessed, I lost my home, but I did not lose my business, and I was able after 7-1/2 years of struggling to turn it into a profitable entity."

In those rough early days, Hughes lived at the radio station—sleeping in a sleeping bag, cooking on a hot plate and washing in the station's public bathroom—and hosted the morning talk show, all the while running the business.

Her lenders wanted her to switch the radio station's format to less expensive music programming, but Hughes persisted in her daring strategy and continued broadcasting talk shows 24 hours a day.

When the first radio station turned a profit, Hughes bought another one, and then another, and then many others. Ten years ago she gave up the daily talk show.

Her advice to people thinking about starting a business is not to think that someone will work harder at your business than you do. "People who work for individuals judge their commitment to the business based on what they see as your commitment," Hughes says. "So you can't just open a business and go off and play ... and expect other people to make your business successful.

"You must be the first person to do what is necessary to make your business successful even if it takes 25 hours in a 24-hour day," she says. "You have to believe in yourself and believe that you can accomplish what you set out to do."

One of the things Hughes says she did right was to bring her son, Alfred Liggins, into the business, serving as president and chief executive officer, running day-to-day operations, while she has moved to chairing the board of the company's directors, making long-term decisions.

"In developing nations, extended families as well as immediate families often times are the work-force for the businesses," she says.

— *Bruce Odessey*

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INTERNET RESOURCES

Additional sources of information on small business

U.S. GOVERNMENT

Small Business Administration (SBA)
http://www.sba.gov/

INTERNATIONAL AGENCIES

Organization for Economic Cooperation and Development
Centre for Entrepreneurship, SMEs and Local Development
http://www.oecd.org/department/0,2688,en_2649_33956792_1_1_1_1_1,00.html

UNDP Commission on the Private Sector and Development
http://www.undp.org/cpsd/indexF.html

World Bank Doing Business
http://www.doingbusiness.org/Default.aspx

ACADEMIC AND RESEARCH INSTITUTIONS

Entrepreneur.com: Solutions for Growing Businesses
http://www.entrepreneur.com/
http://www.entrepreneur.com/howto/0,5967,,00.html

Entrepreneurs' Organization
http://www.eonetwork.org/Default.aspx
With chapters in 40 countries:
http://www.eonetwork.org/Public/About/Chapters.aspx

eVenturing
http://www.entreworld.org/

Family Business Network
http://www.fbn-i.org/fbn/main.nsf/doclu/home?OpenDocument

Growing Global
http://www.growing-global.com/index.asp
http://www.growing-global.com/resources.asp

Inc.com: *The* Resource for Growing Companies
http://www.inc.com/home/

International Council for Small Business
http://www.icsb.org/

International Family Enterprise Research Academy
http://www.ifera.org/

More Business
http://www.morebusiness.com/
http://www.morebusiness.com/getting_started/primer/

My Own Business
http://www.myownbusiness.org/index.html

The Public Forum Institute
National Dialog on Entrepreneurship
http://www.publicforuminstitute.org/nde/global/index.htm

MULTIMEDIA AND BLOGS

Entrepreneur Radio
http://www.business-talk-radio.com/

Entrepreneurs & Entrepreneur Ideas
http://realentrepreneur.com/

Jim Blassingame
http://www.smallbusinessadvocate.com/

Knowledge@Wharton – Innovation and Entrepreneurship
http://knowledge.wharton.upenn.edu/index.cfm?fa=viewCat&CID=12

SBTV
http://www.sbtv.com/

Small Business Trends
http://www.smallbusinesses.blogspot.com/

SMB Strategy Cast
http://feeds.feedburner.com/SMBStrategyCast

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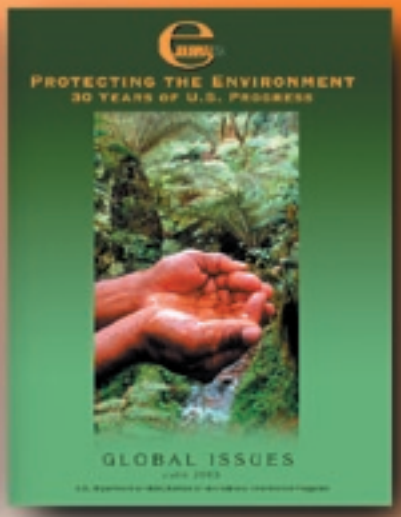

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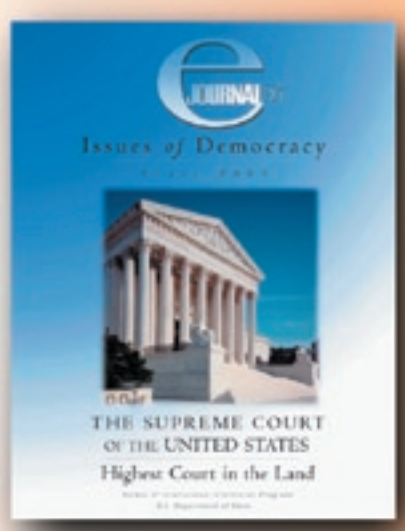

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