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# Main Streets of Tomorrow: Growing and Financing Rural Entrepreneurs— A Conference Summary

*By Mark Drabentstott, Nancy Novack, and Bridget Abraham*

**E**ntrepreneurship is the new focal point for rural development. This was the consensus of 200 rural policy officials and experts who gathered in Kansas City on April 28-29 for the fourth annual rural policy conference hosted by the Federal Reserve Bank of Kansas City's Center for the Study of Rural America. For much of the past half century, rural development has been driven by twin incentives aimed at business recruitment and retention. This strategy is no longer working so well, however, for one simple reason—globalization. In a global marketplace, lower cost business sites abound, making rural incentives much less effective. Now, more and more rural regions are turning their attention to the “third leg of the development tool”—growing more businesses on Main Street. The new focus is long overdue, participants agreed, and has great promise for boosting rural economic growth.

Making entrepreneurship the new focus of rural policy will not be easy. Entrepreneurship cannot offer a quick fix since businesses take time to grow. That runs counter to the short-term focus of elected officials. Existing entrepreneurship programs do not offer a systematic approach

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to future business innovation and may need to be overhauled; yet there is still much information needed on which programs work best in which rural regions. Many rural entrepreneurs lack sufficient equity capital, but there is little consensus on what policy can do to fill the gap.

Despite these challenges, most conference participants agreed that rural policies built around entrepreneurship offer the greatest chance of helping rural regions. Key to adopting such policies, however, will be a concerted effort to better understand the links between entrepreneurship and regional economies, to inform policymakers of these benefits, and to develop a more systematic approach to supporting the unique needs of rural entrepreneurs.

## **I. RURAL ENTREPRENEURSHIP IN THE 21ST CENTURY**

In the first session of the conference, David Sampson discussed the economic proposals of the White House and how these would help entrepreneurs by reducing taxes, encouraging investment, and removing obstacles to growth. He recognized the important role that small entrepreneurial companies play in the U.S. economy—such companies created over two-thirds of new jobs and accounted for two-thirds of the innovation in the last 20 years. Sampson referred to small entrepreneurial companies as the “engines of innovation” that “transform new ideas and technology into real products and services sold to real customers in real markets, creating real jobs.” He noted that innovations need not be high-tech, but rather focused on superior quality, efficiency, and cost.

Federal policies can play a role in spurring more entrepreneurs on Main Street. Sampson suggested that federal economic development programs should encourage and strengthen innovation, entrepreneurship, and competitiveness of areas and ultimately add more jobs. Federal programs should empower regions and communities, especially those with struggling economies. The Economic Development Administration is paying particularly close attention to creating a positive business environment for companies referred to as “gazelles”—small, innovative companies that grow quickly. However, conference rapporteur Brian Dabson, along with other participants, argued that high-growth entrepreneurs are rare and perhaps should not be the sole focus of

entrepreneurship strategies. Sampson also pointed out that innovations do not have to be based solely on new technologies, but rather on superior execution—beating the competition based on quality, efficiency, and cost. Companies can achieve high rates of growth by being innovative with their services, processes, or marketing techniques.

Four characteristics are used to describe entrepreneurs, as outlined by Sampson. First, *entrepreneurs view globalization not as a challenge but as a whole realm of opportunities*. They continuously look to the future for new business opportunities rather than focusing on past prosperity.

Second, *entrepreneurs exploit innovations to create opportunity*. Such innovations include new technologies, new products or services, new markets or risk management, and new distribution channels.

Third, *entrepreneurs build and grow companies to bring their innovation to market*. Entrepreneurs gather the resources to transform the innovation into a product, process, or service and find the appropriate market outlet.

Finally, *entrepreneurs take significant, calculated, personal risks in building their companies*. Only communities willing to take risks and accept some level of failure will see results.

Policy's role is to help regions create an "entrepreneurial ecosystem." Four key elements define such a system. Policies and programs should create a culture of entrepreneurship where entrepreneurial behavior is encouraged and supported by the community. Sampson cited Entrepreneurship Recognition Programs as one way to encourage this shift to entrepreneurial thinking in areas still tied to traditional industries.

Entrepreneurship education and training are also critical in economic development strategies. Sampson argued that intellectual capital drives economic prosperity and that the skills and education of a region's workforce will determine its ability to compete in a global economy.

An entrepreneurial ecosystem also fosters the creation of business networks that link entrepreneurs to suppliers and capital sources. Networks are also the avenue through which entrepreneurs share ideas and create synergies. While rural local networks may be limited, tapping into external networks eliminates the distance barrier.

Ensuring access to capital is another key element of the entrepreneurial ecosystem. The EDA's Revolving Loan Funds can be important sources of capital, and Sampson suggested the funds should be geared

more toward entrepreneurs. Sampson described the EDA's appetite for risk as high when providing funds for rural initiatives. He argued that society has become so risk averse that people are afraid to make risky decisions with the potential for large payoffs.

Finally, infrastructure and institutional support are critical in programs based on entrepreneurship. Good highways and access to air transportation are important, but perhaps the distinguishing piece of infrastructure is broadband access. Sampson referenced EDA's Public Works program as a potential resource for communities in gaining broadband access.

Zoltan Acs provided an overview of the status of entrepreneurship in rural America. He recognized that entrepreneurship can be more challenging in rural areas, given their remoteness, which limits their access to skilled labor, technology, and capital, and creates barriers to building networks. However, Acs was quick to point out that differences in survival rates of new firms do not fall exclusively along rural versus urban lines.

Although data are limited on entrepreneurial activity and firm formation, Acs presented statistics on the rate of firm births to identify the most entrepreneurial regions in the United States. In the mid-1990s, the highest level of business starts occurred in the Rocky Mountain states and Florida, with pockets of high levels in the Plains and the Ohio Valley. The lowest firm birth rates occurred in the Northeast and Upper Midwest. This corroborates other findings that show entrepreneurial activity shifting from the Northeast to the Southwest and West.

To distinguish between rural and urban areas, Acs considered the size of the labor market areas (LMAs). The majority of the LMAs in the two smallest size categories are rural or nonmetropolitan, according to the Census Bureau. Overall, smaller LMAs are among both the highest and the lowest in new firm births. But firm births in small LMAs have been concentrated in lower paying retail businesses, with few firm births in the high-wage category of business services. It is evident that location is a disadvantage for rural areas in business services, as the largest LMAs, or more metropolitan areas, are typically characterized as having very high firm birth rates in services. Some anecdotal evidence, however, suggests that greater mobility and new career options have allowed some entrepreneurs in other sectors to move to rural areas.

## II. GROWING RURAL ENTREPRENEURS: RECENT LESSONS

The conference took a closer look at two rural regions undertaking new programs to boost entrepreneurship. The first case examined a “bottom-up approach” to economic development in the Appalachian region. The second examined a more “top-down approach” in Maine. Both studies concluded that traditional thinking in economic development must incorporate entrepreneurial ideas, and that new partnerships are necessary in economic development strategies.

*Boosting entrepreneurship in Appalachian Ohio.* A key to growing more entrepreneurs in Appalachian Ohio is the Appalachian Ohio Regional Investment Coalition (AORIC), a partnership of experienced organization and community leaders. The six AORIC partners all share the same concern: The region needs a better set of services to encourage entrepreneurs who live and work there.

Larry Fisher described the coalition’s strategy as an effort to build a sustainable entrepreneurial economy through programs and services that promote successful entrepreneurs. Partners of AORIC are strongly focused on developing entrepreneurial capacity, community or civic capacity, and a policy agenda that supports entrepreneurship. They encourage local economic development officials and small business organizations to be part of their overall strategy. Overall, the partnering organizations provide entrepreneurs basic start-up resources and access to capital and marketing.

Brenda Emery described the Planning Adams County’s Tomorrow (PACT), a grassroots development organization in southwestern Ohio and a close ally in the regional initiative. PACT bases its strategy on coaching and assisting entrepreneurs through a diverse team that can provide expert services in a variety of areas.

With the support from AORIC, Adams County has been able to support entrepreneurship activity from conception through startup. Emery stressed that to spur entrepreneurship PACT must still create more relationships in their community with local vendors. Building these relationships takes time and resources.

Don Macke concluded that, while Appalachian Ohio has written encouraging success stories, it continues to face serious economic and social challenges. Economic development initiatives are still traditional in thinking, failing to build new economic engines in the region. AORIC's focus on entrepreneurship is among the most innovative in rural America, but multiple partners and programs create a challenge to the structural organization of AORIC, and strong communication is necessary to ensure success. And the current support system must survive until entrepreneurial success takes root.

*Maine's new focus on entrepreneurs.* Jay Kayne, Brian Dancause, and Yvonne Davis took a look at a different approach to boosting entrepreneurs. In Maine, three specific challenges inspired an entrepreneurial push: Many prominent employers were leaving the state. State tax revenues were dropping. And young people were leaving rural areas.

The state government and the university system launched several initiatives to encourage new development, but the impact was small. Recognizing the need to do more, the state established the Maine Department of Economic and Community Development and the Entrepreneurship Working Group as a committee of the Maine Small Business Commission. Both groups were created to emphasize entrepreneurs in the state's economic development strategy.

A study by the Maine Rural Development Council identified major roadblocks to a healthy entrepreneurial economy—culture constraints, community business climate, and a lack of networking opportunities, limited technical assistance, and scarcity of capital. To overcome these obstacles, the state focused on six new areas: K-12 education, higher education, adult training, support systems, policy, and an entrepreneurship team (e-team) dedicated to educating youth on entrepreneurship ideas. Task forces were formed to tackle each issue, and a representative from the Kauffman Foundation served as a resource for each task force.

Some initial successes of Maine's program promise to sustain and expand interest and support for entrepreneurship initiatives in the future. It has identified and addressed issues that have impeded entrepreneurial activity in many rural areas of the state. It has created models for support service delivery that are now being tested in rural Maine. It has expanded opportunities for entrepreneurship training for rural residents. It has seeded a relationship between the Kauffman Foundation

and local groups that will support the introduction of an entrepreneurial education program in public schools. And, it has served as a catalyst for collaboration among campuses of the University of Maine system to deliver entrepreneurship education to students.

All three speakers stressed that encouraging entrepreneurs requires government and nonprofit entities to be just as entrepreneurial as their clients. Marketing entrepreneurship ideas to the public at-large and regional thinking are both necessary for success.

### III. POLICY OPTIONS FOR RURAL ENTREPRENEURSHIP

The final session of the conference explored policy options for growing more Main Street entrepreneurs. Presenters agreed that rural businesses have unique needs, and the options for addressing those needs are promising. That said, new approaches are needed, as past efforts have generally proven ineffective.

Alistair Nolan reviewed entrepreneurship policies across developed nations. He noted that entrepreneurship is broadly recognized as a critical component of local and regional economic development. At the regional level, a growing number of studies are drawing a strong link between high rates of business starts and strong economic growth.

Nolan described a widening pattern of entrepreneurship policies throughout the world. He cautioned, though, that the new focus on entrepreneurship has an important constraint. Encouraging entrepreneurs does not yield short-run results. Entrepreneurship strategies should be “policy constants rather than responses to short-term crises.” This was, in fact, a strong theme echoed by many other participants—entrepreneurship strategies will almost certainly pay dividends long after current elected officials leave office. Thus, consistent, long-term support for these policies takes special effort to sustain.

Nolan identified six major innovations in entrepreneurship policy throughout the developed world:

- Greater attention to markets as the source of business services to entrepreneurs as opposed to direct public assistance to companies.
- A greater focus on business networks and clusters rather than individual firms.

- A shift in focus from more business starts to assisting young firms with high growth potential.
- Promoting greater public awareness of entrepreneurship and its social legitimacy, including a stronger emphasis on entrepreneurship from primary schools to universities.
- Promoting the potential of information and communication technologies, both as business opportunities and as ways of providing services to businesses.
- A new focus on promoting entrepreneurs among target groups, such as women, ethnic minorities, and youth.

Nolan drew particular attention to networking and awareness as key policy levers going forward. Evidence clearly shows that entrepreneurs who develop and maintain ties with other entrepreneurs outperform those who do not. Moreover, additional studies show that businesses that are started by *teams* of entrepreneurs are more likely to succeed than those started by individuals. This finding is especially relevant for rural policy, since business networks are much less well developed in rural regions. New policies, therefore, might aim to catalyze new rural business networks and raise the awareness of their benefits with businesses so that the networks can be sustained over the long term.

Social awareness of entrepreneurship and the value society places on it are also keys in the future. Countries increasingly recognize that low rates of business innovation may be the result of cultural values. Scotland, for instance, discovered that the Scottish public had low levels of interest in starting a business and limited appreciation of the economic function of entrepreneurs. To address the problem, more than 100 initiatives were instituted to modify attitudes and encourage new firms. These included sponsoring a television series, designating 1995 as Scotland's Year of the Entrepreneur, and creating six Centres of Entrepreneurship in Scottish Universities. Between 1995 and 1997, the annual growth in Scottish business startups exceeded 7 percent.

Tom Lyons argued that policies to spur rural entrepreneurship must be regional in scope and systematic in approach. Most rural communities have very limited economic critical mass, with little margin for

error. Whereas urban communities can afford to waste resources and still succeed economically, rural communities cannot. Thus, policies to spur more rural entrepreneurs must be regional.

In addition, Lyons argued, entrepreneurship strategies must take a much more systematic approach than past attempts. Current entrepreneurship strategies have not been as successful as hoped for four reasons. First, they focus on businesses rather than entrepreneurs, yet growth is inhibited by the skills of the entrepreneur, not the stage of the business cycle. Second, current programs emphasize form over function—services focus on efficiency rather than effectiveness to the entrepreneur. Third, existing programs tend to be fragmented and not seamless systems—service providers often compete with one another instead of partnering. The competition reflects a misunderstanding of how many entrepreneurs need assistance and the variety of needs they have individually. Finally, all of the above create a support system that is opaque and confusing to the entrepreneurs trying to access it. Entrepreneurs are not sure where to begin their quest for assistance.

Lyons proposed a new approach, the Entrepreneurial Development System, aimed at helping entrepreneurs master a required skill set. His premise is that all successful entrepreneurs need a core set of skills, yet they start with different skill levels. The new EDS system, therefore, must recognize the starting skill set, what skills still need to be developed, and the best way for the individual to acquire them. The EDS has a diagnostic tool for classifying the beginning skill set. The system also encourages service providers to specialize in “coaching” entrepreneurs at different skill levels.

The EDS is currently being tested in Kentucky, North Carolina, and West Virginia. While the programs are too new to yield any strong conclusions, early results suggest the system can help any region become more entrepreneurial, no matter what industry their business is in.

David Barkley addressed a major problem for successful entrepreneurship development strategies—equity capital. Entrepreneurs and small businesses in rural areas simply do not have similar access to equity capital and support services as their urban counterparts. Venture capitalists avoid rural business because of the relatively high costs of funding, supporting, and liquidating deals in rural areas. The policy response to this rural equity capital gap has been a wide variety of pro-

grams to fund venture capital programs or provide tax incentives to increase private funding (appendix). At the federal level, efforts include the New Markets Venture Capital Program and Rural Business Investment Companies. At the state level, there are a panoply of programs, ranging from state-funded, privately managed capital funds to state-assisted angel networks.

The wide mix of efforts provides some insights into the future direction of public policy in rural equity capital markets. First, Barkley concluded, the federal government is not likely to solve the equity capital needs of rural entrepreneurs. Eligibility requirements tend to be drawn too broadly, with investments drifting toward suburban areas or to real estate investments. To succeed, he suggested, federal programs must focus specifically on venture capital and rural businesses.

Second, the real innovation in rural equity programs has been at the state and local levels; but the results are mixed and too little effort and too few resources are put to understanding best practices before programs are replicated. States often copy another state's program before asking if it suits the needs of its own businesses. Related to this is the need to educate public officials on programs that are often complex and poorly understood.

Third, there is a thin line between successful and unsuccessful rural equity programs. The successful ones appear to pay greater attention to detail in the planning phase of the program.

#### **IV. CONCLUSIONS**

In the end, conference participants agreed that entrepreneurship is likely to be at the center of rural policy in the future. While there was not universal agreement on what entrepreneurship really means from a policy point of view, most agreed that it must include the ideas of starting a new business, exploiting a market opportunity, and then growing the business to fill that niche. By all accounts, entrepreneurs of this type face tougher going in rural areas than in urban ones.

Participants also agreed that entrepreneurship is becoming a more important rural growth strategy simply because other strategies are beginning to fail. Issuing incentives to recruit and retain businesses is simply much more difficult in a global economy—and with the tight

state and local budgets that will likely prevail in the future. But participants also suggested that entrepreneurship needs to be more than just a “default” development strategy. It deserves to be the first choice on its own merits, although some speakers suggested that researchers must do a more rigorous job of defining those benefits.

In his rapporteur remarks, Brian Dabson concluded there is much work to be done in making entrepreneurship more central to rural policy. “There is still no real traction in the notion of entrepreneurship as the new economic development paradigm.” Dabson suggested four steps are needed before entrepreneurship can be universally accepted as the preferred economic development strategy. His list flowed out of several themes echoed at the conference, and provided a road map to the future that resonated with conference participants.

- *Improved information and research.* Better data sets on entrepreneurship by region are needed to establish the link between business innovation and economic performance. In addition, more information and analysis are needed of best practices that sustain entrepreneurial regions.
- *Adopting entrepreneurial strategies.* Some elements of entrepreneurship policy are ready for wide-scale adoption, and such steps should be taken. For instance, embedding entrepreneurship education could be adopted in the school curricula nationwide.
- *Capacity building and leadership development.* Many state and local economic development officials still do not understand the value of entrepreneurship in economic development. More widespread programs are needed to address this problem. While some groups have piloted successful programs, they are still few in number.
- *Mobilization and advocacy.* Ultimately, there will be a need for widespread system reform at the state and local levels, and the public will benefit from efforts to mobilize existing entrepreneurship networks to make sure this happens. At the federal level, Dabson argued, policy and procedural changes are needed to ensure entrepreneurship is on the front burner in a wide range of government agencies, including the next Farm Bill.

The conference concluded that entrepreneurship has great power to guide a new generation of rural policy. It can unlock the economic potential of rural people and communities. It can make the best use of scarce local resources to secure sustainable economic development. It can challenge unnecessary constraints on local initiative. And it can identify new opportunities and futures for rural America. The challenge now is to figure out how to make entrepreneurship the centerpiece of rural policy.

## APPENDIX

### EXAMPLES OF STATE-SPONSORED OR ASSISTED VENTURE CAPITAL PROGRAMS

#### *I. State Capitalization of Fund*

##### **A. State-Funded, Publicly Managed Venture Capital Funds**

- Iowa Product Development Corporation/Iowa Seed Capital Corporation
- Kentucky Rural Innovation Fund
- Minnesota Technology Investment Fund
- North Dakota Development Fund
- Small Enterprise Growth Fund (Maine)

##### **B. State-Funded, Privately Managed Venture Capital Funds**

- Colorado Rural Seed Fund
- Kansas Venture Capital, Inc.
- Magnolia Venture Capital Corporation (Mississippi)
- Northern Rockies Venture Fund (Montana)

#### *II. Tax Credit Incentives*

##### **A. Tax Credits for Investments in Businesses and Venture Capital Funds**

- Delaware Investor Tax Credits
- Iowa Community-Based Seed Capital Fund
- Maine Seed Capital Tax Credit Program
- Missouri Capital Tax Credit Program
- Palmetto Seed Fund (South Carolina)

##### **B. Certified Capital Companies and Capital Investment Boards**

- CAPCOs: Certified Capital Companies (Louisiana, Missouri, New York, Florida, Colorado, Wisconsin, Texas, Georgia, Alabama)
- Capital Investment Boards or Corporations (Oklahoma, Iowa, Arkansas)
- Kansas Capital Formation Companies

#### *III. State-Assisted Angel Networks*

- ACE-Net (46 states)
- OhioAngels.com
- Oklahoma Capital Network
- Montana Private Capital Network