

issue: *Promoting Entrepreneurship in Rural Illinois*

by Norman Walzer and Andrew Blanke

Editor's Note: This *Policy Profiles* presents a study by Norman Walzer and Andrew Blanke, Center for Governmental Studies at NIU, focusing on the economics of Illinois communities, and especially those communities in the state's struggling rural areas. Acknowledging the chronic problems in Illinois, and especially in rural Illinois, this issue of *Profiles* offers insights and suggestions to help local community development efforts. Other *Policy Profiles* in this series can be found on the internet at www.niucgs.org/portfolio/policy_profiles/index.html

Illinois has suffered more in the recent recession than many other states with its relatively high unemployment and slower response during the economic recovery.

The recession just past, combined with an uncertain economic outlook for the months ahead, raises concerns about ways in which state and local governments can continue to provide the basic services needed for a high quality of life in the foreseeable future. This means that *governments in Illinois must find more effective ways to promote economic growth and development if they are to continue financing essential public services.*

Efforts to improve the economy – at the state level, in virtually all Illinois counties, and in individual cities and villages – thus need to be a top priority in Illinois.

How has the Illinois economy changed in recent years?

Employment changes between 2000 and 2010 show that Illinois is not only behind its neighboring states, but lags them substantially in some instances.¹ For example, the total employment in Illinois declined 1.5 percent compared with a decline of .3 percent in surrounding states during this period. Even worse, rural Illinois declined 6.7 percent compared with a decline of 2.5 percent in neighboring states and a growth of 2.3 percent nationwide. Of special note is a loss of 35.4 percent of the manufacturing jobs in Illinois compared with a decline of 30.3 percent in the surrounding states and 31.0 percent nationwide. Nonmetropolitan areas in Illinois declined at nearly the same rate (35.3 percent) as the state (35.4 percent) overall.

To be sure, many manufacturing jobs have been replaced by service employment, but in Illinois even these jobs increased only 11.8 percent compared with 15 percent in neighboring states and 19 percent nationwide. Many service jobs not only have lower wages, but they often do not provide employee benefits. Thus, the impact of a transition from manufacturing jobs to service jobs on economies, and especially on rural economies, is substantial. This, in turn, puts pressure on local economic development efforts both to increase business start-ups and to promote the expansion of existing establishments ready to advance to the next level by adding more employees.

■ *Illinois lags its neighboring states in responding to changing employment patterns*

■ *Employment in rural Illinois has declined more severely than in adjacent states*

■ *Small business development is especially important in rural Illinois*

■ *Rural business development efforts must target the unemployed, Hispanics, pre-retirees, spouses needing flexible work schedules, and small farmers*

■ *Properly targeted efforts to reach these groups might reverse Illinois' substandard record in attacking rural unemployment*

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What, if anything, can be done to reverse these trends?

Local economic development efforts, including those by public agencies, can use a variety of incentives and strategies to attract and retain industries.² Recognition that most jobs are created by small businesses causes development agencies to focus especially on such businesses³ through programs such as Small Business Development Centers (SBDCs) and entrepreneurship centers. Such initiatives encourage residents to consider launching business ventures rather than depending solely on traditional or large companies for employment opportunities.⁴

Successful entrepreneurship occurs in numerous ways in businesses large and small. It also can occur when public entities start new ventures that increase the flow of dollars into the area. For example, entrepreneurship can happen when a local hospital opens a unit or a division to provide a specialized service that attracts patients from outside the community. It also can ensue when a city opens a local tourism center that successfully markets local attractions to an expanded region and brings more visitors to the city.

Most often, however, entrepreneurship efforts are associated with starting or expanding businesses. This issue of Policy Profiles explores business starts in Illinois, especially in rural counties, and identifies the population characteristics most often associated with these starts in Illinois and eight other Midwestern states. This issue also describes successful programs that promote business creation and development.

Why are small businesses especially important?

Discussions about small businesses vary depending on who is conducting the

analysis and the questions asked. The Small Business Administration defines small businesses as those with 500 or fewer employees in manufacturing and mining or 100 employees in wholesale trade.⁵ In rural areas, businesses with 100 or more employees are usually considered large because many businesses have fewer than 10 or 15 employees. In many self-employed businesses, the owner is the only employee.⁶

The relative importance of small businesses in Illinois is shown by Association for Enterprise Opportunity (AEO) data on the number of businesses with five or fewer employees,⁷ including those that are owner-operated and have no employees. According to 2008 AEO data, more than 30 percent of the employment in 24 Illinois counties was in businesses with five or fewer employees. This situation is not unique to Illinois: 160 (18.8 percent) of the 850 counties in Midwestern states were in this category as well. Many such counties are near metropolitan areas where threshold market size can be reached within small commuting distances. *Figure One (on page 3) shows the approximate percentage of microenterprises (businesses with five or fewer employees) in each Illinois county in 2008.*

Small businesses are especially important in rural counties and sometimes represent retail or service businesses operated from homes (e.g., consulting activities or internet businesses). When nearly one of three jobs in a county is in a business with five or fewer employees, it is very important to understand who starts these businesses and how to nurture them with state and local public policies or programs.

Why do people start businesses?

Entrepreneurs start businesses for many reasons. However, not all business starts reflect an entrepreneurial activity and many may result from unexpected opportunities

or financial need. Many businesses will never employ a large number of people;⁸ nevertheless, they represent a stable employment base, especially in rural areas. Since rural areas have relatively few economic development options, it is critical for such areas to identify potential or likely entrepreneurs and encourage their efforts.

A large body of literature documents three common factors for starting businesses and who is likely to try.⁹ First, people must be motivated to start a business activity. Such motivation can come from many circumstances such as an immediate financial need or anticipated change in employment status. People who start businesses may be recently unemployed, have limited immediate prospects for another job, possess skills or experiences of value to an established clientele, or have an opportunity to provide a local service or product not currently available in the area.

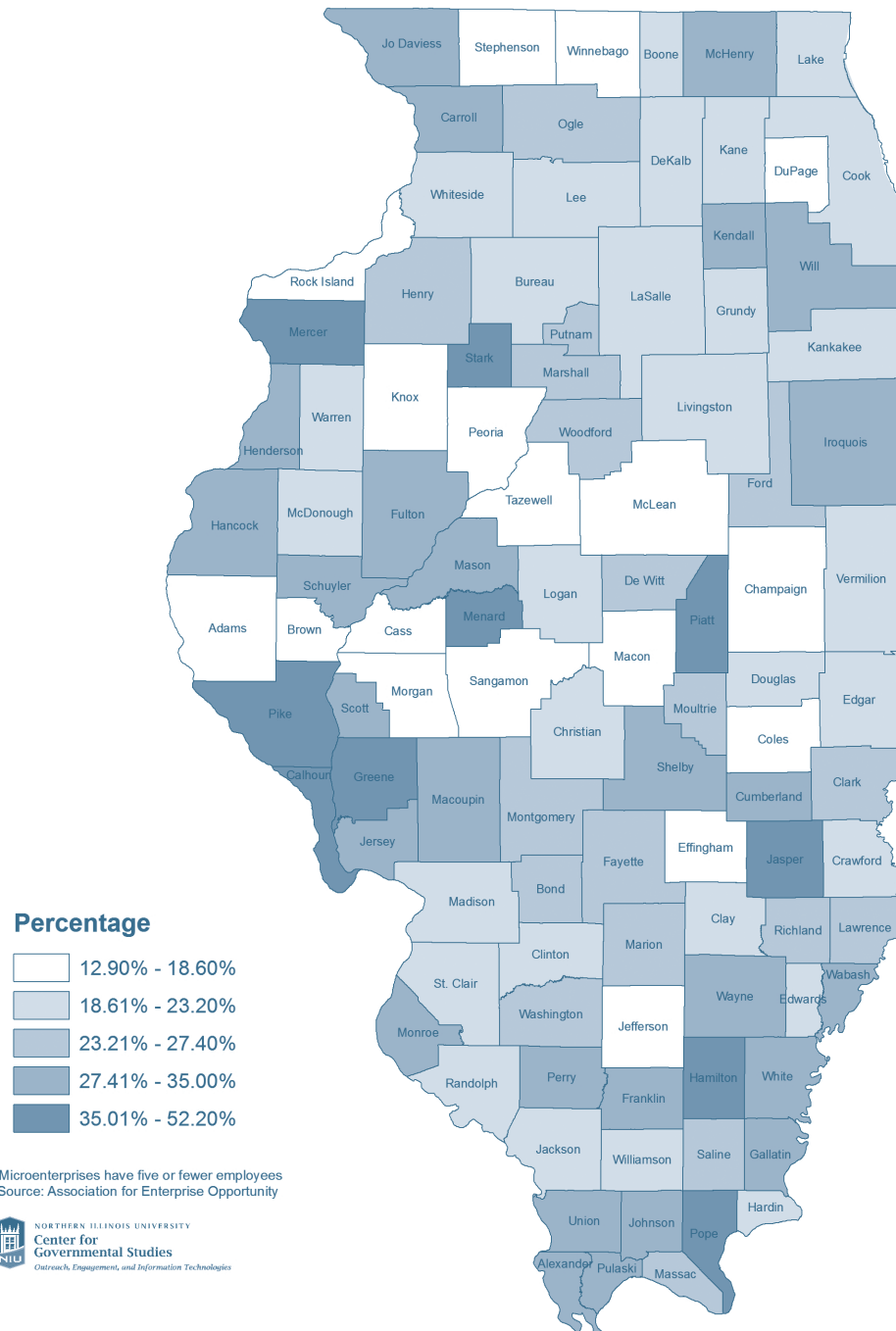
Second, entrepreneurs must have access to sufficient financial resources to launch the business activity as well as maintain operations until it becomes profitable or at least self-sustaining.¹⁰ Typically, these funds include personal savings, loans from local institutions, and money invested by other people willing to take a risk on the new venture.¹¹

Third, starting a business requires a sufficiently flexible schedule to allow time to organize and manage the overall effort, identify markets, make contacts, and establish a business presence. Many, if not most, businesses start part-time; nevertheless, adequate time must be dedicated to the needed start-up activities.

Where are businesses most likely to start up?

The ability to start businesses depends on local economic factors including access to capital, potential markets, and specific

Figure One: 2008 Illinois Microenterprise* Employment as a Percentage of Private Non-Farm Employment



interests or experiences of entrepreneurs. The Kauffman Index of Entrepreneurship Activity is a widely-cited comparison of states regarding "...the percent of individuals (ages 20 to 64) who do not own a business in the first survey month that start a business in the following month with fifteen or more hours worked per week."¹² According to the Kauffman Index, Illinois ranked fourth from the lowest (47th) among states in 2011 with a value of .20 percent, down from .26 percent in 2010.

Overall, Midwestern states, except Missouri, ranked relatively low, but states such as Indiana (.20 percent), Iowa (.24 percent), Kentucky (.37 percent), Minnesota (.23 percent), Missouri (.40 percent), and Wisconsin (.23 percent) met or exceeded the Illinois number in 2011. Even more significant is that, unlike Illinois, all of these states except Iowa improved in rankings between 2010 and 2011.

Illinois fares much better on another indicator of the potential climate for entrepreneurship – the Innovation Index published by the Purdue Center for Regional Development. This index has four main components including Human Capital (30 percent), Economic Dynamics (30 percent), Productivity and Employment (30 percent), and Economic Well-Being (10 percent), with each containing several specific measures related to creativity.¹³ By Innovation Index comparisons, Illinois ranks 15th among states and has the second highest Innovation Index score among neighboring states.¹⁴

Another perspective on Illinois' potential for economic development is provided by examining data on business starts in Illinois counties between 2004 and 2007, the period immediately prior to the national

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recession. *Figure Two (on page 5) shows for each Illinois county the percentage of business start-ups during 2004-2007 as a percent of the number of business firms in the county in 2004.* Twenty-five counties in Illinois had business start rates above 5.7 percent and 25 counties had business start rates below 3.3 percent.

Business starts in Illinois are also compared with those in nearly 750 counties in Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Ohio, and Wisconsin. Unique features such as tourism attractions, educational institutions, or other activities affect the comparisons, but business starts in Illinois generally conform to patterns in these Midwestern states.

The percentage increases in starts are usually higher in, or near, metropolitan areas such as the Chicago and Milwaukee collar counties, the Rockford area, Sangamon County (Springfield), and the St. Louis Metropolitan area. The lowest starts are in western and northwestern Illinois –rural areas with low population densities. In some instances, recreational or tourism-based counties such as southern Missouri and northern Wisconsin also have relatively high start rates.

Somewhat unexpected is the relatively low association between interstate highways and business starts in these states. The fact that small businesses are a higher percentage of businesses in rural areas with low population densities complicates the comparisons since it is harder to differentiate business starts reflecting entrepreneurial efforts from other regular business ventures.

What kinds of people are most likely to be entrepreneurs in rural areas?

Five population groups were identified as meeting the three entrepreneurship criteria mentioned previously. These groups were included in a multivariate regression analysis to determine their relationships

with business starts between 2004 and 2007.¹⁵ The results for the 850 Midwestern counties showed that business starts are strongly related to the unemployed; Hispanics; persons with high skill levels, such as pre-retirees (age 55 to 64); spouses needing flexible work schedules (age 25 to 34); and farm operators with 250 acres or less. *The analysis suggests that development practitioners should consider these groups in targeting their entrepreneurship support programs and small business development outreach activities.*

The first group, the *unemployed*, includes those who start a business for financial reasons because they have few, if any, employment or income alternatives. This group includes those unemployed because of an unexpected plant closing or other considerations. They may have a marketable knowledge base or skill set, but are unable to find local employment.

The second group is comprised of *Hispanics*, and especially those who are recent immigrants into a community and who, because of language barriers or other factors,¹⁶ do not participate effectively in traditional labor markets. There is evidence that, especially during the past several years of high unemployment, many such immigrants have started businesses.¹⁷ And Midwestern counties have had significant increases in Hispanic populations.

People in the third, fourth, and fifth population groups share a common characteristic. They are persons with high skill levels who may either desire a more flexible schedule or cannot find suitable local employment matching their professional interests or qualifications. These include:

- *Pre-retirees* (or baby boomers) who, as they approach retirement age, may evaluate their business opportunities to pursue professional interests or supplement retirement income by using the skills and knowledge

gained during their working careers. This group may have the financial resources, motivation, and schedule to pursue their own business opportunities.

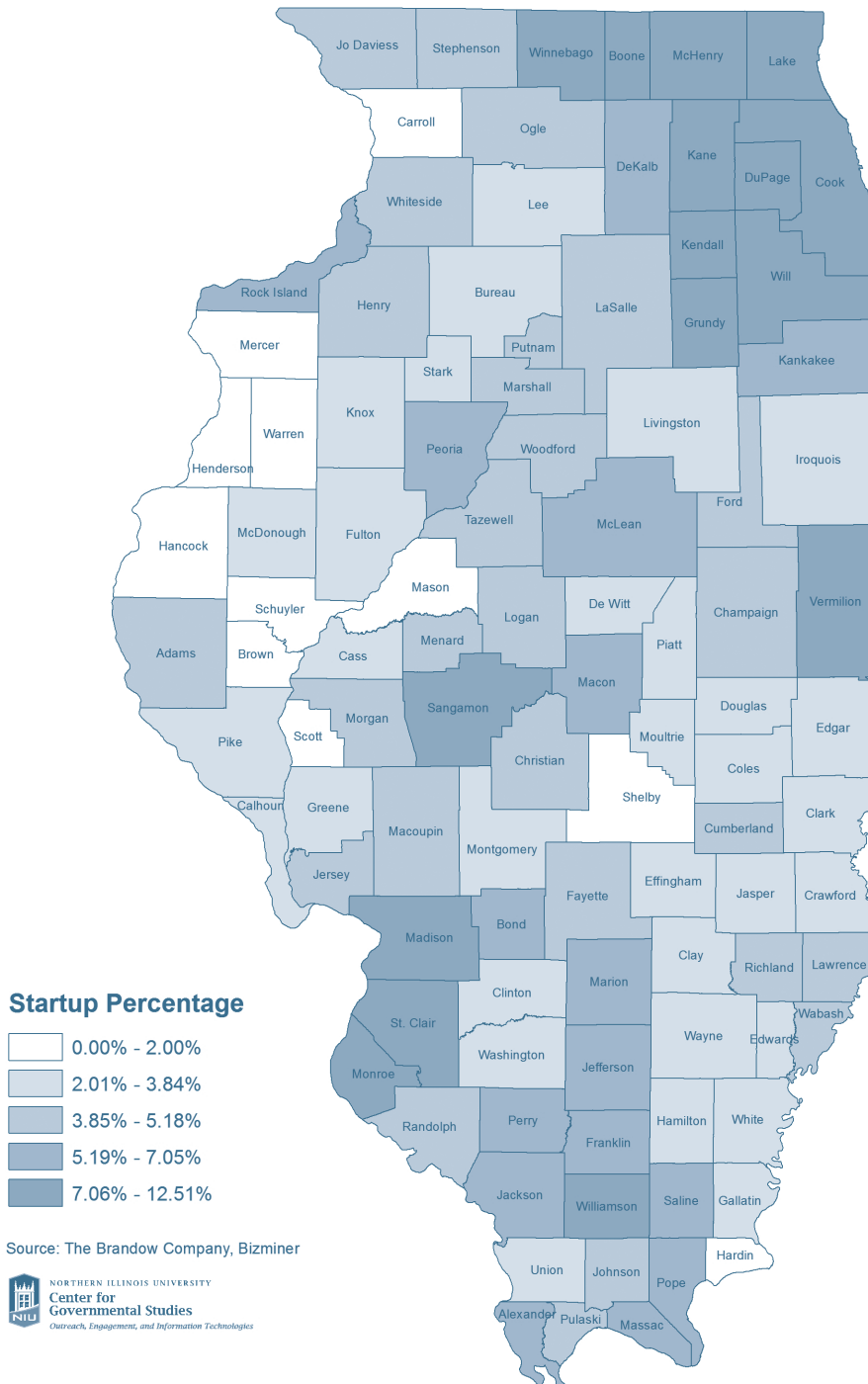
- *Young professional females* who live in a less well populated area which was selected based on the skills and job opportunities of a primary bread winner and who may need a more flexible schedule because of child-rearing or other family responsibilities.
- *Farm operators* in the Midwest, especially those with small acreages, who have opportunities to start value-added businesses during the off-season months. State and local programs encourage farm operators to participate in business ventures to market their products more lucratively.¹⁸ The farm operators have a flexible schedule during the off-seasons and may have the physical and financial resources to start a business.¹⁹

How can these groups best be served?

Population groups prone to start businesses have unique needs that can be met with targeted programs. For instance, Hispanic entrepreneurs may benefit from courses in construction entrepreneurship and English for customer service as offered by the Latino Economic Development Center in Minneapolis, Minnesota.²⁰ The unemployed may be more likely to take entrepreneurial training courses at community colleges when they receive compensation in lieu of unemployment insurance.²¹ Pre-retirees may need less guidance in refining a business idea and managing the venture, but they may respond to workshops on marketing through social media and networking events that allow for idea sharing.²² Examples of several successful entrepreneurship programs in Illinois and other states are described below.

It is also important to design target programs with the needs of the specific

Figure Two: 2004-2007 Illinois Business Startups as a Percentage of 2004 Total Firms



group in mind. For instance, some may need training programs offered in the evening because of family responsibilities while others have time during the day. In some instances, multilingual programs may meet the needs of specific populations. The types of businesses in which potential entrepreneur groups are interested vary, especially for pre-retirees who are more likely to pursue ventures that build on prior careers. Aspiring entrepreneurs may also have different needs for start-up capital depending on local resources. Most recently, the Advantage Illinois programs administered by the Department of Commerce and Economic Opportunity have increased access to capital available through banks and financial institutions.

What are some examples of innovative entrepreneurship programs?

Five examples of such programs in Illinois, Iowa, and Montana are described briefly below, with footnote citations to a source providing more information about each program. Attendance at national, regional, and local area meetings and conferences in which economic development is discussed can provide additional examples of such programs.

Effingham County, Illinois: Creating Entrepreneurial Opportunities

Creating Entrepreneurial Opportunities (CEO) is a one-year entrepreneurial training class offered to secondary school students in several school districts in Effingham County, Illinois, and supported by community leaders and local business owners. CEO students receive comprehensive instruction on running a business from conceptualization to operation. Students learn to frame their business ideas in terms of costs versus benefits, economic opportunity, and competitive advantage. Students also learn marketing and record-keeping skills. Finally, students prepare business plans to present to business leaders and investors.

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According to a CEO annual report, the organization operates an angel investment fund that offers capital for graduates who implement business plans in the county. Information was not available on business survival rates.²³

Illinois Hispanic Chamber of Commerce

The Illinois Hispanic Chamber of Commerce provides a variety of services for the state's Hispanic business owners. The Chamber has a small business development center that offers counseling in English and Spanish, provides workshops that build business management skills, assists with business plan development and refinement, and helps current and prospective business owners apply for bank loans. In addition, the organization provides opportunities for Hispanic business owners to expand their businesses by becoming government contractors. According to the organization's website, the Illinois Hispanic Chamber of Commerce increased Hispanic business owners' revenues by more than \$200 million during a 20-year period.²⁴

Department of Commerce and Economic Opportunity: Advantage Illinois

Advantage Illinois is designed to increase the access to capital for small businesses. Through a Capital Assistance Program, the state government and private banks contribute money into a pooled reserve used by banks to insure loans to individuals looking to start or expand their small businesses. Private lenders may also apply to have the state make loans to businesses owned by minorities, women, and disabled veterans through a Participatory Loan Program. Through the Participatory Loan Program, banks identify viable small business ideas and the state helps them support the owners of those businesses. Finally, the state has an Invest Illinois Venture Fund that provides venture capital for business owners demonstrating that their businesses have potential for rapid growth.²⁵

Bootstrap Montana: Communities in Rural Montana

The Bootstrap Montana program provides one-year, zero-interest loans of \$5,000 to \$20,000 to young businesses. The short-term loans provide the resources necessary for businesses to grow without burdening entrepreneurs with long-term debt. Borrowers use these loans to expand business sales and marketing activities. Uses of bootstrap loans include hiring a salesperson or presenting at a trade show. Businesses must be at least one year old to be eligible to apply for a loan and must present a letter of recommendation from a bank or financial institution, CPA, or legal counsel. Detailed information on outcomes is not readily available, but the lending organization tracks borrowers' performance. Businesses participating in the program must submit quarterly unaudited financial statements showing how loan proceeds were spent.²⁶

State of Iowa: Targeted Small Business Assistance

The State of Iowa Economic Development Authority (IEDA) provides a special program, *Targeted Small Business (TSB) Assistance*, to business starts for women, minorities, and residents with disabilities. IEDA offers loans of up to \$50,000 over five years at 5% maximum interest. Free counseling is provided for loan applications, refining business plans, and applying for certification as a Targeted Small Business (TSB). Certified TSBs also receive preferential treatment for government contracts. When the State of Iowa solicits bids for goods and services, TSBs have access to a website informing them of the invitation 48 hours before it becomes public. As of 2008, the state had made 69 contracts with targeted small businesses, and 600 registered businesses currently participate in the program.

The TSB program targets business owners by industry and demographics. Retail and food service businesses, two of the most common industries for business starts but also with high failure rates,²⁷ are ineligible for TSB status. The state supports small businesses only in those industries with which it contracts, such as construction, logistics, and chemicals.²⁸

What use can Illinois make of this information?

The comparison of Illinois with other Midwestern states suggests several policy strategies. Entrepreneurship activity in Illinois, as measured by the Kauffmann Index, is relatively low compared with other states and has declined slightly in recent years while in neighboring states it has increased. Illinois lost a higher share of manufacturing jobs than neighboring states, and service employment did not increase as quickly. The smaller increase in jobs, plus the fact that services typically pay less, has increased the pressure on local development practitioners to find and to promote new entrepreneurial business opportunities in Illinois.

On a more positive side, Illinois ranks much higher on the Innovation Index,²⁹ which suggests that potential exists even in remote areas. Illinois already has a variety of programs including a Small Business Development Center network that helps potential entrepreneurs to identify business opportunities and to obtain technical assistance in launching ventures. Areas within the state hold competitions for business ideas that are then funded by angel investors, venture capitalists, or other local groups. Effingham provides one example of innovative ways to help youth engage in entrepreneurial efforts. These types of programs can be increased to reach new and more targeted audiences.

Programs in other states should be examined closely for implementation

in Illinois, especially when tailored to the unemployed, pre-retirees, young professional women, Hispanics, and farmers who were identified in this *Policy Profile* as meeting the entrepreneurship criteria. Other states have been more active than Illinois, and modifying current programs may not be difficult or costly but perhaps could provide new opportunities for business creation, especially in rural Illinois. While business starts are certainly

not the only development approach, they are of special importance to rural areas that rely heavily on these businesses for employment.

There are signs that the economic recovery is underway and past experience suggests that Illinois will have a delayed response. Communities in rural Illinois are implementing local development activities using programs tried in other

states, but there are signs that the business starts in Illinois' rural areas are lagging behind adjacent states. This *Policy Profiles* suggests that five key population groups may be strongly associated with business starts, and concentrated efforts to help Illinois' rural communities launch development programs targeted at these groups might well promote more business starts and increase employment in rural Illinois.

Endnotes

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¹⁴The Innovation Index score for Illinois was compared to those for Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Ohio, and Wisconsin. Among those states, only Minnesota scored higher than Illinois.

¹⁵The local business environment also affects business starts, and several variables were included in the analysis described above to adjust for these differences. Specifically, the median value of housing in a county was used to adjust for average wealth. Status as a remote, adjacent, or metro county was included to adjust for market size and access. Natural amenities were included to reflect the desirability of a county as a place to start a business or to reside. The Innovation Index score for each county provided information about the potential creativity of residents in a county. Finally, when residents have other employment opportunities in neighboring centers, they may have less pressure or incentive to start businesses, so the percentages of residents commuting to work outside of the county were included.

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²⁷See footnote 9.

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²⁹See footnote 14.

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