



Rural **RESEARCH REPORT**

Spring 2006
Volume 17, Issue 4

Published by the Illinois Institute for Rural Affairs

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Western Illinois University
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Macomb, IL 61455-1390
309/298-2237

www.IIRA.org

Entrepreneurship and Rural America

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Introduction

During the past century, significant parts of rural America have been transformed by many forces, causing much of rural America to become urban America. Urbanization has extended its footprint extensively, rendering former rural communities into suburban places. High amenity rural places have grown and become urban America's playgrounds. Places like Aspen Colorado; Hooker County, Nebraska; and Coastal Maine have many characteristics of urban places yet are located within rural landscapes.

Much of the remaining rural America is characterized by communities still tied to traditional rural industries like agriculture, forestry, fishing, mining, energy production, and manufacturing. This third rural America is often less prosperous, economically and socially challenged, and sometimes in chronic decline (Markley, Macke, and Luther 2005).

Beginning in 1999, a research team, with support from the Ewing Marion Kauffman Foundation and the Rural Policy Research Institute (RUPRI), began exploring the third rural America. Within five years, more than one million miles were logged throughout North America, and hundreds of rural landscapes were visited; and during these visits, more than 2,000 entrepreneurs were interviewed, and dozens

of rural development strategies were investigated. The mission of the research team was to understand the role of entrepreneurship in the development of rural communities and to share what was learned with rural development practitioners and policymakers across the country.

Entrepreneurship has become timely in development circles worldwide. This report will provide insights into the realities and opportunities of entrepreneurship in rural regions.² It summarizes the primary findings of field research and offers insights into the potential role that entrepreneurial-based development can play in revitalizing rural America. Five key insights are offered:

1. Entrepreneurship development is, first and foremost, human development.
2. Entrepreneurship is associated with rural vitality.
3. Civic entrepreneurs are key to entrepreneurship development.
4. Entrepreneurship development requires a systems approach.
5. Successful entrepreneurship development requires a shift in economic development policy priorities toward entrepreneurship.

¹The research team included Don Macke and Deborah Markley with the RUPRI Center for Rural Entrepreneurship; Chuck Fluharty with RUPRI; Jay Kayne formerly with the Ewing Marion Kauffman Foundation and now with Miami University in Ohio; Erik Pages formerly with the National Commission on Entrepreneurship and now with EntreWorks Consulting; Craig Schroeder, a senior associate with the Center for Rural Entrepreneurship; and Martha Gadberry, entrepreneur and founder of Gadberry & Associates, a communication and facilitation consulting firm based in Lincoln. The research methodology was shaped by identifying rural regional economies that had stronger economic performance and focusing site visits to learn more about the development strategies inherent in these landscapes.

² Much of the Center for Rural Entrepreneurship's learning is included in *Energizing Entrepreneurs: Charting a Course for Rural Communities*, prepared in collaboration with the Heartland Center for Leadership Development. The companion website for the book and other Center resources is at www.energizingentrepreneurs.org.

Entrepreneurship as Human Development

America has a strong tradition of entrepreneurship rooted in the risk-taking nature of new immigrants, beginning centuries ago and continuing today with recent waves of new residents. Benjamin Franklin, a key founder of the modern American republic, was a remarkable entrepreneur and greatly contributed to establishing America's tradition of entrepreneurship as a way to realize personal and collective economic and social success (Isaacson 2003). The reality of our global economy has increased the urgency and reward of entrepreneurial activity across most economic sectors.

In the 1990s, the Ewing Marion Kauffman made significant investments to gain insight into entrepreneurship in the United States. This work has been characterized as the American Entrepreneur Project.³ In *Daring Visionaries*, Smilor (2001) summarized much of this research in critical insights regarding the nature and character of entrepreneurs and this creative process we refer to as entrepreneurship.

The current field research by the RUPRI team, similar to the work of the American Entrepreneur Project,

strongly suggests that entrepreneurship is about human development as much as it is about business and economic development. Florida (2002, 2005), in his two books focusing on the "creative class," captures this reality of investing in and supporting creatively inclined human beings in communities (i.e., entrepreneurship development) in order to achieve community and economic development.

Many entrepreneurship-focused development strategies fail because they do not emphasize human development—fostering entrepreneurs who in turn grow businesses and nonprofit ventures that transform communities and regions. The implication of this insight for rural economic development is profound. For successful entrepreneurship development, local practitioners must take a long-term perspective and then identify and focus energy on helping entrepreneurs—one at a time—grow in their ability to create economic development and wealth (Markley et al. 2005).

Entrepreneurship and Rural Vitality

Since the late 1990s, evidence from an annual cross-national study has shown a positive relationship between entrepreneurship and economic growth.⁴ In April 2005, the Edward Lowe Foundation, in partnership with the U.S. Small Business Administration, released an analysis of regional economies in the United States covering the decade of the 1990s. The researchers used Internal Revenue Service and Census information to assess the relationships between entrepreneurship and regional economic performance in the nearly 400 regional economies in the United States (Camp 2005).

The RUPRI Center for Rural Entrepreneurship research team reviewed this research, especially focusing on data regarding smaller and more rural regions. What was learned

from this landmark study about the relationship between entrepreneurship rates and rural regional economic performance is informative. Considering only smaller and more rural regions, and comparing those rural regions with higher entrepreneurship rates to those with lower rates, generated the following conclusions:

- New firm birth rates were 87 percent higher.
- Existing firm growth was a positive 1.6 percent versus a negative 2.4 percent.
- Employment growth was 73 percent higher.
- Wage growth was 14 percent higher.
- Productivity growth was 45 percent higher.

³ The American Entrepreneur Project is a collection of research funded mainly by the Ewing Marion Kauffman Foundation during the 1990s. This project generated a significant number of interviews, focus groups, and research with U.S. entrepreneurs.

⁴ The Global Entrepreneurship Monitor project, supported by the Ewing Marion Kauffman Foundation, Babson College, Ernst and Young, and the London School of Economics, has published annual reports on a cross-national comparison of rates of entrepreneurship and economic activity since 1999. For more information, visit their website: www.gemconsortium.org.

The findings suggest that rural regions with higher levels of entrepreneurship achieve higher levels of economic vitality and are consistent with earlier research supported by the Kauffman Foundation, the National Commission on Entrepreneurship, and David Birch⁵ (Von Barga and Pages 2001).

Similar relationships were observed in the field. Rural places with a strong history of entrepreneurship and entrepreneurial development were more robust. Moreover, regions of the country with long-standing entrepreneurial development organizations achieved development outcomes in landscapes with significant challenges. Some of these landscapes and the organizations that serve them include the following:

- Kentucky – Kentucky Highlands Investment Corporation
- Michigan – Northern Initiatives
- Nebraska – Center for Rural Affairs
- Maine – Coastal Enterprises
- West Virginia – Center for Economic Options
- Ohio – ACEnet⁶

Other landscapes and development organizations can provide additional insight; however, a review of these six long-standing and high-performing entrepreneurial development organizations sheds light on the relationship between entrepreneurship and regional economic performance.

Civic Entrepreneurs Are Key

The field work reported here also deepened an appreciation of the role of civic entrepreneurs in creating environments or climates that enable community and economic development to occur (Macke and Markley 2003). A small but growing collection of research suggests a strong relationship between civic behavior and entrepreneurial environments. The entrepreneurial development organizations highlighted earlier are led by dynamic civic entrepreneurs.⁷

Communities and regions with entrepreneurial leadership tend to facilitate two important outcomes. First, over time, they create a community environment that supports a very high quality of life. Working through government agencies, nonprofit organizations, and civic groups, these entrepreneurs create great schools, parks, social service systems, and the like.

Second, civic entrepreneurs engage in proactive economic development as illustrated by the Tupelo, Mississippi, and Kearney, Nebraska, stories.⁸ This civic leadership tends to embrace the idea that investing in residents and their entrepreneurial pursuits builds stronger economies and communities.

The stories of some of these civic entrepreneurs have been identified and captured to better understand who they are, what motivates them, and what enables them to build stronger communities and regions. The following five civic entrepreneurs have been critically important to the success of their rural places:

1. Nebraska – Brian Thompson, Consolidated Companies
2. Washington – Katherine Baril, Rural Learning Center
3. Kansas – John Cyr, North Central Kansas Regional Commission
4. Minnesota – John Molinaro, Western Central Initiative
5. North Carolina – Billy Ray Hall, Rural Economic Development Center⁹

While more research is needed, we are increasingly convinced that investing in civic leadership, enabling leaders to become civic entrepreneurs, is fundamental to building environments essential for an entrepreneurial economy and society (Macke and Markley 2003).

⁵David Birch with Cogenics has led in the field of research on the role of small businesses within the American economy. More information on Cogenics is available at www.cogenics.com.

⁶Information on each of these organizations is available at the following websites: Kentucky Highlands, www.khic.org; Northern Initiatives, www.northerninitiatives.com; Center for Rural Affairs, www.cfra.org; Coastal Enterprises, www.ceimaine.org; Center for Economic Options, www.centerforeconomicoptions.org; and ACEnet, www.acenetworks.org. Information on these and other case studies is available at www.energizingentrepreneurs.org.

⁷In the professional literature and field work, civic is often interchangeable with social, governmental, and nonprofit entrepreneurship. While important distinctions are tied to this emerging terminology, they are not important to our findings in this area.

⁸Mini-case studies of both Tupelo, Mississippi, and Kearney, Nebraska, and can be found at www.ruraleship.org.

⁹More information about these five civic entrepreneurs can be found at www.ruraleship.org.

A Systems Approach

In 2003, the Corporation for Enterprise Development (CFED) prepared a major study for the W. K. Kellogg Foundation, *Mapping Rural Entrepreneurship* (Dabson et al. 2003). In this research, Dabson and the CFED team reached an important conclusion: Communities (both of place and interest) that effectively stimulate and support entrepreneurial activity create 24/7, 365 days a year systems of support. These “systems of support,” termed Entrepreneurial Development Systems (EDSs), focus on entrepreneurs and their full range of needs (i.e., both personal and business).

EDSs provide the necessary infrastructure to enable the full range of entrepreneurial activity from potential to

start-up to high growth. They focus as much on building supportive communities as they do on encouraging successful entrepreneurs. Current field research strongly supports this finding. There is ample evidence to suggest that systems of support focused on human development realize significant development outcomes (Markley et al. 2005). This “systems” concept has gained ground in development circles as illustrated by the recent W. K. Kellogg Foundation’s entrepreneurial development system initiative and the emergence of the new National Coalition for Rural Entrepreneurship.¹⁰

New Priority for Economic Development Policy

Jay Kayne (1999), in his former capacity as Vice President of the Kauffman Center for Entrepreneurial Leadership, partnered with the National Governors Association to explore the level of support for entrepreneurial development strategies at the state level. Based on this work, Kayne concluded that less than two percent of state economic development spending focused on entrepreneurship. Instead, a majority of development spending was spent on promotion and attraction.

More recently, Pages and Poole (2003) examined development spending in three states—Maine, Nevada, and Pennsylvania—and found significantly higher rates of spending on entrepreneurship development activities in these states: 63.5, 29.0, and 40.4 percent, respectively. Much of this spending, especially in Maine and Pennsylvania, was associated with expanded emphasis on entrepreneurship development in the late 1990s and, indeed, these states are often viewed as leaders in entrepreneurship development. While the results of three states cannot be extrapolated to the entire U.S., the study presents an in-depth approach to measuring entrepreneurship development expenditures at the state level.

The current fieldwork by the RUPRI team suggests that regions and communities with higher entrepreneurship rates and stronger economies consciously made a shift in

development spending. These communities were, and are, investing more heavily in local entrepreneurs and in the infrastructure important to entrepreneurs. In most cases, the communities also continued to invest in promotion and business attraction as part of a broad economic development strategy; however, entrepreneurship development was often viewed as the foundation within which these other economic development activities were rooted.

For policymakers, whether chamber presidents, state development executives, legislators, mayors, or governors, the choices are becoming clearer in the 21st century. Development spending must be balanced to direct more investment into entrepreneurship strategies with proven track records. An entrepreneurial economy cannot be built with good intentions and minimal investment.

Fortunately, there are a growing number of examples where entrepreneurial opportunity and policy are matching up. In addition to local, regional, and programmatic examples already shared in this paper, there are state examples of promising emerging entrepreneurial public policy. We offer Kansas, Georgia, Nebraska, and North Carolina as potential new generation policy models.

Kansas. In the past few years, entrepreneurship has gone from limited interest to a significant policy initiative. Early

¹⁰In 2004, the W. K. Kellogg Foundation launched an initiative to support and develop entrepreneurial development systems in rural America. Six national initiatives were funded as part of this project. More information on this initiative can be found at www.wkkf.org. The National Coalition for Rural Entrepreneurship grew out of the massive response to the W. K. Kellogg Foundation’s rural entrepreneurship initiative. This is an informal network of interests seeking to procure significant federal assistance for rural entrepreneurship.

learning through Kansas's exploration with the Sirolli Model and strong leadership from the Small Business Development Center provided the foundation for a set of new policy initiatives. First, Kansas has created the Kansas Center for Entrepreneurship to serve as a focal point within the state. Second, Kansas created "Source Link" (based on the Kansas City/Kauffman Foundation Model) to organize and rationalize all entrepreneurial development resources within the state.

Third, Kansas authorized up to \$20 million in regional tax credits that can be used by rural regions within the state to fund entrepreneurial development programs and capital pools. Kansas is in the early stages of this initiative, but it is promising and worth watching.

Georgia. Georgia Tech University has been a leader in entrepreneurial development through its incubator in Atlanta, but Tech also created "E-Net" to address rural entrepreneurship opportunities. Grassroots leadership through the Georgia Economic Developers Association created a beachhead of interest and support for rural entrepreneurship during the past five years. The election of rural entrepreneur Sonny Purdue as Governor energized the agenda with a new and significant champion.

Three important policy initiatives have taken root. First, significant new funding is being provided by the One Georgia Fund (tobacco money) for rural entrepreneurship. Second, the Office of Entrepreneurship and Small Business has been created in the state development agency to coordinate entrepreneurship efforts. Staff members from this agency have been retrained from industrial attraction specialists to community entrepreneurship specialists. Finally, the state created four regional entrepreneurship innovation centers with circuit riders to support both urban and rural entrepreneurs on an industry basis.

Nebraska. Nebraska has long been a national leader in supporting microenterprise development through a

unique state/nonprofit partnership. While Nebraska has remained largely committed to the dual development goals of production agriculture and industrial attraction, the private nonprofit sector led by the Center for Rural Affairs and the Nebraska Community Foundation are leaders in supporting rural entrepreneurship.

A unique and promising community-based approach called HomeTown Competitiveness or HTC is garnering national and international attention as a premiere entrepreneurial development system. This success is illustrated by Nebraska being one of six applicants selected by the W. K. Kellogg Foundation's Entrepreneurial Development System Initiative.

North Carolina. North Carolina has a rich tradition of being a national leader in rural development. The North Carolina Rural Center (private nonprofit with state funding) is an entrepreneurial organization with deep roots in rural North Carolina. Several years ago, the Rural Center, after consulting with various other development groups in North Carolina, took leadership for crafting a rural entrepreneurship strategy.

Since its commitment, the Rural Center has completed landmark background research, crafted an innovative resource providers network, established a cutting-edge community assistance initiative, and mobilized public and private resources to fuel this work. North Carolina, like Nebraska, is one of six W. K. Kellogg Entrepreneurial Development System recipients.

Other states to watch include Indiana, Iowa, Kentucky, Maine, Ohio, and Oregon. Information about these states and the others discussed in this section can be found at the Center for Rural Entrepreneurship website (www.ruraleship.org).

Conclusion

Academics and practitioners working in rural America quickly discover the vast range of landscapes that define these regions. Wheat fields in Kansas; cattle ranches in Montana; isolated mountain villages; trade center communities with industrial parks; and isolated towns now sporting waste dumps, energy farms, and prisons all define the rural communities with which policymakers must work.

Economic opportunity and prosperity are often lacking and hard to obtain in this rural America; however, the current

RUPRI field research offers hope through entrepreneurship, based on the examples of rural places much like these that have achieved more vibrant economies by developing and supporting local entrepreneurs. These rural communities have embraced the idea that entrepreneurship can build stronger economies and more vital communities. It is a simple but powerful idea rooted in the belief that by investing in local people—local entrepreneurs—economic and social relevance can be created for rural America in the 21st century.

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