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Small Businesses in Rural Illinois

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The viability of rural Illinois communities is directly related to the ability of public officials and development practitioners to attract businesses and increase employment to retain the population and economic base. Plant and business closures have been all too common and, in some cases, have seriously eroded the ability of rural areas to retain youth and to provide basic public services such as education.

The traditional approach to stimulating employment has involved trying to attract a large manufacturing plant with incentives and other enticements. While that approach is still worthy of pursuing, it is becoming more difficult, especially for small rural communities, to compete using an industrial attraction strategy. Consequently, many cities instead have focused on retaining existing companies by helping them to expand (Gibbons 2006). Unfortunately, when large companies close plants located in rural areas due to competitive lower costs in other areas, the employment loss affects an entire region, involving residents not in just one but in many small communities.

Economic developers have long recognized the importance of the employment generated by small businesses (Bruce, Deskins, Hill, and Rork 2007). Most recently, local developers have tried using entrepreneurship enhancement strategies to stabilize or expand the employment base (Mikles 2004). Entrepreneurial strategies can involve large or small businesses, start-ups, or existing businesses as well as public agencies. The aim is to create an entrepreneurial climate that promotes innovation and experimentation (Hustedde; Dabson). In rural areas, entrepreneurship strategies are often associated with start-ups of small businesses, including microenterprises.

This report examines the role of microenterprises in economic development in rural Illinois using a county database compiled by the Association for Enterprise Opportunity (AEO) (2007). The businesses included in this analysis are either owner-operated or businesses with four or fewer employees. They were started with $35,000 or less in capital and often lacked access to traditional funding sources. Both employment in these enterprises and changes in number of these businesses reported between 2000 and 2003 are analyzed.

Distribution and Importance of Microenterprises

Microenterprises in large cities often go unnoticed because they are not highly visible and employ only a few people. In sparsely populated rural areas, however, these businesses are more common and are more conspicuous. Many retail establishments on main streets in small towns, for example, have four or fewer employees because their volume simply does not support a larger employee base or because the owner/proprietor is not interested in expansion.

The aggregate impact of microenterprise employment in rural regions, however, becomes clear when rural (non-MSA) counties in Illinois and surrounding states (Indiana, Iowa, Kentucky, Missouri, and Wisconsin) are examined. In Illinois, for example, in 28.4 percent of the rural counties, 25 percent or more of the employees are working in microenterprises as previously defined (Table 1). When analyzing the entire six-state region, the representation is

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Table 1. Relative Importance of Microenterprise Employment in Rural Counties (2003)

	# of Counties		*% of all Counties*		*Average Population*	
Percentage	*Illinois*	*Region**	*Illinois*	*Region*	*Illinois*	*Region*
<15%	3	25	4.1	5.4	56,214	25,681
15-19%	21	121	28.4	26.3	38,390	34,056
20-24.9%	29	127	39.2	27.6	18,665	20,855
25-29.9%	14	105	18.9	22.8	20,041	16,382
30-34.9%	6	60	8.1	13.0	12,421	12,227
>35%	1	22	1.4	4.8	6,332	11,028

*Region includes rural counties in Illinois, Indiana, Iowa, Kentucky, Missouri, and Wisconsin (N=460)

Source: AEO 2007

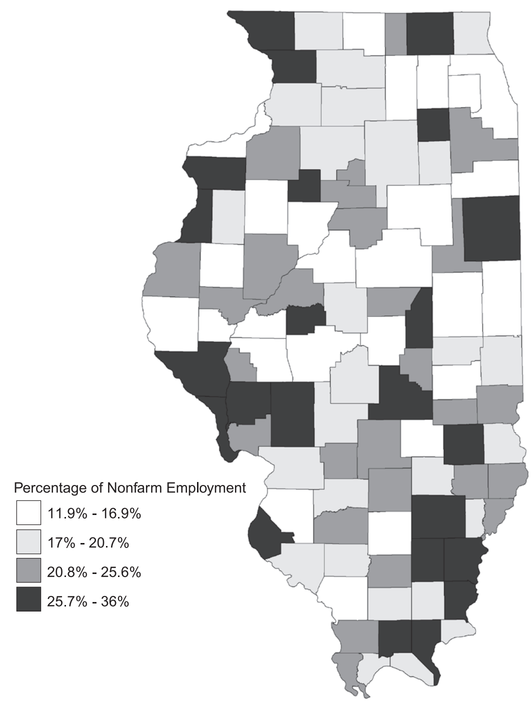
even higher (40.6%). Going one step further, 9.5 percent of the rural counties in Illinois had more than 30 percent of their employment in microenterprises compared to 17.8 percent of rural counties in the five neighboring states.

These figures demonstrate that microenterprises must be considered an integral part of an effective development strategy in rural Illinois counties. Equally important is that microenterprises often need special attention and services in order to prosper, and the small communities that need such businesses most often are the least likely to have such assistance available.

Employment in microenterprises is of greater importance in certain regions of Illinois (Figure 1). Nonmetro counties in both western and southeastern Illinois have even higher concentrations (more than 25%) of employment in microenterprises. Small sparsely populated counties have markets that, unless offset by the availability and use of information technology, limit the sizes of businesses and explain the concentrations in certain specific regions.

In addition, microenterprise employment comprising 20 percent or more of nonfarm employment can be found scattered across the state; however, in general, microenterprises are relatively less dense in larger, metro counties. Counties such as McHenry (pop. 260,077) and Will (pop. 502,266) appear to be notable exceptions, and these counties may contain large numbers of small consulting or service businesses linked to Chicago and the suburbs.

Figure 1. Microenterprise Employment as Percent of Nonfarm Employment, 2003



*Microenterprises include businesses with either no employees or 4 or fewer employees that require $35,000 or less in startup capital and do not have access to a traditional commercial banking sector.

Source: AEO 2007

Changes in Number of Microenterprises

Given the substantial employment in microenterprises in many rural regions of Illinois, it is appropriate to examine the trends in these businesses. The number of microenterprises increased between 2000 and 2003 in a substantial majority of rural Illinois counties (78.4%) (Table 2). In the entire six-state region, 85.2 percent of the rural counties reported increases in the number of microenterprises.

To gain more insights into possible explanations for the changes in the number of microenterprises, rural counties

Table 2. Percent Change in Microenterprise Business (2000-2003)

	Adjacent		*Remote*		*Total*	
Percent Change	*Illinois*	*Region**	*Illinois*	*Region*	*Illinois*	*Region*
Decreased > 10%	0 (0.0)	3 (1.4)	1 (2.4)	3 (1.2)	1 (1.4)	6 (1.3)
Decreased 5-9.9%	3 (9.4)	8 (3.7)	1 (2.4)	4 (1.6)	4 (5.4)	12 (2.6)
Decreased < 5%	5 (15.6)	18 (8.5)	6 (14.3)	32 (12.9)	11 (14.9)	50 (10.9)
Increased < 5%	16 (50.0)	61 (28.8)	18 (42.9)	74 (29.8)	34 (45.9)	135 (29.3)
Increased 5-9.9%	8 (25.0)	66 (31.1)	11 (26.2)	70 (28.2)	19 (25.7)	136 (29.6)
Increased > 10%	0 (0.0)	56 (26.4)	5 (11.9)	65 (26.2)	5 (6.8)	121 (26.3)

*Region includes rural counties in Illinois, Indiana, Iowa, Kentucky, Missouri, and Wisconsin (N=460)

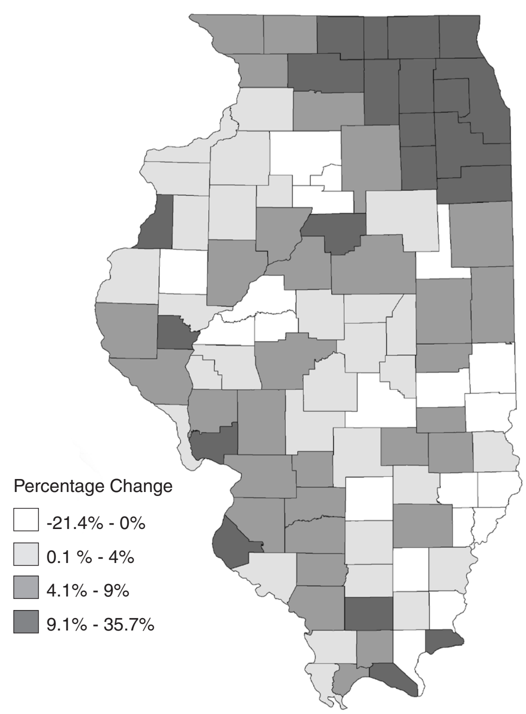
Source: AEO 2007

were grouped by proximity to urban areas—adjacent versus remote—using the Beale classification system (Butler and Beale 1994). The findings are not completely expected or even consistent. For instance, in no adjacent counties in Illinois did the number of microenterprises increase more than 10 percent, whereas 11.9 percent (5) of remote counties had this experience. The rural counties in the five adjacent states had significantly different results, however, with 26.4 percent of adjacent counties and 26.2 percent of remote counties reporting increases of 10 percent or more.

Spatially, the changes in microenterprises are clearer (Figure 2), with growth between 2000-2003 occurring in the one-fifth of Illinois counties north of Interstate 80 except for Bureau County. Major growth occurred in the suburbs, and this growth may underlie the increases in the surrounding rural counties.

The Peoria area also saw increases in number of microenterprises and, in fact, Interstate 74, which connects the Quad Cities, Galesburg, Peoria, Bloomington, and Champaign, may be a contributing factor. Increases in southwestern Illinois are also evident, which could reflect regional development driven by the Illinois side of the St. Louis MSA, especially Monroe County. Increases in agritourism ventures as well as Interstate 55, which connects Bloomington, Springfield, and St. Louis, may help explain some of the growth in southwestern Illinois. In contrast, the southeastern region of Illinois experienced declines in number of microenterprises.

Figure 2. Percent Change in Number of Microenterprises*, 2000-2003



*Microenterprises include businesses with either no employees or 4 or fewer employees that require $35,000 or less in startup capital and do not have access to a traditional commercial banking sector.

Source: AEO 2007

Density of Microenterprises

Yet, a third approach to understanding the role of small businesses in economic development is to examine their density—that is, the number of microenterprises per 10,000 residents. While some spatial patterns of density are similar to earlier figures, substantial differences also exist. Southeastern Illinois has the highest concentration of small businesses, which may reflect sparse populations with limited markets and infrastructure, making microenterprises especially important.

At the other extreme, the urbanized northeastern region of Illinois also has a high concentration of microenterprises. In addition, two counties in northwestern Illinois, well beyond the influence of the Chicago suburbs, also report a high density of microenterprises. One thesis is that increased economic activity in major metro areas can spill over into surrounding areas and generate small service businesses. While the spillover of economic activity could partially explain the microenterprise density in northeastern Illinois, it would not explain this density in northwestern Illinois. Rather, places such as Dubuque, Iowa, or even Galena, Illinois, with heavy tourism traffic, might explain the number of small businesses in surrounding counties.

Ways to Enhance Small Business Development

The importance of small businesses in rural areas is clear. Residents rely on these businesses for essential goods and services. The issue becomes how to launch a successful entrepreneurial strategy that promotes and advances these businesses.

Identifying Potential Entrepreneurs. Rural development practitioners and policymakers face several important challenges in implementing a successful development strategy involving entrepreneurship, but some have been able to overcome these obstacles and have successful initiatives. The key to success is designing and creating a culture of entrepreneurship that encourages business leaders to take risks and invest in potential business ventures and then support them once they have made that decision (Scott, Todd, Bryant, and Hall 2006). The following are several approaches to consider from the development literature (Walzer 2007).

Perhaps the first element in launching an entrepreneurial strategy involves identifying residents who have the potential and interest in starting a business. The issue of whether entrepreneurs are born or trained has been debated many times with solid evidence for both positions (Lyons 2004; Walker 2006). At the very least, practitioners need an organized approach to find and encourage residents from the various pools of potential entrepreneurs. Levere et al. (2005) have identified five types of entrepreneurs:

1. *Aspiring Entrepreneurs* include those who would like to start businesses but may not have had the time, specific skills/knowledge, or resources to engage in this effort yet. They can include students, young adults, or early retirees with assets to invest. They represent a pool of residents in which development practitioners should be interested. Small Business Development Centers, Entrepreneurship Centers, and other state programs can be useful tools in these efforts.
2. *Lifestyle Entrepreneurs* are people wishing to maintain a specific lifestyle that could be supported by engaging in a business venture. This group can involve individuals in families where the main breadwinner is place-bound because of significant time or financial investments in an area or family ties. These residents represent an opportunity for development practitioners to help them identify potential business opportunities.
3. *Survival Entrepreneurs* include those who have experienced a change in lifestyle that forces them to find additional or other sources of income. A recent divorce, a death in the family, or a loss of a job due to a plant closing or other event can suddenly and dramatically create an interest in a business venture. This group can also include recent in-migrants to the community. People coming from other racial and ethnic backgrounds have a different set of contacts and knowledge of markets not available in the community in the past. They also may need to find income sources and, in some instances, may have access to family wealth. Certainly, not all people experiencing these lifestyle changes are suitable or successful entrepreneurs, but they again represent a pool for development practitioners to contact.

4. *Serial Entrepreneurs* are relatively easy to identify because they have started several businesses in the past and at least some have succeeded. Not every entrepreneurial attempt will succeed, and failures can be educational. In many rural communities, however, residents have started businesses over the years and then sold them to raise capital to start another business. Serial entrepreneurs play several roles in promoting local economic development. They represent examples of success; can mentor potential entrepreneurs; and can be a source of capital for new ventures.
5. *Growth Entrepreneurs* are residents driven by a desire to seize opportunities and carry them to fulfillment. They may have been active in social or civic organizations, may have started businesses previously, or may have excelled in situations other than what might be considered business related. Development practitioners can make this group aware of opportunities and help them start or expand their ventures.
6. *Social Entrepreneurs* strive to address community concerns or needs through the marketplace. According to the Institute for Social Enterprise (Boschee 2006), a social entrepreneur is a person, "in any sector, [who] uses earned income strategies to pursue a double bottom line or a triple bottom line, either alone (as a social sector business) or as part of a mixed revenue stream that includes charitable contributions and public sector subsidies." One example might be the community-based efforts to keep a rural grocery store open. Instead of one person taking over, the social entrepreneur might work to recruit investors from the community to keep the store open.

Practitioners can begin to make a list of potential entrepreneurs using the categories described earlier and match residents to these groups. Several local institutions, including banks, schools, and social clubs, can help identify potential entrepreneurs. Youth and young adults are two groups of potential entrepreneurs that definitely should not be overlooked.

Creating a Systematic Approach. Most areas have programs to help small business owners, but a common limitation is that these efforts are relatively uncoordinated and therefore confuse entrepreneurs about where to find help. Local practitioners can strengthen the entrepreneurial environment by consciously helping the service provider network create a system that allows entrepreneurs to obtain the specific level of training or help desired when needed. Not all entrepreneurs have the same level of experience and capacity; therefore, they require different programmatic efforts and access to resources. Several organized approaches are cited in the literature (Lyons 2004; Macke and Markley 2006).

The Department of Commerce and Economic Opportunity in Illinois (DCEO) (2007) has organized service providers into an Illinois Entrepreneurial Network managed by Entrepreneurship Centers. Potential entrepreneurs can obtain technical assistance and compete for matching Business Enhancement Awards when either starting a business or expanding to the next level.

Developing a Strong Local Network. Key to effective entrepreneurship is a network of financial institutions and other organizations or agencies essential to small business prosperity. These local networking opportunities extend well beyond local service providers and can include marketing and management expertise or other needed services.

Access to finance is at the heart of this network, but entrepreneurs must understand early that to work effectively within the network they must take certain initiatives such as writing a solid business plan. Accurate information is needed before banks or investors will seriously consider a venture. Entrepreneurs will benefit from hearing this advice throughout the network rather than from one agency.

It is important that entrepreneurs can access the entrepreneurship network easily and quickly when needed. Some regions have delivered these services effectively using the Internet and have created a talent bank of professionals willing to answer questions from small businesses and provide guidance quickly (Chojnowski 2006; Collins-Williams 2007; Ostroskie 2006). It is important to implement a system so that inquiries and technical responses can be tracked to better serve entrepreneurs.

Monitoring Progress. As in any public policy initiative, it is important that progress and accomplishments be documented to build confidence in the system and encourage other potential entrepreneurs to engage in the process. The news media can be key in this aspect of the overall effort to help celebrate successes. At the same time, of course, it is important to emphasize that the closure rate of small businesses is high and some entrepreneurship efforts will not succeed. These efforts must be used to create positive learning experiences for future endeavors, so a certain amount of "churning" is helpful.

Conclusion

Rural areas in the Midwest have experienced a substantial economic restructuring during the past decade due to employment declines in the agricultural and manufacturing industries; outmigration of youth; and an upsurge in retail shopping centers, discount chains, and Internet shopping.

The difficulties faced by many rural communities in competing with metro regions in industrial attraction and retention have made entrepreneurship strategies more reasonable approaches for rural economic development in the current economic environment. Creating an entrepreneurial culture favorable for small business development and growth involves identifying potential entrepreneurs, developing and maintaining systems of entrepreneurial support and networking, and monitoring outcomes.

Small businesses are crucial to rural areas not only as providers of essential services but also as sources of employment. Unfortunately, in the past, small businesses were not always seen as essential elements in local economic development strategies because the focus was on attracting or retaining large companies. While retention and attraction are often the mainstays of local development strategies, the analyses in this report make a strong case for serious consideration being given to microenterprises in the future of rural areas.

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