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COUNCIL OF GOVERNORS' POLICY ADVISORS

NEW BUSINESSES, ENTREPRENEURSHIP, AND RURAL DEVELOPMENT
State Policies and Generating Rural Growth from Within

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FINAL PROJECT REPORT

NEW BUSINESSES, ENTREPRENEURSHIP, AND RURAL DEVELOPMENT
State Policies and Generating Rural Growth from Within

Submitted to the Ford Foundation

from the

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January, 1993

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INTRODUCTION

During the last seven years of the 1980s, America enjoyed the longest uninterrupted peacetime expansion of the post-World War II era. From the trough of the 1982 recession--when unemployment rates reached 9.7 percent--the 1980s economy provided the growth necessary to achieve both a declining unemployment rate and a rapidly expanding labor force. In fact, total non-agricultural private sector employment rose by 18,300,000 (+21 percent) between January 1983 and January 1989. Conditions were extremely uneven across the nation, however. Some rural areas strained to adjust to overly rapid growth, while others confronted stalled or declining fortunes.

The *rural renaissance* of the 1970s reversed course during the 1980s, when rural America fell behind--lagged in employment growth, lost its people to outmigration, and struggled under the constraints of limited resources and ever-expanding demands. And, through fits and starts, some attention began was finally focused on the economic problems that first plagued farm families and then attacked the broader rural community. As a result, rural development slowly acquired increased attention on the policy agenda at both the national and state levels. Perplexing questions were raised concerning which factors might combine to serve as an impetus for stabilization and growth for rural places, and debates raged over the role of rural communities in a transformed national and international economy.

The real economic distress that many rural residents suffer should never be minimized. For some, this has been a time of wrenching hardship and, for others, of inexorable decline. These facts, however, were and are only part of the rural story.

New businesses--the fruits of rural entrepreneurs--are emerging throughout rural America. For example, between 1980 and 1984, more than three hundred thousand new firms were created in rural areas--businesses that generated over 2.7 million jobs. In fact, one-sixth of all employment in nonmetropolitan areas was attributable to these new firms.

Contrary to the common stereotype, many rural economies are truly dynamic. Some of the country's most distressed rural areas--persistent poverty counties of Arkansas' Mississippi Delta and the oil and gas "bust belt" of western North Dakota-- are keeping pace with their urbanized counterparts in generating jobs through new enterprise development. Although many rural families face severe financial hardship, hundreds of thousands of others are succeeding in creating new enterprises. These businesses almost always begin as small operations. When their total impact is considered, however, their role in sparking income and employment opportunities becomes clear.

The multiyear and multistate project described in this report focused on four primary objectives:

- First, to create a unique data base while contributing to the broader understanding of the characteristics of rural entrepreneurs, their business ventures, and the opportunities and barriers they face. The secondary data analysis and original information that were collected from extensive telephone interviews with the owners and start-up team members of successful new businesses yielded much policy-related information on the impact of new business development on rural economies; the characteristics of rural entrepreneurs, start-up team members, and their businesses; sources of start-up financing and the role of local rural banks in fueling new businesses; the contribution these new rural businesses make to family income; future business plans; and knowledge of, participation in, and experience with a wide range of business assistance, financing, and training programs available from federal, state, and local governments and other sources.

The project also collected similar information from the owners of unsuccessful new rural businesses.

- Second, to test and refine further a methodology for completing research on rural entrepreneurs and their new businesses that could be applied in other rural settings and that could address a wide range of policy issues;

- Third, to support the four groups of gubernatorially-appointed state policymakers as they worked to use the project's findings to supplement or to create more effective development strategies that could serve the needs and meet the unique conditions facing their rural areas; and

- Fourth, to disseminate the study's findings and conclusions and to assist a wider audience of rural development policymakers to assess and apply the appropriate lessons.

The project, working in tandem with a team of advisors that were appointed by each state's governor, completed the collection and analysis of data for 1988 and 1989 in three states--Arkansas, Maine, and North Dakota. A fourth state--Iowa--was completed earlier in 1986 and 1987 but is included in this report to provide a more complete overview. A series of criteria guided selection of participating states.

No state would be selected if the governor were not both interested in rural development and committed to participating fully in the project--through the commitment of top-level staff from their offices and agencies. Data on economic and social conditions were collected to ensure that the states would present areas that were confronting difficult economic times for various reasons. These included the percentage of population living in rural places; low overall levels of new business incorporations, at least as measured by Dunn and Bradstreet data bases; low rankings for per capita personal income; economic diversity; larger than average minority populations; relatively poor overall economic performance. The considerations on selection also included regional diversity and partisan political balance across the group of states nominated for participation. The final slate of participating states was reviewed and approved by CGPA's Executive Board.

The remainder of this report reviews the project's conclusions and impacts. Chapter 1 includes an overview of the project design and research methods. Chapter 2 presents the conclusions that are drawn from the secondary data analysis. These conclusions provide a measure of the absolute and comparative impact of successful new business formation--within rural areas, across different types of communities, and on a state-wide basis. Chapter 3 highlights the most important results from the telephone survey interviews--completed with more than twelve hundred rural entrepreneurs. Chapter 4 summarizes the policy and program recommendations made to the participating states as a result of the project. It also reviews some of the continuing activities taken by the participating states--either independently or through their application of this information during their work in the CGPA State Policy Academy on Rural Economic and Community Development. The appendix lists the reports and publications that have been produced from the work supported by this project.

1: PROJECT METHODS

THE PARTICIPATING STATES

The four states described in this report were specifically selected to represent the great diversity of conditions that exist in rural America. During the study period, Arkansas, Iowa, and North Dakota were all suffering from poor performance statewide in income and employment growth--except for a few pockets that were exempt from the downturn. In all three cases, however, both the statistics and the policymakers' judgments suggested that the prospects for recovery were least optimistic in specific pockets of rural counties. Frequently, these areas were more remote from metropolitan communities, that could potentially stimulate economic growth. Maine did not fit this general pattern, however. The Maine of the mid-to-late 1980s might best be viewed as two states. The first, which consists of coastal and southern counties, was almost super-stimulated through the spillover effects of a virtually unprecedented real estate boom and a buoyant New England economy. The other Maine, which encompasses central and northern counties, was reeling as traditional sources of rural employment and income--such as the forest products, textiles, and food- processing industries--continued to shrink. This second Maine, seemingly abandoned by the mainstream and experiencing generations of persistent poverty--was the focus of the project.

A brief review of the existing conditions in each state provides the essential context for interpreting the project results:

- **Arkansas:** The rural economy greatly influences this state's overall economic performance. In fact, over half (52 percent) of the total statewide private sector employment is found in the rural counties. Unlike many of the other states included in this study, it also has areas--primarily in the Mississippi Delta region--with severe and persistent poverty. Arkansas was selected for this research partly to provide an opportunity to investigate more closely the impact that successful new business development was having or might have on lower income rural communities. Furthermore, as the only southern state in the study, it provided the sole opportunity to conduct research in areas with large minority populations. With advice from state policymakers, five counties were selected for in-depth research. Three are classified as Delta counties. With a total population of just over seventy thousand, these three areas had a poverty incidence rate of 36 percent and were dependent on transfer payments for one-quarter of total personal income in 1981. Although 16 percent of the statewide population is black, slightly more than half are black in these three counties. The remaining study counties were in the south-central region. They also had relatively low per capita incomes, but they had somewhat lower poverty rates. Residents in the south-central region also tended to be somewhat better educated; more than half having completed twelve or more years of school.

- **Iowa:** During the 1980s, Iowa's economy was at a crossroads. A farm crisis and changes in other key industries exacerbated the state's shrinking agricultural and manufacturing sectors, as fundamental forces propelled change in the nature and structure of the economy. Performance lagged, as a gloomy report by the Federal Reserve Bank of Chicago con-cluded: "With few exceptions, Iowa's economic performance in the 1980s has been poor--whether measured by employment, income, or output growth--whether compared with the U.S., the Midwest, or with neighboring states." Midway through the 1980s, state leaders had begun to search for innovative approaches to facilitate adapting to these new circumstances. Both state policymakers and the project sought to gauge the potential role of entrepreneurship in confronting these underlying economic strains. The survey research was completed in four diverse counties that were selected from a set of twenty-one north-central Iowa counties that were more remote from metro areas. Two of the counties were classified as agriculture-based, another relied on manufacturing, and the one remaining was unclassified.

- **Maine:** During the past fifteen years, economic forces have thrust this state to a new level of economic activity. Much of this growth, however, was centered in south-coastal Maine. The state's rural areas have long been more reliant upon manufacturing activities than have their urban counterparts. These sectors, however, did not perform well during the 1970s and 1980s. For example, between 1974 and 1986, the economic importance of the forest products, textiles, and food processing sectors declined as these industries laid off sixty-seven hundred employees, and as their share of total state employment dropped from 20 percent in 1974 to under 13 percent by 1986. As could be expected, rural areas were hit hardest by this decline. During the course of this study, Maine continued to enjoy a robust boom in Portland as well as in its southern and coastal areas. This good fortune, however, had only begun to spread into more remote rural regions. As such, the survey focused on examining new business development in less economically vibrant rural settings. For the purposes of the survey, two noncoastal counties--Aroostook and Somerset--were selected. Both were considered remote and were little influenced by the economic growth in the southern and more urbanized regions.

- **North Dakota:** As a primarily rural state, North Dakota has felt the pinch of deteriorating agricultural markets and the declining fortunes of the energy sector. The 1980s brought plenty of bad economic news in two key sectors, as agriculture and energy suffered the dispiriting bust of an overpowering boom-bust cycle. Rural North Dakota can be divided into three geographical regions that vary significantly by economic base, resource base, topography, and population density. These factors were considered in selecting a set of five counties from among these regions for the survey research. The selected counties represented include the eastern region and areas adjacent to the Red River that are traditionally farm-based; the central region in which there is a mixture of farming and ranching; and the western-energy region in which significant energy production and resource reserves are found.

DATA BASE AND DEFINITIONS

Each state's Unemployment Insurance (UI) administrative files (ES202) were the principal secondary data source used in the project. The advantages and disadvantages of ES202 are discussed in the individual reports. The fact that the data base was created and managed by state agencies, however, suggested that it could more quickly and affordably be used by states interested in undertaking their own similar research efforts.

Some additional definitions and limitations should be clarified for greater analytical perspective. ES202 files report on businesses with employment covered under each state's unemployment compensation law. These administrative records were used to identify private sector, nonfarm employers with covered wage or salaried employees. In each state, a starting and ending date were selected to define the period to be covered. If a business initially filed with the state UI system after the study start date and continued to file as an active business through the study's end date, it was considered successful. If a business had begun during the same period and then closed its operation on or before the study's end date, it was classified as discontinued.

Statewide analyses of the impact of new business development (chapter 2) were derived exclusively from the ES202 file. An effort was made to supplement secondary data and to provide detailed information unavailable from any other source. To that end, surveys of new businesses were conducted by a CGPA project team in counties that were selected for participation in the study through collaboration with a state advisory group appointed by the governors. This survey research involved telephone interviews with a randomly selected sample of new businesses located in the selected counties.

CLASSIFICATION OF COUNTIES

Economies often transcend political boundaries. At the same time, many economic data series are available only after they have been grouped and reported according to political jurisdiction. Among the states included in this project, counties--particularly rural counties--vary widely in population, degree of urbanization, and economic base. They are an imperfect analytical focus for understanding the rural economic environment. Despite such limitations, counties were the geographical focus for this research. The primary advantage of using counties is that data for them are available in a manageable form, and they are a relevant unit of analysis to most public decision makers.

In all four states, counties were classified and grouped in such a way that the analysis could reflect some of the important differences between counties.

- Metropolitan (Metro) counties are those designated by the U.S. Office of Management and Budget as components of Metropolitan Statistical Areas (MSAs).

- Adjacent or proximate counties include those where most or all of the county lies within sixty miles of a MSA central city.

- Rural counties fall more than sixty miles from MSA central cities, they are assumed to be less influenced by the economic activity centered in highly urbanized areas.

SURVEY PROCEDURES

The counties that were selected to participate in the research served as the sites for telephone interviews with both successful and discontinued new business owners.

Successful and discontinued new businesses were identified from ES202 files. These were supplemented and carefully updated, however, through staff research into telephone directory listings, site visits, and interviews with local business and community leaders. A random sample of successful new rural businesses would be produced from which telephone interviews were completed.

Project staff selected, trained, and supervised local residents as telephone interviewers in cooperation with each state's Job Service. Each interviewer completed an intensive day-long training session before beginning to work on the project. The average interview required from eighteen to twenty-five minutes, and, all interviews were completed within one or two months.

QUESTIONNAIRE DESIGN

The questionnaire used in telephone interviews with new rural business owners varied somewhat from state to state, which reflected an evolving understanding of the issues raised by the data and the unique policy interests of the host state. In all states, the proposed questionnaire was reviewed in advance for comments and recommendations with the state advisory group. Despite some variations, the questions used are comparable. The questionnaire provided a total of as many as two hundred separate pieces of information for each business contacted.

2: FINDINGS AND CONCLUSIONS OF SECONDARY DATA ANALYSIS

The research design consisted of two primary elements--analyses of secondary data and survey results. Secondary data, which were generated from each state's Unemployment Insurance Administrative Files (ES202), were used to determine the number of successfully-formed new businesses and their associated employment for each county in the state. Baseline data for all businesses and total employment for each county on the starting year and ending year were also provided, which offered a measurement of the relative role and impact of new businesses. Relying on topologies developed by the U.S. Department of Agriculture's Economic Research Service, all counties were also classified as either metropolitan, nonmetro adjacent, or nonmetro rural.

Chapter 2 reviews the most significant results from the data analyses completed in the four participating states.

- **Successful new businesses made a significant contribution to these four rural states' economies. Employment generated by new businesses is an important influence on all four of these statewide economies.**

Rural areas are often assumed to be static--facing few pressures for change and evolving only slowly, if at all. These assumptions, however, greatly miscalculate the vitality of rural economies--at least when measured by the tremendous impact successfully formed new businesses can have in generating employment opportunities. Because of differences between the procedures used to classify and maintain listings for individual businesses in the ES202 files across the states, comparisons between the states based on this data should be made with caution. In the four primarily rural states included in the study, however, only a few less than sixty thousand successfully-formed new businesses were formed with an attributed employment of over 340,000--despite the generally depressed economic conditions facing most of the states in the study (see table 2.1). The ratio of employment from successfully formed new business divided by total employment varied from a high of 23 percent in North Dakota to a low of thirteen percent in Maine (see table 2.1).

The influence of new businesses is further highlighted by comparing the net employment impact of successfully formed new businesses with the net change in total employment. For example, the change in total net employment in both Arkansas and Maine was less than the net number of jobs that are attributed to successful new businesses (see table 2.2). In North Dakota, the impact was even more dramatic, as the employment generated by successfully formed new business (42,058) was more than double (2.4) the net change in total employment (+17,572) during the same period (see table 2.2). These impacts are particularly surprising as North Dakota has historically rated near the bottom in measures used by Dunn and Bradstreet to gauge new business vitality. In 1987, for example, the state ranked forty-seventh of the fifty states on this index. The D&B ratings, which are based on new business incorporation (adjusted for population), however, is an imprecise measurement of new business formations. Survey data indicate that most new North Dakota businesses do not incorporate, and would not be included in the data base used by D&B.

Table 2.1
NET IMPACT OF EMPLOYMENT GENERATED BY SUCCESSFULLY FORMED NEW BUSINESSES

State	Number of Businesses	New Business Total Employees	Percentage of Total Employees	Time Period
Arkansas	20,821	140,356	20.2%	1980-1988
Iowa	19,787	108,057	13.7%	1980-1986
Maine	11,142	53,083	13.3%	1982-1986
N. Dakota	7,793	42,058	3.1%	1980-1987
TOTAL	59,543	343,554		

Table 2.2
COMPARISON OF NEW BUSINESS EMPLOYMENT WITH THE NET CHANGE IN TOTAL EMPLOYMENT

State	Net Change in Total Employment	New Business Total Employment	Ratio
Arkansas	+104,228	140,356	1.346
Iowa	NA	NA	NA
Maine	+52,726	53,083	1.006
North Dakota	+17,572	42,058	2.394

- **Entrepreneurship is alive and well in rural communities as they kept pace with their urban counterparts in benefiting from the jobs attributed to new businesses.**

In all four states the ratio of employment from new businesses to total employment enjoyed by rural counties kept pace with the statewide average and the rate demonstrated in the states' urban counties. The rural rate was above the metro rate in Arkansas and was only slightly below the urban rate in Iowa, Maine, and North Dakota (see table 2.3).

Even more surprising, perhaps, is the performance of some of the more depressed rural economies. For example, the employment impact of successful new rural businesses was particularly important in Arkansas' lowest-income counties--the twenty-five of the seventy-five counties with the lowest per capita incomes. In this case, the low-income counties (25 percent) actually exceeded the rates enjoyed by either the state's middle-income (21.5 percent) or highest-income (19.1 percent) counties. The research was conducted in Iowa during the depths of the Midwest agricultural crisis. Yet, the rate in Iowa's agriculturally based rural counties (13.1 percent) exceeded the statewide average (12.8 percent). The same was true in North Dakota as the state's agriculture-dependent counties performed above the statewide average.

Table 2.3
EMPLOYMENT IMPACTS OF SUCCESSFULLY FORMED NEW BUSINESSES BY COUNTY GROUP

State	Statewide	Metro	Adjacent	Rural
Arkansas	20.2%	19.2%	20.9%	21.1%
Iowa	12.8%	13.0%	12.8%	12.7%
Maine	13.3%	14.1%	13.1%	12.6%
North Dakota	23.1%	22.8%	26.2%	22.1%

- **New businesses can be found in all major industrial sectors. As is true of the national economy as a whole, however, the employment generated by successfully formed new businesses tends to increase the importance of the services, retail trade, and wholesale trade sectors.**

Although new businesses were found in all nine major Standard Industrial Classifications (SIC), the employment generated by successfully formed new businesses in the services, retail trade, and wholesale trade tended to predominate. These three sectors accounted for between half (Maine -55 percent, Arkansas - 58 percent) and two-thirds (North Dakota - 68.8 percent, Iowa - 69.6 percent) of all the jobs attributed to new businesses.

There were significant differences among the four study states. Manufacturing jobs in new businesses were particularly important in Arkansas (23.3 percent) and Maine (27.3 percent). The disproportionate importance of employment from new manufacturing businesses was even higher in Maine's rural counties, accounting for 37.1 percent of the jobs attributed to successfully formed new businesses. This still represents a decrease in the relative importance of manufacturing employment, however, which accounted for 43 percent of total employment in the state's rural areas in 1982.

In North Dakota, slightly more than two-thirds of the employment generated by new businesses was in the wholesale trade, retail trade, and services sectors (statewide - 68.8 percent, rural - 73.3 percent). This pattern was repeated throughout all types of rural counties. In fact, the services sector was actually somewhat more important in rural counties (36 percent) and undiversified agricultural-dependent counties (38.2 percent) than in the state as a whole (33.0 percent).

Table 2.4
SIC CLASSIFICATION OF EMPLOYMENT IN SUCCESSFULLY FORMED NEW BUSINESSES

SIC Group	Arkansas	Iowa	Maine	North Dakota
Agriculture, forestry	2.4%	1.7%	1.0%	2.3%
Mining	0.5%	0.3%	0.0%	2.0%
Construction	6.4%	11.1%	9.0%	9.0%
Manufacturing	23.3%	8.3%	27.3%	6.1%
Transport	5.8%	5.4%	3.4%	8.8%
Wholesale trade	4.7%	6.9%	4.5%	6.4%
Retail trade	23.3%	32.8%	28.1%	29.4%
FIRE	3.7%	3.9%	4.0%	3.1%
Services	30.0%	29.9%	22.7%	33.0%
Wholesale Trade, Retail Trade, Service	58.0%	69.6%	55.0%	68.8%

- **New businesses have proved to be surprisingly durable--both overall in these rural states and in their rural counties. Survival rates appear to be much higher than previous studies of new business survival rates would suggest.**

Although procedures followed in the Iowa study did not allow for an estimation of survival rates, limited information from North Dakota and more complete data from both Arkansas and Maine shows survival rates from a low of 44 percent to a high of 91 percent (see table 2.5). In both Maine and Arkansas, new business survival rates were comparable for the states' metro and rural regions (Arkansas--46 percent state versus 44 percent rural, Maine 90 percent state versus 90 percent rural). Although results from Arkansas and Maine relied solely on secondary data from the ES202 Administrative Files, the North Dakota research included more complete information partly derived from the survey research effort. Research focused on the five rural counties that had been selected for survey investigation. Although Williams County, which is an area heavily affected by the boom-bust energy economy during the 1970s and 1980s lowest survival rate measured, its new business survival rate (57.4 percent) was signi higher than might be expected.

Table 2.5
SURVIVAL RATES OF SUCCESSFULLY FORMED NEW BUSINESSES

SURVIVAL RATE

State	Statewide	Metro	Adjacent	Rural	Tim Perio
Arkansas	45.6%	47.0%	45.4%	44.3%	1980-
Iowa	NA	NA	NA	NA	NA
Maine	89.8%	88.9%	91.1%	90.3%	1982-
North Dakota	NA	NA	NA	65.1%	1980-

(Determined through research conducted in the five more remote rural North Dakota co selected for field survey efforts.)

3: FINDINGS AND CONCLUSIONS OF THE SURVEY DATA ANALYSIS

The preceding analysis involved comparison of business start-up and employment trends throughout the four states included in the study. Surveys of successful new businesses were also conducted in carefully selected rural counties in these states to refine more precisely our understanding of the role of, as well as the potential development contributions that can be made by, new rural businesses.

To investigate these issues, telephone interviews were completed with the owners of successful rural businesses (Arkansas - 287; Iowa - 300; Maine - 310; North Dakota - 315). More remote rural counties (those at a distance exceeding sixty miles from the central city of a metropolitan area) were selected with the assistance of state advisory groups. In all four cases, the selected rural counties tended to have economies that were performing below the statewide average. In addition, the county selections were made in an effort to represent greatly diverse rural economic and community settings in the research results. This section summarizes some of the key results from the final analyses of the survey research.

CHARACTERISTICS OF NEW RURAL BUSINESS OWNERS

IMPORTANCE OF "HOMEGROWN" BUSINESSES

- **New rural businesses were homegrown. The owners and families of new rural businesses often exhibit a particularly strong attachment to the communities in which they have chosen to start their businesses.**

Most owners of successfully formed new rural businesses are long- time residents of the community in which the business is located, with a low of 62 percent in Iowa to a high of 70 percent in Maine (see table 3.1). Many are life-long residents. For the two states for which data is available, these owners have lived an average of twenty-five years in the county in which they chose to start their businesses (Arkansas--25 years, Maine--26 years). Few people have chosen to relocate from another county of residence to start a business in the more remote rural counties included in the survey (Range--low of 13 percent in Maine to high of 18 percent in Arkansas).

The high levels of participation by long-time local residents in forming new rural businesses should not be surprising. Good information on markets and specific knowledge of local conditions are important to the success of any new business. When asked about their reasons for starting a business, respondents often spoke of opportunity, a need for products and services, and lack of competition. Therefore, the knowledge base created by longer-term attachment to a community may be a distinct advantage for a new business start-up.

Table 3.1
SUCCESSFUL NEW BUSINESS OWNERS' STRONG ATTACHMENT TO THEIR RURAL COMMUNITIES

State	Long-Term Resident	Average Number Years Lived In County	Changed Cty of Residence to Locate Business
Arkansas	64%	25 Years	18%
Iowa	62%	NA	NA
Maine	70%	26 Years	13%
North Dakota	64%	26 Years	17%

DIVERSITY OF DEMOGRAPHIC BACKGROUNDS

- **The owners of new rural businesses have diverse backgrounds, but many are younger and better educated than the average resident, most are males, women, minorities, and the poor are underrepresented.**

Entrepreneurs have various backgrounds that reflect virtually all aspects of society. There were, however, some distinctly striking similarities among the demographics of these new rural business owners. Almost two-thirds are males with a high of 67 percent in Arkansas to a low of 52 percent in Iowa (see table 3.2). Although these figures probably underrepresent the actual role of women in forming new businesses, the data indicate significant participation among women in starting new businesses in rural communities. As might be expected, new business owners report higher-than-average educational attainment. Those with at least some educational experience beyond high school constituted about half of the sample, with a low of 49 percent in Iowa to a high of 55 percent in North Dakota).

A troubling finding, however, is the lower levels of participation by minorities in new rural business development. For example, in the three Delta counties included in the Arkansas survey, blacks constitute slightly more than one-half of the total population. Yet, only 12 percent of the new business owners surveyed in these counties were minorities. While Native Americans are also underrepresented in the findings from Maine and North Dakota, the Arkansas findings on the role of minorities yielded the most disproportionate results. These conclusions are also reinforced by the extremely poor participation in rural business development by entrepreneurs with family incomes below the poverty level, with Arkansas at 7 percent, Maine at 6 percent, and North Dakota at 7 percent (see table 3.2). Much additional public and policymaking attention should be devoted to developing an environment, supportive attitudes, and assistance systems that may be needed to ensure that business creation is a viable option for more minorities.

Table 3.2
DEMOGRAPHIC CHARACTERISTICS OF SUCCESSFULLY FORMED NEW RURAL BUSINESS OWNERS

	Arkansas	Iowa	Maine	North Dakota
Gender				
Male	67%	52%	66%	63%
Female	33%	48%	33%	37%
Education				
0 - 11	11%	6%	8%	13%
12	36%	45%	38%	32%
13+	53%	49%	54%	55%
Race				
White	91%	99%	99%	99%
Black	7%	0%	0%	0%
American Indian	0%	0%	1%	1%
Other	2%	1%	0%	0%
Age (yrs)				
>30	8%	14%	11%	16%
30 - 39	28%	35%	41%	41%
40 - 49	37%	26%	29%	24%
50 - 59	22%	19%	15%	15%
60>	6%	6%	4%	4%
Avg.	44	41	41	40
Poverty level				
Above	93%	NA	94%	93%
Below	7%	NA	6%	7%

MOTIVATION FOR STARTING A NEW BUSINESS

- **Most owners are pursuing positive motivations in starting their business. Only a few are prompted to start a business because of the loss of other opportunities.**

Despite the generally difficult economic conditions confronting many of the rural communities in the states included in this study, most new rural business owners pursue this option because of strongly positive motivations. Interest in developing a good business idea or the desire for self-employment were cited as the reasons for their efforts by 69 percent in Arkansas, 83 percent in Iowa, 71 percent in Maine, and 60 percent in North Dakota (see table 3.3). Those, however, who were either dislocated (lost farm, lost job, closed business) or were seeking to supplement their existing income did participate in new business development--ranging from a low of 14 percent in Arkansas to a high of 20 percent in North Dakota.

Table 3.3
MOTIVATION OF NEW RURAL BUSINESS OWNERS

	Arkansas	Iowa	Maine	North Dakota
Lost farm	2%	8%	1%	0%
Lost job	8%	6%	6%	8%
Closed business	2%	3%	3%	0%
Supplement income	2%		7%	12%
Good business idea	36%		36%	40%
Work for self	33%		35%	20%
Other	12%		6%	7%
Positive Motivations (Items e+f)	69%	83%	71%	60%
Dislocated, Supplement Income (Items a+b+c+d)	14%	19%	17%	20%

PREVIOUS ENTREPRENEURIAL EXPERIENCE

- **Although many new business owners have started another business during the last ten years, most are not experienced entrepreneurs.**

Other studies have found that most successful entrepreneurs have formerly started businesses and have failed. Because of these failures, entrepreneurs learn how to succeed in future efforts. Contrary to expectations, however, most rural entrepreneurs report no previous experience in starting a business, including a low of 27 percent in North Dakota to a high of 38 percent in Maine (see table 3.4). The results showing lower-than-expected levels of entrepreneurial experience would further emphasize the significance of the higher than expected business survival rates measured through the secondary data analyses reported in table 2.5.

Other businesses started by these entrepreneurs during the last decade proved to be remarkably durable. In Arkansas, for example, seventy percent of such businesses were reported to be operating at the time of the survey, and 45 percent remain viable in North Dakota.

Table 3.4
PERVIOUS ENTREPRENEURIAL EXPERIENCE OF NEW RURAL BUSINESS OWNERS

State	Started Another Business During Previous Ten Years
Arkansas	28%
Iowa	28%
Maine	38%
North Dakota	27%

CHARACTERISTICS OF NEW RURAL BUSINESSES

MARKET ORIENTATION OF NEW RURAL BUSINESSES

- **New rural businesses primarily service local rural markets.**

Virtually all new rural business owners reported that they exclusively served an in-state customer base, ranging from a low of 78 percent in North Dakota to a high of 88 percent in Iowa (see table 3.5). The vast majority are also relying on a customer base drawn from the areas within fifty miles of their business location. Even in those cases where local conditions might facilitate less reliance on the in-state market, the in-state market orientation remains strong. For example, despite their proximity to Canada and New Hampshire, 84 percent of Maine's new rural businesses report focusing on in-state customers. Only about 9 percent of these new rural businesses are primarily servicing out-of-state customers. These findings could reflect primarily the impact of the numerous retail trade and service firms in the sample.

Table 3.5
MARKET ORIENTATION OF NEW RURAL BUSINESSES

State	Exclusively In-State	Within Fifty-Mile Radius
Arkansas	87%	82%
Iowa	88%	84%
Maine	84%	84%
North Dakota	78%	71%

NEWLY ESTABLISHED ENTERPRISES

- **Almost all new businesses are started from scratch. Only a handful result from a change in ownership of an existing business.**

The overwhelming majority of the new rural businesses surveyed had been newly established, ranging from a low of 75 percent in Maine to a high of 90 percent in Arkansas (see table 3.6). The level of churning over new businesses in rural economies--a revolving door of changed ownership that might increase the number of new business formations, although with little net impact on the economy--appears to be much lower than expected. In fact, concerns over possible over-counting through ownership changes may be misplaced. In most instances in which a new business was created by changing owners, the acquired business was deemed a failure before the acquisition (Arkansas 95 percent, Maine 57 percent, North Dakota 87 percent).

Table 3.6
ORIGIN OF NEW RURAL BUSINESSES

State	Newly Established Enterprises
Arkansas	90%
Maine	75%
North Dakota	83%

SIZE OF START-UP TEAMS

- **Start-up teams for new rural businesses were small and usually worked full time in launching their new venture.**

Slightly more than half of the new businesses were started by a single person, ranging from a high of 53 percent in Arkansas to a low of 43 percent in Maine (see table 3.7). New businesses often require that the owner have a wide range of skills or access to others who can fill any gaps. The large number of businesses initiated by a single owner might suggest a greater need for the kind of business or market planning or other forms of assistance that can be made available by public and private organizations. Another third were initiated by a two-person team, while only a few involved a team of three or more individuals.

Table 3.7
SIZE OF NEW RURAL BUSINESS START-UP TEAM

State	One Person	Two People	Three or More Individuals
Arkansas	53%	31%	16%
Iowa	45%	39%	14%
Maine	43%	42%	14%
North Dakota	47%	30%	23%

SIZE AND GROWTH OF NEW RURAL BUSINESSES

- **New businesses start small, but most produce employment growth.**

New rural businesses generally start small, with the average number of employees ranging from a low of 2.6 in North Dakota to a high of 4.3 in Arkansas (see table 3.8). These businesses, however, were able to generate significant growth between their start-up date and the time of the survey. For example, the average number of employees in these businesses had increased by almost a full employee (19 percent) in Arkansas. Expansion of employment in Maine's new businesses--from 2.7 at start-up to 4.6 at the time of the survey--nearly doubled the total employment attributable to successfully-formed new businesses. The Arkansas research confirms, however, that only a small portion of the new businesses account for much of the growth--with the top 10 percent of new firms accounting for virtually all of the increase.

Table 3.8
SIZE AND GROWTH OF NEW RURAL BUSINESSES

	Average Number of Employees at Start-up	Average Number of Employees at Survey
Arkansas	4.3	5.1
Iowa	NA	3.7
Maine	2.7	4.6
North Dakota	2.6	3.8

"SEASONALITY" OF NEW RURAL BUSINESSES

- **Many of the new rural businesses had seasonal fluctuations in their employment levels.**

Employment levels of new rural businesses can vary significantly over the year. During their busiest time of year, average employment levels in these businesses increase by about one-third, which produces a significant peak in employment impacts on local rural economies. For example, the new rural businesses surveyed in Maine generate an additional 400 jobs during their peak seasons (see table 3.9).

Table 3.9
SEASONAL VARIATIONS IN EMPLOYMENT IN NEW RURAL BUSINESSES

States	Average Employees in Low Season	Average Employees in High Season	Percent Change
Arkansas	5.1	6.9	35.2%
Iowa	NA	NA	NA
Maine	4.6	6.1	32.6%
North Dakota	3.8	5.1	34.2%

RELYING ON "SWEAT EQUITY"

- **New rural enterprises rely heavily on labor from family members.**

Sweat equity--laboring for reduced or no compensation--may be one of the major sources of start-up fuel for new enterprises. In many cases, family members all may serve a role--compensated or not--in starting or operating a new business. The businesses surveyed by this study relied rather heavily on family efforts (see table 3.10); many employ at least one family member, some (range) employ two, and a few others (range) employ three or more. In about 80 percent of the cases, these new businesses compensate family employees for their work.

Table 3.10
RELIANCE OF NEW RURAL BUSINESSES ON FAMILY LABOR

State	Percentage Employing at Least One Family Member	Percentage of Businesses that Compensate Family Members
Arkansas	33%	80%
Iowa	68%	76%
Maine	42%	83%
N. Dakota	38%	81%

FINANCING NEW RURAL BUSINESSES

- **In most cases, only a modest amount of financing is needed to begin a new rural business.**

In three of the four states, new rural businesses required an average initial investment of 80 thousand to 85 thousand dollars (see table 3.11). The average in Iowa (forty-three thousand dollars), however, was almost half these levels. These figures, however, may actually obscure the relatively small amounts of financing needed by most new rural businesses. In fact, most of these new businesses were begun with less than twenty-five thousand dollars in financing. These new start-up businesses are relatively efficient consumers of capital. For example, the 240 entrepreneurs who reported actual capital needs produced $20.5 million to fuel their start-up effort. Each job generated by these businesses was associated with an average investment of about thirty-two thousand dollars.

Table 3.11
FINANCING NEW RURAL BUSINESSES

State	Average Amount	One-Half Required Less Than $25,000
Arkansas	$80,000	$20,000
Iowa	$43,000	$20,000
Maine	$85,400	$22,000
N. Dakota	$85,000	$24,000

LOCAL BANKS PLAY KEY ROLE IN FINANCING START-UPS

- **Most new rural businesses were able to acquire start-up financing from a local lender. Although personal savings, deferred wages, and loans from family and friends were also important, the use of public financing programs was very limited.**

Bank financing supported new business development far more frequently than might be anticipated. In fact, bank loans were the first or second most common source of financing for new rural businesses, ranging from a low of 52 percent in Iowa to a high of 60 percent in Arkansas (see table 3.12). Because of the perceived high risk associated with new ventures and banking regulations that restrict risk taking, banks would normally be expected to play only a minor role in financing new ventures. Perhaps equally surprising is that about two-thirds--ranging from a low of 58 percent in Maine to a high of 72 percent in Arkansas--of the financing received from banks by new rural businesses consisted of commercial loans.

The "rules of the game" for lending in the rural environment may differ somewhat from those followed in more urban (and anonymous) settings. Almost all of these loans (over 90 percent in all three states) were made by local banks. Familiarity between the lender and the borrower appears to be an important aspect of the rural lending environment. Most successful borrowers--about 90 percent--thought that they were well known in the community. And, most (approximately two-thirds) believed that the lender's familiarity with them worked to their advantage in obtaining a loan.

Personal savings were another important financing source, ranging from a low of 45 percent in Iowa to a high of 57 percent in Maine). Funds from family and friends and deferred wages-salaries played the third and fourth most important roles. Participation in government loan, grants, or subsidy programs was unexpectedly low, ranging from a low of 3 percent in Arkansas to a high of 8 percent in Iowa). Finally, financing from venture capital, equity investors, unemployment insurance benefits, or other sources had only a limited impact.

Table 3.12
SOURCES OF STARTUP FINANCING FOR NEW RURAL BUSINESSES

	Arkansas	Iowa	Maine	North Dakota
Bank loans	60%	52%	60%	55%
Personal savings	45%	55%	57%	55%
Defer wage-salary	14%	22%	20%	14%
Loans from family and friends	16%	20%	20%	14%
Government loan, grant, or subsidy	3%	8%	7%	5%
Venture capital	3%	1%	2%	3%
Equity investors	2%	4%	3%	4%
Unemployment benefits	1%	0%	0%	1%
Other	2%	3%	3%	8%
Bank loans				
Commercial	72%	NA	58%	63%
Personal*	18%	NA	42%	37%
Applied and were turned down	12%	NA	22%	14%
Loan from by a local bank	91%	NA	93%	91%

*Financing packages that combined commercial and personal loans were counted as commercial loans.

START-UP PROBLEMS OF NEW RURAL BUSINESSES

- **Most new rural businesses have encountered multiple problems during their start-up. The most common problems confronting these entrepreneurs include: poor performance of the overall economy, cash flow, high taxes, high health insurance costs, and insufficient time to complete all the work required by a new business.**

Eighteen contingencies were presented to respondents who indicated which were "very much, somewhat, or not at all" a problem. Both the highest ratings (42 percent in Arkansas and 40 percent in North Dakota) and among the lowest ratings (14 percent in Maine) were given to the condition of the overall economy. These disparate results clearly reflect the differing conditions of these states' economies during the survey period. Even more significant, perhaps, is that the most important start-up problems identified include three issues--the overall economy, high taxes, and high health insurance costs--that are not subject to adjustment by entrepreneurs themselves. Two other issues--cash flow, and insufficient time--should be more responsive to their efforts (see table 3.13).

A substantial percentage of respondents identified more than one of these issues as an obstacle during their start-up. On average, Maine's new rural business owners faced three of the listed eighteen problems. In North Dakota, however, new business owners confronted far greater problems as almost two-fifths (38 percent) identified from nine to fourteen problems.

Table 3.13
START-UP PROBLEMS ENCOUNTERED BY NEW RURAL BUSINESSES
(Percentage indicating "very much" a problem)

	Arkansas	Maine	North Dakota
Raising money	24%	22%	22%
Cash flow	33%	26%	28%
High interest rates	24%	24%	28%
High taxes	33%	24%	32%
Government regulation	23%	19%	24%
Finding qualified workers	23%	24%	17%
Poor sales-earnings	18%	11%	13%
Getting technical assistance	5%	4%	5%
Bad debt	11%	6%	8%
Excessive paperwork	25%	23%	27%
Not enough time	26%	37%	27%
Cost of land, building, or equipment	18%	16%	21%
High health insurance cost	42%	34%	26%
Overall economy	42%	14%	40%
Market too small	21%	10%	13%
Too many competitors	19%	12%	18%
Experience	6%	2%	6%
Poor timing	9%	3%	12%

PARTICIPATION IN BUSINESS ASSISTANCE SERVICES

- **The level of participation in business assistance was generally low, but varied widely from state to state.**

Participation rates for the wide array of business assistance services generally available in rural areas ranged from a low of only 9 percent in Iowa to 48 percent in Maine. About one-fourth of the new Arkansas businesses received such services, while 18 percent did so in North Dakota. The most frequently used programs included: specialized training for the owner; workshops or courses in starting a new business; help in finding workers; and preparing a business plan or management counseling. In only one of these cases (specialized training for the owner, Maine

20 percent) did participation rates equal one-fifth of the new businesses. Only a very few rural businesses had found help from a range of traditional economic development programs such as government grants or loans, employee training, or subsidies for wages, land, or buildings (see table 3.14).

Table 3.14
PARTICIPATION BY NEW RURAL BUSINESSES IN BUSINESS ASSISTANCE SERVICES

Workshops or courses in starting a new business.

Arkansas	8%
Iowa	NA
Maine	13%
North Dakota	13%

Specialized training for the owner.

Arkansas	16%
Iowa	18%
Maine	20%
North Dakota	19%

Preparing a business plan or management counseling.

Arkansas	9%
Iowa	NA
Maine	11%
North Dakota	9%

Preparing a marketing plan.

Arkansas	5%
Iowa	NA
Maine	10%
North Dakota	6%

Training employees.

Arkansas	7%
Iowa	NA
Maine	7%
North Dakota	7%

Table 3.14 *(Continued)*

Subsidies for land or buildings.

Arkansas	1%
Iowa	NA
Maine	1%
North Dakota	0%

Help in finding workers.

Arkansas	6%
Iowa	NA
Maine	13%
North Dakota	12%

Subsidies for wages.

Arkansas	3%
Iowa	NA
Maine	4%
North Dakota	6%

Obtained government loan.

Arkansas	1%
Iowa	NA
Maine	8%
North Dakota	8%

Obtained government grant.

Arkansas	0%
Iowa	NA
Maine	1%
North Dakota	1%

WHY ASSISTANCE SERVICES ARE NOT USED

- **Although about one-third of new rural businesses did not seek help because they did not believe they needed assistance, the attitudes of new rural business owners could support expanded use of business assistance programs and services.**

Although many new business owners did not believe that they needed help from a business or technical assistance service, ranging from a low of 35 percent in Arkansas to High of 44 percent in Maine), many others were unaware of the programs or had concluded that they were unavailable locally (the range was a low of 25 percent in North Dakota to a high of 36 percent in Maine) (see table 3.15).

Table 3.15
REASONS FOR NOT SEEKING TECHNICAL ASSISTANCE

Reason	Arkansas	Maine	North Dakota
TA not available locally	7%	6%	11%
Did not need assist	35%	44%	37%
Unaware of programs	26%	30%	14%
Did not believe programs would be helpful	5%	2%	8%
Objected to government interference	3%	4%	6%
Heard bad things about programs	2%	1%	3%
Wrong kinds of programs offered	2%	2%	4%
Had bad previous experience	0%	1%	0%
Did not have time	6%	11%	6%
Other	4%	0%	3%

EVALUATION OF BUSINESS ASSISTANCE PROGRAMS

- **Despite low participation rates, the rural businesses that participated in assistance programs rated them highly.**

Because participants gave high evaluations of the business assistance services they received, expanding these programs might potentially facilitate additional improvements in the rates of new business formation and survival. About two-thirds believe the program they used was essential in helping to start their business (the range was a low of 58 percent in Maine to a high of 64 percent in Arkansas). More than three-quarters would use the program again if they started another business, and, over 8 percent would recommend the program to others (see table 3.16).

Table 3.16
EVALUATION BY PARTICIPANTS OF TECHNICAL ASSISTANCE PROGRAMS
(Includes private-sector providers)

The program(s) was essential in helping to start this business.

	SA*	A*	D*	SD*
Arkansas	19%	45%	31%	5%
Iowa	NA	NA	NA	NA
Maine	12%	46%	37%	5%
North Dakota	27%	32%	32%	20%

I would use the program(s) again if I started another business.

	SA*	A*	D*	SD*
Arkansas	18%	58%	22%	2%
Iowa	NA	NA	NA	NA
Maine	7%	67%	24%	2%
North Dakota	22%	57%	17%	4%

I would recommend the program(s) to others.

	SA*	A*	D*	SD*
Arkansas	27	55	16	2
Iowa	NA	NA	NA	NA
Maine	13	71	15	1
North Dakota	32	58	7	3

(SA = strongly agree; A = agree; D = disagree; and SD = strongly disagree)

THE "QUALITY" OF NEW RURAL BUSINESSES

HOMEBASED OR COTTAGE BUSINESSES

- **Most new rural businesses were not cottage industries operated from the owners' homes.**

In the three states for which data is available, homebased enterprises constituted a limited, though important, component of all new rural businesses (see table 3.17). Homebased business operations, however, extended well beyond the stereotype of a handicraft or hobby activity that has evolved into a business. Virtually every major industrial sector was represented among the homebased ventures, including store owners, construction firms, transportation service operations, and others.

Table 3.17
THE ROLE OF HOMEBASED BUSINESSES

	Percent of All Surveyed Businesses That Were Based in Owners' Homes
Arkansas	19%
Maine	26%
North Dakota	21%

NEW RURAL BUSINESSES AND FAMILY INCOMES

- **Only a handful of the rural entrepreneurs were earning incomes (with all sources considered) that placed their families below the poverty level. In most cases, new rural businesses owners do not rely on their business as the sole source of family income. On average, however, these businesses provide a significant portion of family income.**

Less than 10 percent of the new rural business owners reported incomes that placed their families below the poverty level. These businesses, however, were generally not the sole source of income, ranging from a low of 6 percent in Maine to a high of 7 percent in Arkansas and North Dakota (see table 3.18). They actually generate about forty percent of total family income. As these findings suggest, many rural families have adapted to local economic conditions by combining jobs and income sources to earn a living. For example, in Maine 42 percent of the rural entrepreneurs surveyed owned and received income from another business, 19 percent worked for someone else, and 81 percent had other family members who worked.

Table 3.18
THE INCOMES OF FAMILIES OF NEW RURAL BUSINESS OWNERS

	Arkansas	Iowa	Maine	North Dakota
Family income below poverty	7%	NA	6%	7%
Report receiving no income from new business	10%	NA	10%	67%
New business sole source of family income	42%	37%	41%	36%
Share of family income from new business (average)	40%	39%	42%	68%

FINANCIAL STATUS OF NEW RURAL BUSINESS OWNERS

- **Most new rural businesses owners have seen their financial condition either remain stable or improve during the past five years. And, the overwhelming majority predict improvement during the next five years.**

Many new business owners have enjoyed an improvement in their financial circumstances during the past five years, ranging from a low of 43 percent in Iowa to a high of 68 percent in Maine (see table 3.19). Another one-fifth to one-quarter have remained stable, while from one-third to one-sixth have faced declines. These business owners are most optimistic about the future, however; more than three-quarters predict improvement during the next five years (see table 3.20).

Table 3.19
CHANGE IN THE FINANCIAL STATUS OF NEW RURAL BUSINESS OWNERS OVER THE LAST FIVE YEARS

COMPARED WITH FIVE YEARS AGO:

	BETTER	SAME	WORSE
Arkansas	55%	22%	24%
Iowa	43%	24%	33%
Maine	68%	17%	15%
North Dakota	45%	19%	37%

Table 3.20
CHANGE IN THE FINANCIAL STATUS OF NEW RURAL BUSINESS OWNERS OVER THE NEXT FIVE YEARS

EXPECTATIONS OVER NEXT FIVE YEARS:

	BETTER	SAME	WORSE
Arkansas	82%	13%	6%
Iowa	74%	21%	5%
Maine	83%	15%	2%
North Dakota	77%	18%	6%

FUTURE BUSINESS PLANS

- **Many new rural business were expected to expand during the next two or three years.**

The confidence and optimism about the future financial condition can also be tracked to their future business plans. A plurality of new rural business owners were not planning to make any changes--positive or negative--in their businesses, ranging from a low of 30 percent in Maine to a high of 52 percent in Iowa (see table 3.21). In all four states, however, more than a third--

from a low of 32 percent in North Dakota to a high of 43 percent in Iowa--expected to expand operations in the near future. And, approximately one-fifth expected to be able to add employees. The research findings on the high survival rate of new rural businesses may also be supported by the very low percentage of respondents who were planning to get out of business, sell out, or reduce staff.

Table 3.21
FUTURE BUSINESS PLANS

Plan	Arkansas	Iowa	Maine	North Dakota
Get out of business	5%	5%	3%	5%
Sell out	5%	4%	7%	9%
Change product/service	3%	6%	30%	3%
Increase employees	18%	13%	29%	18%
Decrease employees	0%	1%	1%	2%
Expand operations	35%	43%	41%	32%
Relocate	7%	3%	5%	7%
No change	42%	52%	30%	47%

4: POLICY DEVELOPMENT ASSISTANCE AND STATE ACTION

A NEW APPROACH TO ECONOMIC DEVELOPMENT

This project was designed to develop a clearer understanding of the needs, problems, and dynamics of new businesses in rural communities. It has demonstrated both the significant contribution that new businesses make to the vitality of rural economies and their importance as a source of growth. Fomenting and supporting new business development can help to expand the opportunities for economic expansion in rural areas.

Traditionally, state and local government development efforts have concentrated on recruiting targeted industries, expanding "export-based" businesses, or assisting failing businesses. Recently, however, state and local development strategies are beginning to focus on the entrepreneurial spirit found throughout the four rural states included in this research. Although it is not a panacea, efforts to nurture a supportive environment for new business development are now prominently featured among strategies to bolster rural economies.

In addition to completing the key research elements of this project, all of the participating states were the focus of efforts to assist them in developing policies and programs that would be consistent with the research findings. To some extent, recommendations that were developed in concert with the state advisory groups were tailored to their state's unique conditions, needs, and opportunities. As the research findings indicated, however, many fundamental issues were consistent across the states. The following summarizes the elements in common among the individual state projects:

> **RECOMMENDATION ONE:** Convene a council of public and private organizations involved in providing assistance to new businesses.

To be successful, a new business development strategy must be integrated into the priorities of the diverse public and private organizations involved in economic development. The purpose of the proposed council would be to involve these groups closely in honing a comprehensive strategy for supporting entrepreneurship and new business development.

The council can also facilitate the exchange of information on available services. Moreover, it can direct additional research into the needs of new businesses and the most effective services for them.

RECOMMENDATION TWO: Make business assistance programs more accessible to new businesses.

With the exception of Maine, new businesses in rural areas had low rates of participation in business assistance programs. Time and again, those surveyed cited these assistance efforts as very important to the success of their efforts to start a new business. Many new rural business owners simply did not know about available programs, however, and, others have not used them because of the time constraints of their businesses.

Expanded or improved services, coupled with efforts to improve knowledge about, and access to, these programs, could help more businesses to cope successfully with the challenges they confront during their start-up phase.

Program Options:

- Expanded outreach efforts would relay information on outreach services to many more new business owners. For example, the state's Unemployment Insurance administrative file is the best centralized data base available for identifying new businesses. In addition, regular contact with business assistance programs, community leaders, local lenders, or other development officials can also help to identify potential business entrepreneurs. With this information, mailings or courtesy calls could be used to deliver information to new business owners.

- A catalog of services and a clearinghouse referral system could also help to improve access. A catalog, designed for new businesses, could be developed and distributed to economic development programs, local officials, and individual entrepreneurs throughout the state. In many cases, it is difficult to obtain information about program availability, eligibility requirements, and avenues of access.

- Offer night and weekend training programs and seminars. The schedule of many business assistance programs, which require owners to take time from their business, creates barriers to expanded utilization. More new businesses can be contacted if service providers change their schedules to include more night and weekend hours.

- Expand the use of video and audio tape materials. Because many new business owners work sixty or more hours a week, offering course or seminar materials on video and audio tape would enable them to set their own pace and hours.

- Utilize the telecommunications to reach more businesses with different types of services.

RECOMMENDATION THREE: Building marketing skills will be one key to success.

Although most new business owners are optimistic and many plan to expand their businesses within a few years, identifying their appropriate market niche may be crucial to their success.

Program Options:

- Business assistance providers can help businesses to develop effective marketing plans. Seminars and "how-to" guides can also help new owners to assess new marketing options. State development agencies and SBA's Small Business Development Centers (SBDC) can cooperate in providing these services.

- Include new firm products in trade shows and missions. Existing efforts to promote state products can help new businesses and sell innovative products.

- Create new sources of information on the state's products and services. For example, computer listings or catalogs with information on the products available from new businesses can improve buyer-seller linkages.

RECOMMENDATION FOUR: Create a comprehensive technology deployment service that can meet the emerging needs of new businesses.

Productivity improvements are one key to improving the competitiveness of businesses. In many cases, businesses have been able to remain competitive by adopting flexible manufacturing systems, embracing new technologies, or improving quality control.

Michigan's Manufacturing Modernization Service (expanded to serve nonmanufacturing firms as well) could be a model for creating new services and for reorienting existing ones. Under the Michigan program, initial services include an analysis of the specific needs of each participating manufacturing business, as well as information from consultants on alternative technologies and processes. Additional assistance is provided on installation, worker and management retraining, and market development.

RECOMMENDATION FIVE: State efforts to expand the financing options for new businesses should focus on working in partnership with existing local lenders.

This study indicates that financing is not a serious problem for most new rural businesses. This may partially explain the reason that Maine's numerous business financing programs have not been widely used by the new businesses we surveyed.

Most new businesses will continue to rely on local lenders for their financing. Working with and through traditional lenders--instead of replacing them with direct public financing programs--should be emphasized.

Program Options:

- Review existing state financing program requirements to ensure that they can accommodate lending to new businesses. Minimum loan amounts and other restrictions could limit new business participation in these programs.

- Work with lender trade groups. Through a partnership with the lender associations, the state can develop and disseminate information, materials, and training on lending to new ventures to encourage loan officers to consider making more loans to viable new businesses. Local lenders can also become a key referral point to business assistance services.

- Spread the risk of lending to new businesses among more partners. For example, through loan guarantee programs, the state may encourage additional lending by shouldering a portion of the financial risk of bad loans. A loan loss reserve program--a kind of loan insurance pool funded by contributions from the public sector, the lender, and the borrower--is another option that has been fairly successful in other states.

- Expand existing systems for matching borrowers with potential investors. Computerized matching networks can reduce the informational and transaction cost hurdles confronting investors and borrowers.

- Review regulatory limits on lenders. Regulatory reform may facilitate lenders cooperation with financially pressed new businesses. For example, one state has reformed its loan loss write-off regulations to give lenders more flexibility in working with financially stressed farmers. Another option would be to allow state-chartered banks (and savings and loans) to establish "entrepreneurial loan portfolios." Under this approach, lenders who are in sound financial condition would be able to establish an "entrepreneurial portfolio" (with a limit of perhaps 1 or 2 percent of their net worth) of riskier loans to new and young enterprises. Although the bank's performance would still be reviewed based on the performance of the overall portfolio, individual loans within the entrepreneurial loan portfolio would not be subject to full regulatory review. Some lenders are reluctant to become involved with loans that could be classified by regulators. Once classified, the lender's administrative costs for these loans rise sharply.

RECOMMENDATION SIX: Develop a business-aspirations program to encourage small and new businesses, and the development of innovative products and services.

There is nothing magical about "smallness." Many new business owners hesitate to expand their operations, while others are complacent about seeking broader markets. Public- and private-sector leaders can help to develop recognition of the importance of new businesses to the economy--thereby inspiring new businesses and encouraging entrepreneurship.

Program Options:

- Award programs can recognize business or new product success stories. The initiation of a "Governor's State Entrepreneur of the Year Award" would help to emphasize the contribution that entrepreneurs make to the rural and statewide economy. Local governments could also be encouraged to issue such honors in rural communities.

- Use the media to disseminate the message. Economic development organizations can suggest examples of successful new businesses or innovative products to facilitate more media coverage of entrepreneurship in their local communities. For instance, support could be provided to present regular public television programs featuring innovative new businesses and products.

- Encourage network formation among local business people and increased school-based efforts--such as programs in which students plan and start their own business--to train entrepreneurs.

- Create a publication that provides information to new and small businesses. A newsletter could be developed that disseminates useful information and ideas about business management.

RECOMMENDATION SEVEN: Use the flexibility provided by the new federal welfare reform law (The Family Support Act) to encourage aid recipients to seek greater independence through self-employment or by starting their own business.

Before the passage of the watershed reform package in 1988, the welfare system created disincentives that unnecessarily penalized recipients who sought to create their own economic opportunities. National regulations may reduce these barriers somewhat. The state, however, could also consider seeking federal waivers to overcome any residual impediments. Rural states could also apply to become part of the national Unemployment Insurance Self-Employment Pilot Program that permits U.I. benefits to be used to support recipients' efforts to create new businesses.

STUDY STATES PARTICIPATE IN RURAL POLICY ACADEMY

In 1990, CGPA marshalled support from the Ford Foundation, the Aspen Institute, and others to develop and complete the State Policy Academy on Rural Economic and Community Development. Eighteen states ultimately applied to participate; ten finalists were selected based on competitive review. Partly because of their previous and continuing involvement in the work being conducted, all four of the study states applied, and were selected to participate. During the year, the state teams labored intensively both at the formal academy sessions and in work sessions and meetings at home. The following sections summarize policy proposals--some in development stages and some already adopted--which are related to rural entrepreneurship and new business development.

Arkansas: Throughout its work in the academy, the Arkansas team considered that its mission was to develop a strategy that would both maintain the unique cultural and historical aspects of rural Arkansas, and to improve the quality of life for its citizens. Economic development--including rural entrepreneurship--was one of three strategic areas that the team considered crucial.

- Creation of Rural Advocacy Office and Commission: A new Rural Advocacy Office and Commission which was created that will serve both as the focal point on policy issues that concern or affect the state's rural areas and as an advocate for rural areas. The office will function as a clearinghouse to connect rural people and businesses with information, assistance, and other necessary resources.

- Expanded Rural Community Self-Help Program: The state has had a modest program to help sparsely populated communities (fewer than under 500 people) with small grants (two thousand to four thousand dollars). Legislation was adopted in the spring of 1991 to expand the population criteria to three thousand and to increase the grant amount to from ten thousand to fifteen thousand dollars. This 500 thousand-dollar-fund will support necessary infrastructure improvement for community and business development.

- Small Business Revolving Fund: To improve the business and employment opportunities in rural Arkansas, the state has increased the resources available to small businesses. A two million-dollar-fund has been established to provide modest loans (one hundred thousand dollars and under) to businesses that employ fifty or fewer people. The target groups for the program are new and existing rural businesses--particularly those efforts that are minority-owned. Another initiative created a linked deposit loan program to provide as much as 250 thousand dollars in loans to businesses with fewer than one hundred employees.

- Entrepreneurial Education: Although progress was made in targeting the revolving loan funds to small rural and minority-owned businesses, the proposal to expand and improve entrepreneurial education, training, and assistance was not adopted.

Iowa: The Iowa team focused on three broad themes:

- Rural Iowa must define its own future, as rural development must occur from the bottom up rather than from the top down. The state's primary role is seen as facilitating local decision making.

- Partnerships and cooperative arrangements are critical to the future quality and viability of rural communities, businesses, and institutions.

- The state's role is as a catalyst for others, rather than as the direct and sole provider of a particular service.

Business Development--through creating an environment that supports businesses' efforts to adapt new technologies, respond to new markets, and effectively use and develop the labor force--was the priority item among five specific areas at the center of policy development.

Proposals in early 1990 by Governor Branstad and the legislature included provisions specifically related to rural entrepreneurship and business development. These included:

Rural Community Leadership Program. This program provides seed money, technical assistance, and training to communities to help them achieve desired economic development goals. The proposed increase would allow an additional eight to ten clusters of communities to participate in leadership training and other supportive services. These efforts will support numerous development goals. Entrepreneurship and business development, however, are especially important.

Networking Rural Growth Industries. The state is working with a consortium composed of the university, community colleges, a private college, and two regional groups to support a Plastics Industry Technology Center in Waverly, Iowa. In a relatively small area--thirty mile radius--approximately seventy plastics companies have developed. The effort is intended to assist both entrepreneurs and existing businesses in finding growth opportunities through this industry. Funds raised from the state and from industry sources have been used to initiate operation of the Technology Center, which will provide training, technology development and transfer, and network services to participating companies. Another network, which involves printing companies, may be created in southeastern Iowa. Again, this center is likely to provide training for both workers and management, applied research, consulting services, and other types of technical assistance. The Iowa Team viewed this initial effort as an important test of two key concepts--networking as an efficient mode of reaching scale in working with rural businesses and entrepreneurs and targeting resources toward new and existing businesses in a specific sector.

Iowa's Banker's Workshop on Financing Rural Businesses. As a result of its participation in the Rural Policy Academy, the state received a small grant from the USDA Extension Service to offer training sessions in cooperation with the state bankers' association on making nonagricultural loans. Through the grant, three workshops which have involved more than two hundred bankers, were held across the state. The strong support of the Iowa Bankers' Association, which helped design the curriculum, recruit participants, and deliver the courses, was one key to success.

Entrepreneurship Culture. School-Age Populations--The state's academy team identified a need to improve the culture for risk taking both among adults who are currently operating businesses and those who are potential entrepreneurs. The purpose of this program would be to help educate target groups about the opportunities and steps for developing growth-oriented businesses. Although the proposal was not included in the final funding package, existing funds will be sought to start a model program to test and demonstrate the idea.

Maine: Maine's strategy centered upon maintaining the vitality and character of its rural communities. Efforts to devise the strategy recommendations were governed by consistent concern for the need to respect the interests and concerns of local citizens as well as the independent character of rural communities. Assisting existing and new businesses to become more expansion oriented was considered a primary way to reconcile these goals.

- Enhancing Rural Employment and Growth Opportunities: To expand the rate of entrepreneurial activity, the team proposed creating Entrepreneurial Account Executives as an aggressive outreach effort that would be more proactive toward helping rural businesses. These new positions would be supported by locally based state teams, and the entire system would be designed to improve access to talent, skill, and capital, as well as to eliminate governmental obstacles for participating businesses.

- Community Activities: "Maine Street '90," a public-private partnership focusing on increasing the spirit of Maine towns has good cooperation and leveraging of public and private resources. Although the initial effort was supposed to end after the first year, the strategy recommended an extension as an important adjunct to attempts toward improved leadership skills.

North Dakota: During the Rural Policy Academy, the North Dakota Team determined to develop nothing short of a comprehensive economic development plan. And, because approximately half of the state's total population lives either in rural areas or in communities with populations under twenty-five hundred, all economic development policy involves rural development.

Eleven strategies were packaged by the team in a broad new development effort. These included

- incentives for diversified economic growth;
- targeting services toward agricultural diversification;
- local capacity building;
- economic development education;
- targeted business recruitment;
- enhancement of minority and women's business development;
- strengthening and focusing the economic development functions within state government;
- enhancing collaboration between the resources of higher education and the state economic development delivery system.

In spring of 1991, the "Growing North Dakota" initiative was the focus of Governor Sinner's State of the State Address as well as his legislative priority for the session. The bill passed with large majorities in both houses of the legislature, and was signed into law in May 1991.

The most important elements of the $21 million initiative that are related to rural entrepreneurship and business development include:

Primary Sector Development Fund. This $7 million program will be administered by the Economic Development Finance Corporation with minority and rural representation. The fund, which is available for equity participation, subordinated debt, or other innovative financing mechanisms will provide patient capital for new, expanding, or relocating primary-sector businesses in value-added agriculture, energy by-product development, and exported services. The funds are to be distributed so that 40 percent of the funds will be used for rural areas, 20 percent for Native Americans, 20 percent for urban areas, and the remainder for discretionary distribution.

Science and Technology. One-half million dollars is appropriated to investigate and research potential value-added opportunities for livestock and crops, along with alternatives to sustain the present agricultural population. Eligible activities include a program to reduce interest rates on loans to nontraditional agricultural crops-livestock, and on-farm businesses; expanded marketing for agricultural products, cooperative marketing grants; farm diversification; and the farm management program.

Regional Centers. One-half million dollars will support regional centers that can provide technical assistance for primary sector business development. These centers will also operate as "Business Outreach Forums" to stimulate entrepreneurship and interchange with potential investors.

Dakota Spirit. One-half million dollars will be used to implement "Dakota Spirit," which is a program that trains communities in the principles of economic development, community assessment, goal setting, and organizing to implement development strategies.

Minority and Women-Owned Businesses. Funding was provided for an office of minority business development, including a mandate to attend to the resource and training needs of potential female entrepreneurs.

Banker Training. A continuing eduction program was initiated for bank lenders to facilitate the availability of financing for small and new businesses. The program is cosponsored by the Bank of North Dakota, the Department of Economic Development, the Bankers' Association, the Independent Bankers' Association, and local development organizations.

APPENDIX: Project Publications

Terry F. Buss, Mark G. Popovich, and David Gemmel. ***"Successful Entrepreneurs and Their Problems in Starting a New Business in Rural America: A Four State Study," Environment and Planning, C: Government and Policy***, no. 9, 1991.

Terry F. Buss, Xiannian Lin, and Mark G. Popovich. ***"Locating New Firms in Local Economies: A Comparison of Sampling Procedures in Iowa," Journal of Economic and Social Measurement***, no. 17, 1991.

Mark G. Popovich and Terry F. Buss. ***"How Effective is Technical Assistance in Supporting Rural New Business Development," Policy Studies Review*** (1993).

William Nothdurft and Mark G. Popovich. ***"Bucking the System: Lessons in Agricultural Diversification," Northwest Report***, Northwest Area Foundation, April 1991.

Mark G. Popovich. ***"101 Ideas for Stimulating Rural Entrepreneurship and New Business Development," Economic Development Review***, Fall 1990.

Xiannian Lin, Terry F. Buss, and Mark G. Popovich. ***"Rural Entrepreneurship is Alive and Well," Economic Development Quarterly***, no. 4 (August 1990).

Terry F. Buss and Mark G. Popovich. ***"Exploding Myths About Rural Entrepreneurship," Frontiers of Entrepreneurship Research***, no. 9 (1992).

Mark G. Popovich and Terry F. Buss. ***"Rural Development — The Role of Entrepreneurship and Business Development,"*** The Heartland Center (June 1990).

Terry F. Buss, Mark G. Popovich, and Allan Lundell. ***"Assessing the Accuracy of State Unemployment Insurance Files in Locating New Rural Businesses,"*** In ***Proceedings of the Annual Research Conference of the U.S. Department of Commerce***, Bureau of the Census (1990).

Mark G. Popovich and Terry F. Buss. ***"Entrepreneurs Find Niche Even in Rural Economies," Rural Development Perspectives***, 5 no. 3, June 1989, USDA Economic Research Service.

Mark G. Popovich and Terry F. Buss. ***"Growth From Within: New Businesses and Rural Development," Northwest Area Report***, no. 7 (March 1989).

Mark G. Popovich. ***"New Businesses, Entrepreneurship, and Rural Development: Building a State Strategy,"*** A report to the NGA Task Force on Rural Development, Washington, D.C.: NGA, 1988.

Mark G. Popovich. ***"101 Ideas for Stimulating Rural Entrepreneurship and New Business Development,"*** Washington, D.C.: CSPA, 1988.

Terry F. Buss and Xiannuan Lin. ***"Business Survival in Rural America: A Three State Study,"*** Washington, D.C.: CSPA, 1988.

Terry F. Buss and Mark G. Popovich. ***"Growth from Within: New Businesses and Rural Economic Development in North Dakota,"*** Washington, D.C.: CSPA, September 1988.

Terry F. Buss and Mark G. Popovich. ***"Rural Enterprise Development: An Iowa Case Study,"*** Frontiers of Entrepreneurship Research, no. 6 (1988).

Mark G. Popovich and Terry F. Buss. ***"Rural Enterprise Development: An Iowa Case Study,"*** Washington, D.C.: CSPA, 1987.