



Rural **RESEARCH REPORT**

Fall 2005
Volume 16, Issue 10

Published by the Illinois Institute for Rural Affairs

Stipes Hall 518
Western Illinois University
1 University Circle
Macomb, IL 61455-1390
309/298-2237

www.IIRA.org

Entrepreneurship as a Rural Economic Development Strategy

by Andrea Levere, Kim Pate, Emily Appel, Jennifer Malkin, Bill Schweke, and Brian Dabson¹

Introduction

Rural America is made up of an extraordinary and dynamic variety of economic, geographical, and cultural characteristics. Many rural communities face enormous economic challenges in terms of low population size and density and remoteness, which, in turn, bring diseconomies of scale and increased costs of doing business. Poorly educated and low-skilled workers, weak entrepreneurial cultures, and entrenched racial inequalities inhibit full participation in the new economy. The public policy context is not encouraging, with rural policy dictated by agribusiness interests, fiscal crises at the county and state levels, and no organized constituency for rural America in all its diversity. There is an urgent need for rural people and communities to define the future they want for themselves and their children. This will take vision, innovation, and risk-taking—the work of the entrepreneur.

There is a growing understanding that economic development strategies founded primarily on business recruitment are not in rural America's best interests, and there must be a renewed emphasis on homegrown development. Many observers see entrepreneurship as a major, if not critical, piece of rural economic development, although not all are convinced that entrepreneurship is likely to be an engine of economic growth in rural areas.

Even so, there is a compelling argument that creating an entrepreneurial climate supportive of all kinds of entrepreneurs lays the groundwork for the five out of 100 small businesses that typically evolve into the fast-growing drivers of the national economy.

Entrepreneurship will only take hold and succeed as a rural economic development strategy if the correct nurturing environment is created. The Corporation for Enterprise Development (CFED) envisions this environment as built on two core elements: (1) a pipeline of entrepreneurs and (2) access by entrepreneurs to high-quality and comprehensive business development services. The pipeline notion is based on the principle expressed by Dabson (2003):

[T]here should be an infrastructure of lifelong learning from elementary school to the golden age, based on the simple principle that it is never too early or too late to be an entrepreneur. . . . The aim is to create a large and diverse pool of people, across a spectrum of entrepreneurial motivations, out of which there will flow a steady stream of high achievers with an interest in creating jobs and wealth in their communities.

Pipeline of Entrepreneurs

The pipeline of entrepreneurs is supported through exposure to **entrepreneurship education** at the

kindergarten through postsecondary levels and the creation of **entrepreneur networks**.

¹ This paper is a collaborative effort of CFED staff, including CFED's President, Andrea Levere, Kim Pate, Emily Appel, Jennifer Malkin, Bill Schweke, and CFED's former President, Brian Dabson.

Entrepreneurship Education. The new economy needs entrepreneurs to translate ideas and innovations into commercially viable propositions and to connect them to the marketplace. Entrepreneurship education trains students to examine their communities in order to discover unmet commercial needs, and then develop business plans to meet those needs. Entrepreneurship education has enormous potential for engaging students, teachers, and their communities in defining their own economic destinies. It provides a counterbalance to the economic rigidity bred by decades of dependence on farming, mining, and textile production as an unquestioned source of income. It can also stem the tide of outmigration, a pressing issue in rural America. Young adults leave the areas they grew up in because they do not see a potential for wealth creation. Entrepreneurship education allows youth in rural communities to reexamine their hometowns from a new perspective, discovering bright niches of opportunity.

The **REAL Entrepreneurship** program, operated by CFED, was founded on the belief that entrepreneurship is a vital and realistic basis for economic development in rural communities. *REAL Entrepreneurship* offers a full range of entrepreneurship development products and teacher training services across the country, and it is the only national program specifically developed for and targeted to a rural market. *REAL Entrepreneurship* is adaptable for students of any age, and it is used in elementary, middle, and high schools as well as in community colleges, universities, after-school programs, and community-based organizations.² The best example of a statewide commitment to the program is North Carolina, where *REAL Entrepreneurship* programming is represented in 84 of 100 counties in the state (CFED Annual REAL Entrepreneurship Program Survey 2005).

North Carolina REAL Enterprises (www.ncreal.org) has brought *REAL Entrepreneurship* training, technical assistance, and capacity building to more than 10,000 participants through its high school, community college, and community-based partners. At Haywood Community College, for example, more than 245 students completed the program between 1991 and 2004. Data show that during this period, more than 40 individuals opened a business, more than 15 individuals expanded an existing business, and more than 10 individuals improved their current businesses.

Additional data have been collected from eight REAL classes offered through the Haywood Community College Continuing Education Division since fall 1997. Eighty-five students who successfully completed these classes responded to a survey with information related to completing the course and their business endeavors. Sixty-one surveys were returned. Thirty percent (18 individuals) reported starting a business, and 89 percent of those who started a business (16 individuals) still operate the business at some level. The years of operation varied from one year to eight years (Haywood Community College 2005).

Entrepreneur Networks. Entrepreneur networks are critical components of a supportive environment for rural entrepreneurs. Through networks, rural entrepreneurs find links to potential sources of capital, find new employees, secure service providers like lawyers and accountants, exchange knowledge and information, receive support, access markets, and achieve economies of scale by joining together to purchase supplies or conduct business.

Appalachian Center for Economic Networking (ACEnet) (www.acenetworks.org) is a community development corporation located in Athens, Ohio, and a leader in networking strategies for rural entrepreneurs. ACEnet's **Food Ventures** program facilitates networking among food specialty producers, suppliers, retailers, distributors, and community organizations to develop local and regional markets (McVay and Hirschland 2000).

Food Ventures provides critical food-related networking opportunities through a central hub, the Food Ventures Center. The Food Ventures Center is a 12,000 square foot, shared-use manufacturing facility, which includes a commercial kitchen, warehouse area, shipping and receiving docks, office and conference space, and a Cyber Café and retail area. Many ACEnet clients meet informally here to share experiences, receive support and assistance from each other, and become partners to purchase supplies in bulk and cut costs. In some cases, they become business partners. Networking comes in other forms as well, including through two Internet food industry networks, Local Foodnet and National Foodnet, and in a much less formal way through ACEnet-sponsored, community-based businesses that spin off other businesses by training workers in good business operations.

² For more information about *REAL Entrepreneurship* training and curricula, visit CFED's website: www.realenterprises.org.

Business Development Services

Business development services include entrepreneur-focused training, and technical assistance, access to markets, and access to capital.

Training and Technical Assistance. Training and technical assistance should be tailored to the needs of entrepreneurs and their businesses. Lack of technology infrastructure in many rural areas, the convenience of distance training, and the increasing need for technology in many businesses mean that entrepreneurship education and training programs must offer access to and training in the use of technology.

The **Women's Rural Entrepreneurial Network (WREN)** (www.wrencommunity.org) located in Bethlehem, New Hampshire, offers a well-equipped technology center with technology-related instruction and hands-on assistance to low-income women entrepreneurs (National Center for Small Communities 2002). Since its opening in July 2000, the WREN Technology Center has trained more than 540 participants in 152 workshops. Approximately 350 individuals regularly use Tech Center resources. WREN also maintains an online marketplace, www.shophthewrens.com, where women entrepreneurs can advertise their goods and services and network. The website averages 1,100 visitors per month. Despite this success, WREN faces obstacles common to rural communities such as lack of high-speed telecommunications services, lack of trained telecommunications staff, and lack of client access to computers and the Internet to take advantage of the variety of online services WREN offers.

Access to Markets. Rural entrepreneurs are often hampered by their remoteness from markets. Programs that confront this issue establish training, technical assistance, and marketing programs that lead entrepreneurs to potential markets.

Appalachian by Design (ABD) (www.abdinc.org) is a nonprofit economic development and marketing company dedicated to finding markets and providing training for a network of skilled artisans in rural West Virginia. ABD was created in 1994 by and for rural women to help them balance family and work. Geographic barriers and child

or dependent care responsibilities make the available low-wage, part-time service sector jobs unappealing for the rural women served by ABD. Through a combination of marketing, technology, and distributed manufacturing processes, ABD has created a high-value knitted products artisan sector and provided 150 knitters with training and opportunities to earn a decent wage while remaining family-centered. ABD's effort to develop this unique microenterprise sector has allowed knitters to work in their homes, at their own pace, and on schedules that meet the needs of their families. Knitters earn more than minimum wage and typically earn \$7.50 to \$15 per hour, depending on the complexity of the work (Appalachian by Design 2004); they avoid the hassles of long and/or dangerous commutes to jobs; and they circumvent the need for child and dependant care.

Access to Capital. Rural entrepreneurs, unable to access traditional bank loans and in need of equity capital³ to start businesses, rely on personal savings, retained business earnings, and support from friends and family. According to Stand Up for Rural America (2004), a national coalition campaign to help rural community-based developers, over 70 percent of all venture capital investments are concentrated in urban areas. The challenge of making equity capital available to rural entrepreneurs has become a widely accepted priority for public policymakers and the private sector (Markley et al. n.d.); however, there are few venture capital funds targeted to rural entrepreneurs.

One notable rural venture capital fund is the **Kentucky Highlands Investment Corporation (KHIC)**, which shows strong performance in both financial and social returns. KHIC was formed in 1968 to stimulate growth and create employment opportunities in the nine-county area of southeastern Kentucky. KHIC became a venture capital provider in 1972, investing in local businesses which hired unemployed residents by providing hard-to-access capital and fair financing terms in return for an ownership stake. The fund currently targets rural, unemployed, or low-income entrepreneurs with families, and has invested more than \$65 million in over 145 businesses, creating more than 8,000 jobs.

³ Equity capital is defined broadly to include mezzanine financing (subordinated debt), traditional venture capital, pure shareholder equity, and other financing products, with the exception of traditional bank debt.

Entrepreneurship as a New Direction in Economic Development

Among researchers, policy advocates, and others engaged in community and economic development in rural America, there is broad agreement that relying on recruiting companies from other states or overseas should not and cannot be the answer to struggling rural economies. Yet, each year, state governments have been willing to commit—through tax incentives, tax breaks, and direct investments—billions of dollars to attract a car assembly plant, a high technology production unit, or some other potentially transformative industrial activity to rural locations. Increased public scrutiny has shed light on some of the more egregious examples of “investments” that were poorly structured, had inadequate reporting or accountability requirements, or yielded disappointingly low returns in terms of jobs and local multiplier effects. This, in turn, has led to a greater emphasis on transparency; clear expectations in regards to returns on investment; and the end of funding, incentives, and tax breaks if expectations are not met. Concern remains, however, that recruitment must be balanced, if not replaced altogether, by policies that support homegrown development.

In fact, the Federal Reserve Bank of Kansas City observed,

Rural policymakers, who once followed traditional strategies of recruiting manufacturers that export low-value products, have realized that entrepreneurs can generate new economic value for their communities. Entrepreneurs add jobs, raise incomes, create wealth, improve the quality of life of citizens, and help rural communities operate in the global economy. . . . Rural policymakers are responding to these challenges by making entrepreneurship the cornerstone of many economic development strategies. (Center for the Study of Rural America 2002)

In 1999, the National Governors Association (NGA) surveyed members to gauge each state’s perspective on entrepreneurship and its importance as part of an overall state economic development strategy. While 34 of

the 37 states responding reported that entrepreneurship should be considered part of their economic development strategy, only four had a clearly articulated statement within the strategy document. Jay Kayne (1999) observed a “distinction between states that try to meet the specific needs of aspiring and emerging entrepreneurs and states that view entrepreneurs as a segment of the state economy who can take advantage of state programs.” The survey emphasized the difference between active and passive support for entrepreneurship.

On the larger, regional scale, many rural economic development leaders regard America’s national rural policy as unfocused, if not non-existent. Organizations, such as the Rural Policy Research Institute (RUPRI), note that federal rural development policies and programs “consist of a fragmented constellation of programs dispersed among several agencies . . . [and] a comprehensive, goal-driven, community-based and regionally appropriate national rural policy doesn’t exist (Fluharty 1995).

While fiscal crises have hit government funding at all levels, rural community development in the federal policy agenda is still a priority for rural advocates nationwide. In the past, rural policy was narrowly defined as funding for agriculture through programs supported by the U.S. Department of Agriculture (USDA), but the changing nature of the rural economy has spurred a broadening of the rural economic development policy framework. The USDA still provides entrepreneurship support through loan guarantees and support for community entrepreneurship development initiatives. Other agencies supporting rural entrepreneurship include the Small Business Administration, the CDFI Fund of the Department of Treasury, the Department of Housing and Urban Development, the Department of Health and Human Services, and the Economic Development Administration of the Department of Commerce. Despite these past gains, all federal entrepreneurship programs are facing severe threats of consolidation or elimination in the President’s 2006 proposed budget (Association for Enterprise Opportunity 2005).

An Emerging Model: Entrepreneurial Development Systems

What distinguishes the latest thinking about entrepreneurial policy and practice from more traditional entrepreneurship development strategies is the nature of the delivery system and the principles on which it is grounded. Leading practitioners are delivering services through coherent integrated systems (known as entrepreneurial development systems) rather than through disconnected, bureaucratic programs.

The design of an entrepreneurship development system is informed by four principles:

1. *Community-Driven:* Local communities have the tools and resources to identify and build upon their assets; to make choices that appropriately balance economic, social, and environmental imperatives; to learn from the experiences of others; and to be open to experimentation and innovation.
2. *Regionally Oriented:* Only through regional cooperation across multiple jurisdictions and through regional institutions can there be sufficient scale, resources, and expertise to enable individual communities to play their full role. Issues and concerns common to both urban and rural areas can best be addressed through regional solutions. Regions represent the economic engines and markets that rural enterprises have to serve.
3. *Entrepreneur-Focused and Inclusive:* Systems thinking must align the plethora of training, technical assistance, and financing programs to meet the variety of needs of entrepreneurs and their different levels of education, skills, and maturity. In these systems, all entrepreneurs are welcome, and this fosters a diverse pool of entrepreneurs with different motivations, whether for survival, lifestyle, or wealth. It also increases the odds that there will be some successful enterprises that bring improvement to economic conditions in rural and low-income communities and regions.
4. *Continuous Learning:* Networks for peer support and learning are essential for entrepreneurs and for practitioners, community leaders, and policymakers. Learning about entrepreneurship should be part of the K-12 school curriculum. The need for rigorous

evaluation of the effectiveness of entrepreneurship strategies and returns on investment is essential.

There are other important requirements for promoting entrepreneurial development systems:

- *Anchor Institutions:* Universities, community colleges, community development financial institutions, and research and advocacy groups are vital for articulating a vision, building partnerships, and attracting and mobilizing resources for entrepreneurship development.
- *Supportive Public Policy:* Creative public policy that unlocks resources and channels efforts into rural counties by demonstrating effectiveness and returns on investment enables generation of additional support at the state and federal levels. The need is not necessarily to create special legislation for entrepreneurship in rural areas but, rather, to ensure that all programs have the capability and flexibility to be tailored to the needs of different rural regions and their entrepreneurs.

Finally, a successful entrepreneurial development system⁴ relies on support from four types of infrastructure:

1. *Investment Strategies:* Create incentives and long-term investments that encourage urban-rural and regional collaborations and the development of effective and accountable systems of entrepreneurial support. Invest in innovative entrepreneurial education, technical assistance and training, capital access, and networking that show promise for widespread replication in rural communities.
2. *Learning Strategies:* Ensure rigorous evaluation of strategies, systematic case studies, training programs for elected officials, and opportunities for peer exchanges. Encourage experiential education in schools, colleges, community centers, and camps.
3. *Advocacy Strategies:* Energize networks of organizations and institutions that can use the results of the investment and advocacy strategies to support entrepreneurship development in rural

⁴ For examples of emerging entrepreneurial development systems, contact Jennifer Malkin of CFED (jennifer@cfed.org).

America. In Nebraska, the Center for Rural Affairs advocates for state and federal funding for rural development and entrepreneurship.

4. *Information Strategies*: Develop methodologies and statistical tools that adequately describe and measure entrepreneurial activity and climates, including report cards and other benchmarking and assessment tools.

Creating supportive systems for entrepreneurship will result in greater opportunities for rural inhabitants to pursue their dreams of self-employment. According to a 2003 survey commissioned by Federal Express, 67 percent of Americans would like to own a business, and 56 percent

would leave their jobs to pursue it if the opportunity existed. Personal passion for self-owned industry ranked as the number one motivation, followed by the opportunity to be one's own boss, and then the flexibility that comes from being self-employed. The survey also revealed that "when asked about the major challenges facing business owners, marketing and publicity emerged as the biggest hurdles, with the need to meet sales objectives ranking second, followed [by] transport-and-delivery issues, and return policies" (Klein 2003). While these predictions accurately reflect some of the challenges facing entrepreneurs, they can, to some degree, be mitigated by effective systems and, as discussed, entrepreneurship education can play a large role in preparing an individual for these self-employment challenges.

Conclusion

Many of our financial, educational, and policy systems to support entrepreneurship in rural communities are in need of reinvention. This report presents evidence of organizations, institutions, and agencies pursuing initiatives that are meant to encourage greater rural entrepreneurship. Entrepreneurial development systems represent the latest evolution in the delivery of supportive services for rural entrepreneurs. There is still much to do, however. No state yet offers a comprehensive set of policies to

promote entrepreneurship, with most programs focusing on technology-based enterprise. State and federal budget deficits require that any new programs be funded by reallocating existing dollars, which makes the advocacy task much harder. We believe the time is ripe to do more and to do it better as we document, evaluate, advocate, and celebrate the spirit of innovation among rural emerging and existing entrepreneurs.

Bibliography

- Appalachian by Design. 2004. *Crafting a retirement plan for Appalachian artisans*. Lewisburg, WV: Appalachian by Design.
- Association for Enterprise Opportunity. 2005. Policy and advocacy page. Available online: www.microenterpriseworks.org/services/policy/. Retrieved September 20, 2005.
- Barkley, D. 2003, April 28-29. *Policy options for financing rural entrepreneurs*. Working paper presented by David Barkley, Professor of Economic Development, Clemson University, at the 2003 Federal Reserve Bank of Kansas City conference, Kansas City, MO.
- Center for the Study of Rural America. 2002, August. Are high-growth entrepreneurs building the rural economy? *The Main Street Economist* (Federal Reserve Bank of Kansas City).
- Dabson, B., with K. Marcoux. 2003. *Entrepreneurial Arkansas: Connecting the dots*. Little Rock, AR: Winthrop Rockefeller Foundation.
- Dabson, B., J. Malkin, A. Matthews, K. Pate, and S. Stickle. 2003. *Mapping rural entrepreneurship*. Battle Creek, MI: W. K. Kellogg Foundation; and Washington, DC: CFED.
- Edgcomb, E., and T. Thetford. 2004. *The informal economy: Making it in rural America*. Washington, DC: The Aspen Institute, Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination.

- Fluharty, C. 1995. *Opportunities for rural policy reform: Lessons from recent farm bills*. Testimony presented by Chuck Fluharty, Director of the Rural Policy Research Institute, before the Senate Committee on Agriculture, Nutrition, and Forestry.
- Haywood Community College. 2005. *NCC instructor's research extols entrepreneurship*. [News release]. Available online: www.haywood.edu/index.php?opt=200&pkey=373. Retrieved September 20, 2005.
- Kayne, J. 1999. *State entrepreneurship policies and programs*. Kansas City, MO: Kauffman Center for Entrepreneurial Leadership, Ewing Marion Kauffman Foundation.
- Klein, K. 2003. Entrepreneur envy. *Business Week*. Available online: www.businessweek.com. Retrieved September 20, 2005.
- Markley, D., D. Barkley, D. Freshwater, R. Shafer, and J. Rubin, n.d. *A national snapshot of rural equity market innovation*. Washington, DC: Rural Policy Research Institute.
- McVay, M., and M. Hirschland. 2000. *Making the connection: Appalachian Center for Economic Networks (ACEnet)*. Washington, DC: The Aspen Institute, Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination.
- National Center for Small Communities. 1997. *Harvesting hometown jobs: The new small town guide to economic development*. Washington, DC: National Center for Small Communities.
- National Center for Small Communities. 2002. *Technology and grit at the grassroots: Information technology, community engagement, and jobs in distressed rural communities*. Washington, DC: National Center for Small Communities.
- Pages, E., and D. Markley. 2004. *Understanding the environment for entrepreneurship in rural North Carolina*. Raleigh: The North Carolina Rural and Economic Development Center
- Rural Policy Research Institute (RUPRI), Center for Rural Entrepreneurship. 2002. *Capital for rural entrepreneurs* (Monograph 9). Available online: www.ruraleship.org. Retrieved September 20, 2005.
- Stand Up for Rural America. 2004. *Standing up for rural America: All in a day's work*. Washington, DC: Stand Up for Rural America.
- Wadia, A., and B. Colon. 2000. *Women's enterprise development: Strategies for success*. New York: Ms. Foundation for Women.

The Rural Research Report is a series published by the Illinois Institute for Rural Affairs to provide brief updates on research projects conducted by the Institute. Rural Research Reports are peer-reviewed and distributed to public officials, libraries, and professional associations involved with specific policy issues.

 Printed on recycled paper

NONPROFIT
U.S. Postage
PAID
Macomb, IL 61455
PERMIT No. 489

Illinois Institute for Rural Affairs
Stipes Hall 518
Western Illinois University
1 University Circle
Macomb, IL 61455-1390