



Rural Entrepreneurship Matters, but Why?

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The title of this piece was originally going to be “Rural Entrepreneurship Matters.” That’s a pretty good title, as just about any rural Texan can identify plenty of small businesses that have made an important difference in their community. And it’s an interesting, timely topic as well, because there has been a large and growing focus on how entrepreneurship contributes to economic growth and prosperity. Seventy-nine percent of Americans say that entrepreneurs are more important to job creation and the economy than big business, scientists, and the government (Kauffman Foundation 2009a). Also, all net job growth in the United States between 1980 and 2005 was due to firms less than five years old (Kauffman Foundation 2009b). Hundreds, maybe even thousands, of professional articles have made similar claims that entrepreneurship is meaningful, important, and what sets our economy apart from so many others. But the real question for rural areas, the one that is less clear in research and journalism, is why entrepreneurship matters more than ever in rural areas. The more I thought about that question, the more it made sense to talk about it.

One of the biggest problems is that entrepreneurship is typically reduced to just that: an alternative economic

development strategy that promises growth, job creation, and innovation. But there are problems with this approach. It is important to fully understand both the advantages and limitations of entrepreneurship development, so Texas communities can focus on building even stronger, more balanced local and regional development strategies, especially in rural areas. I will argue that the advantages are manifold, and that some of the greatest advantages are those less frequently discussed in the economic development literature.

Let us start with a few important limitations to entrepreneurship development as an economic development strategy. Just because entrepreneurs stimulate job growth in the aggregate, this does not necessarily mean that all entrepreneurs are equally successful. Several studies have shown that high-growth entrepreneurship tends to be clustered in cities, rather than in rural areas (Acs and Armington 2006). In fact, high-growth, job-creating entrepreneurship not only tends to be spatially concentrated (Acs and Mueller, 2008), but tends to occur only among a small number of firms that create a disproportionate number of new jobs (Henrekson and Johansson, 2010). This small group of gazelles, or high-growth, job-creating businesses, tend to start growing quickly when they have

between 50 and 200 employees (Acs and Mueller, 2008). The implication here is that this job growth strategy takes quite a bit of time, and a large share of rural businesses do not meet the 50 employee threshold. This is not to say that rural areas do not have plenty of entrepreneurs, but rural entrepreneurs tend to earn less, and create fewer jobs overall (see Acs and Malecki 2003, Henderson 2002 for supporting evidence).

Thankfully, there is a silver lining. Rural entrepreneurship development may represent a long, uncertain road toward regional economic progress – but that is according to a fairly narrow set of criteria about how economies are measured. While startups can and do fail, the “churn” of entrepreneurship should not be viewed as an insurmountable barrier to economic development. For example, small business failure rates are frequently overstated, and vary widely by industry. Scott Shane, the A. Malachi Mixon III Professor of Entrepreneurial Studies at Case Western Reserve University demonstrated that even at the peak of the 1992 recession, businesses launched in that year had a 45 percent survival rate after five years, and a nearly 30 percent survival rates after ten years (Shane, 2008; p. 69). This prognosis is much better than a frequently-cited (and inaccurate) statistic that either eight or nine out of 10 businesses fail within five years (a figure that may confuse strategic business closure or change with “failure”) (also see Headd, 2002). Additionally, the types of businesses that are more common in rural areas often have failure rates that are lower than some high-tech industries. After four years in business, 56 percent of new businesses in agriculture, 55 percent in services, 54 percent in wholesale, 51 percent in mining, and 49 percent in manufacturing are still in business. Compare this with four-year survival rates for urban “growth” industries like transportation, communication, and utilities (45 percent) and information (37 percent). To be fair, startups in education, healthcare, finance, insurance, and real estate – which also have a more urban, high-growth bias – have survival rates of 56 to 58 percent (Statistics Brain, 2014). The point is that rural businesses, while representing different industries than urban businesses, are no more prone to failure than those in urban growth industries, maybe even less so.

Overall, rural entrepreneurship development can therefore be viewed as a moderate risk, moderate growth strategy from an economic development perspective with some job growth potential, provided one’s expectations are reasonable. However, this limited focus on the traditional economic benefits of entrepreneurship is not only misplaced, but overlooks some of the best attributes of entrepreneurship in rural areas. I have found these themes to arise over and over

again in my own research and travels in rural communities, but some of these important benefits are poorly understood by researchers. A short list of some of my favorite benefits to entrepreneurship development includes:

- 1) Entrepreneurs are natural problem-solvers, and can quickly develop solutions to persistent local problems. Got a tricky local issue? Give it to a group of local entrepreneurs to solve with input from citizens.
- 2) Entrepreneurs are more likely to stay in the communities where they launch their business, unlike large companies based elsewhere.
- 3) Rural entrepreneurs may create fewer jobs than large companies, but those jobs are more likely to be tailored to the skills available in the local community.
- 4) Entrepreneurs can provide goods and services in important niches that meet local tastes and preference.
- 5) Entrepreneurs often participate in community and civic life.



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- 6) When something goes wrong with their product or service, you can talk to an entrepreneur to make things right.
- 7) Entrepreneurs often take paths that others find too risky, serving as either warning or encouragement to others.
- 8) In some rural places, creating even five jobs (instead of 500) still makes a big difference.

And my favorite:

- 9) Entrepreneurs help bring creativity and imagination to the community, and can serve as role models for others who want to take creative risks.

In summary, saying that rural entrepreneurs merely “create jobs” and “stimulate the local economy” actually does not give entrepreneurs and their supporters enough credit. Entrepreneurs and small businesses can profoundly enrich local life by launching new ideas, offering new products and services, serving as community role models, and taking on risk (so others do not have to). Entrepreneurs are not all perfect, and they are certainly not all the same. But, they are among the most overlooked assets for community change in rural areas nationwide. While business failures come naturally to any entrepreneurship development initiative, the importance of business failure in the aggregate is often overstated and highly industry-specific. Even after a business failure, many entrepreneurs try again, making them some of the community’s most resilient and persistent agents for productive change. If you haven’t done so recently, be sure to stop by a local business, thank an entrepreneur, and talk to them about their ideas for their business and the community. Be sure to share some of your own ideas, and you may become fast friends. You may even find that some of the greatest innovators are not in Silicon Valley, but right here in rural Texas, ready for the next big idea.

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Vacancies on the Texas Municipal League Small Cities Advisory Council

The TML Small Cities Advisory Council (SCAC) advises the Texas Municipal League (TML) Board of Directors and staff on ways the League’s services to small cities can be expanded or modified, consistent with TML’s resources and the needs of the organization as a whole. The SCAC meets three times a year, and is made up of a dedicated and diverse group of elected and appointed officials in cities with populations of less than 15,000 from each of TML’s 15 regions.

There are currently vacancies on the council that need to be filled by city officials in TML regions 4, 6, 11, and 12. To find what TML region your city is in, visit the TML website, www.tml.org, or refer to the Texas City Officials Directory.

Contact Gray Bulman with the League staff at gray@tml.org or 512-231-7406 for more information, or if you would like to be considered for a position on the SCAC. ★