

## **A NEW APPROACH TO RURAL ENTREPRENEURSHIP: A CASE STUDY OF TWO RURAL ELECTRIC COOPERATIVES**

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### **ABSTRACT**

This paper develops a model for rural entrepreneurship as a means for developing new businesses. The purpose of the paper is to propose an approach to economic development that is well suited to rural locations. In the first section, we describe the current literature. In the next section, we describe the rural electric cooperative. In the third section, we build on work Wortman (1990) and Lyons (2002) to propose a new approach to economic development that is built around a cooperative model using rural electric cooperatives as the lead institution for stimulating entrepreneurship in rural communities. We believe this model provides the basis for future development of entrepreneurship in rural areas throughout the United States. In the following section, we demonstrate the efficacy of this model through a case study of two electric cooperatives that have engaged in economic development. The paper concludes by discussing how the electric cooperative incubator model is well suited to stimulating entrepreneurship in rural areas.

### **INTRODUCTION**

Entrepreneurship and the role of small businesses in economic development in the U.S. has been widely established (Sherman and Cappell, 1998). The United States Small Business Administration (SBA) maintains descriptive statistics emphasizing the enormous contributions that small firms have had on the American economy, such as 53.7% of all employment in the U.S. and 55% of all innovations. Yet this good news is tempered by statistics indicating failure rates over 50% for firms during their first four years of operation among small firms (SBA, 2003; SBA, 2002). Although small-firm growth accounts for a significant share of net new employment in this country, failure rates of small firms are particularly high in rural areas, where jobs are needed most.

Because of the importance of small firms and their high failure rates, government initiatives at the federal, state, local levels-as well as private intervention programs-have been created to assist in the creation and growth of small start-up businesses in rural areas. The best known programs include Small Business Development Centers (SBDC), Small Business Institute (SBI), Service Corp of Retired Executives (SCORE), and small business incubators (See Wortman, 1990a for a detailed list of other types of policies and programs).

The Small Business Administration (SBA) provides assistance to rural small businesses through their Small Business Development Center (SBDC) programs, and each SBDC is tasked with assisting rural small businesses. Yet Van Horn and Harvey point out that despite the efforts of the SBA and other organizations, "entrepreneurial firms ... in rural areas, face a host of difficulties related to their external and internal environment. They are small and isolated. The people and information base to provide expert support for critical decisions and functions do not exist internally or externally in the rural location" (Van Horn and Harvey, pg. 157-158,1998).

The problems facing small firms in rural areas are compounded by a combination of logistics and reduced federal funding. The SBA has suffered cutbacks in many programs, such as the

elimination of the Small Business Institute program. This predicament means the rural small business must choose to seek assistance from a SBDC that may be geographically distant, unaffordable due to travel time and distance, or simply unavailable. This leaves the rural small firms in these remote areas with few options for assistance.

Despite our knowledge regarding business assistance programs in the United States, stimulating business growth in rural areas continues to be a challenge. In particular, we seem to lack a consistent model or framework for economic development in rural areas. The purpose of this research is to recommend a framework for economic development that is well-suited to a rural environment and builds upon our understanding of business assistance. Our emphasis is to propose a specific model of business assistance for rural areas that can easily be duplicated in a variety of rural settings. Other researchers have proposed general models of assistance programs for rural areas that are so general that they may prove difficult to duplicate across the diversity of rural settings that exist in the U.S.

We highlight the problems traditionally facing these would-be entrepreneurs. Then, building on the work of Wortman (1990) and Lyons (2002), we then propose a systemic approach where rural entrepreneurship is developed around a network supported by a rural electric cooperative that receives support from other committed institutions. The use of a variety of supporting institutions ensures that value is added at every stage of the process. The paper concludes by discussing how this model is well suited for creating incubators or other support programs in rural America. The implications for policy makers, economic development leaders, and academicians are discussed.

## **LITERATURE REVIEW**

### **Entrepreneurship in Rural America**

Rasmussen (1985) points out that, as of 1985, the federal government had analyzed rural development for over 90 years. Many of the economic problems facing rural America are driven by demographic changes such as depopulation and an aging populace. Rural development as defined by Sauer (1986) includes issues such as encouragement of farm-related enterprises, technical and management assistance for rural entrepreneurs, analysis of federal farm policies, technical assistance to local governments located in rural areas, rural transportation, rural telephone service and information systems, natural resource management, rural financial history, rural families, and family management in rural areas.

Wortman (1990) points out that rural development has been equated with rural industrialization, community economic development, community development, and cultural assessment of rural resources. Thus, rural economic development is merely a point along a continuum ranging from economic well-being to overall well-being (Sears, Reid, Rowley, and Yetley (1989, referred to by Wortman, 1990)).

Wortman argues, "Economic development and entrepreneurship are clearly related. Year in, year out, the Annual Report of the Small Business Administration has reported that more than two-thirds of all new jobs that are created in the U.S. are developed through the entrepreneurial spirit involved in small businesses. Therefore, rural economic development and rural entrepreneurship are also clearly related" (Wortman, 1990, p. 222). He defines the term rural entrepreneurship as "the creation of a new organization that introduces a new product, serves or creates a new market, or utilizes a new technology in a rural environment" (Wortman, 1990a, p. 222).

## **Economic Assistance in Rural America**

Rural Americans have limited access to economic assistance from the federal government. The page restrictions of the proceedings limit our ability to describe the programs that are prevalent in rural areas, except to list them: 1) The SBA has limited funds and tends to emphasize assistance in densely populated areas; 2) The Small Business Institute (SBI) was once an SBA program, but is now administered by a non-profit organization. It was once located in over 500 universities and colleges throughout the U.S. It has fewer than 150 locations today. Incubators are another means of economic assistance in rural areas. Incubators nurture young firms, helping them to survive and grow during the start-up period when they are most vulnerable. Incubators provide hands-on management assistance, access to financing and orchestrated exposure to critical business or technical support services. Research on incubators has emerged as one of the most topical debates in business schools, among business leaders, and by those formulating public policy over the past quarter century (Brandt, 1991; Sherman and Cappell, 1998; Barse, 1998). Interestingly, however, very few studies have evaluated *rural* incubators. Nonetheless, incubators show some promise as a means of economic development in rural areas as the NBIA reports over thirty percent of all incubators in the U.S. are located in rural areas, although many of them tend to be adjacent to urban areas. The remaining problem is determining who will be the catalyst to initiate the process required to create an incubator. Culp (1990) and Sherman (1999), and the NBIA (NBIA Website) point out that it takes a considerable amount of time to create an incubator.

### **A Systemic Approach**

Wortman argues “there is no single approach for the support of rural entrepreneurship” (Wortman, 1990, p. 229). Traditional attempts to stimulate economic growth by luring big businesses to rural communities have largely failed. Other programs aimed at creating local small businesses have similarly failed. Wortman contends that their collective failures may lie in the lack of interrelationships between the many types of programs. Each of the many programs and policies he describes operate independently. Programs, policies, agencies, banks, and other institutions are stretched too thinly to serve the needs of far flung enterprises in rural areas. Thus, he calls for a unified public-private approach whereby governmental agencies and private organizations work together to stimulate entrepreneurship in rural regions. Wortman (1990) describes in detail what he calls Rural Economic Development Zones (REDZs) that would span as many as four county governments. He goes into great detail to describe how to locate these REDZs in the most efficient manner and even explains how they might overcome political and institutional problems.

Twelve years after Wortman’s discussion of how to develop rural entrepreneurship, Lyons (2002) points out that none of the many economic development strategies has been very successful in turning U.S. rural economies around (Lyons, 2002). He points out, “Rural poverty for the past few decades has been, and continues to be, a nagging problem in the U.S.” (Lyons, 2002, p. 194).

Lyons (2002) and Wortman (1990a) argue that the most current response to these challenges in rural America are the development of strategies for encouraging “home grown” (Lyons, 2002, p. 194) businesses. The basic idea is that these “new ventures will provide jobs or at least self-employment; will remain in the areas where they were spawned as they grow; and will export their goods and services outside the community, attracting much-needed income” (Lyons, 2002, p. 195).

However, considerable debate exists as to how to best accomplish this daunting task. Lyons points out that the many initiatives employed in the U.S. are done so in isolation. While there are examples of attempts to coordinate entrepreneurial development on regional scales, Reynolds and White (1997) point out that most efforts to stimulate entrepreneurship in rural areas are highly fragmented. Lichtenstein and Lyons (1996) argue that in order to be successful in developing entrepreneurship, rural areas must overcome the barriers to successful entrepreneurship, specifically fragmented internal linkages (among community members) and external linkages (with other communities). Thus, the solution to the problem of rural economic development is the creation of linkages among regional entities that combine their resources to support entrepreneurship.

Unfortunately, the frameworks provided by Wortman (1990) and Lyons (2002) are so broadly described they beg the question exactly how might a rural community actually implement their ideas? Lyons (2002) argues that his recommendation for networks that build on social capital can be highly tailored to the situation. He specifically avoids providing solutions that he labels “cookie cutter” or “one size fits all” (Lyons, 2002, p. 198). We concur that both he and Wortman have separately captured the essence of a successful answer to the problems facing rural communities. While they use different terminology and approach the problems from different perspectives, they are essentially advocating a cooperative approach to rural economic development that attempts to stimulate the creation and sustainability of entrepreneurial firms. We believe this approach represents a good starting point, but believe that rural areas require something more concrete in order to actually apply what Lyons and Wortman recommend.

### **Rural Electric Cooperatives**

Most Americans take for granted the electricity, telephones, water and waste disposal services available to them. Yet, this was not the case as recently as 60 years ago. In 1932, only 10 percent of the nation’s farms had electricity compared to 70 percent of urban dwellers (USDA Website, 2004). It is highly likely that one went without these necessities of modern life and the standard of living they make possible. In 1936, modern utilities came to rural America through the creation of the Rural Electrical Administration. Within the federal legislation, Title V, Sections 501 and 502 address economic development; Section 501 of Title V authorizes the US Department of Agriculture to provide technical advice and assistance to borrowers utilizing the authority under section 312 to engage in rural economic development activity. Section 502 of Title V established a Rural Business Incubator fund, its uses, eligibility, and funding. To implement its goals the administration made long-term, self-liquidating loans to state and local governments, to farmers' cooperatives, and to nonprofit organizations; no loans were made directly to consumers. In 1949 the Rural Electric Administration (REA) was authorized to make loans for telephone improvements; in 1988, REA was permitted to give interest-free loans for job creation and rural electric systems. By the early 1970s about 98% of all farms in the United States had electric service, a demonstration of REA's success. Since 1994, the REA has been called the now called the Rural Utilities Service.

[Figure 1 about here]

Today, 1,000 rural electric cooperatives serve 30 million Americans in 48 states — 10 percent of the U.S. population.<sup>1</sup> Figure 1 below shows the extent of rural electric cooperatives in the U.S. Electric cooperatives own and maintain nearly half of all distribution lines in the

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<sup>1</sup> According to Mr. Blaine Stockton of the USDA Public Utilities Service.

country, which cover three-fourths of the nation's land area. Rural electric cooperatives average 5.8 consumers and generate about \$7,000 per mile of line. In contrast, investor-owned utilities, or public utility districts, average 35 consumers and collect \$59,000 per mile of line.

## **THE RURAL ENTREPRENEURSHIP MODEL**

The constraints that arise when trying to develop entrepreneurship in a rural location have been described in detail. These regions of the country often lack the coordinated public-private arrangements needed to fulfill the incubation and assessment processes and lack the cross-institutional coordination to successfully encourage entrepreneurship (Lyons, 2002).

Thus, we propose the model shown in Figure 2 as a framework for developing entrepreneurship in rural communities. Lyons (1999) argues that successful economic interventions take place only in win-win scenarios characterized by a collective economic strategy; a situation is highlighted by a number of elements: a sense of community and networking, dynamic sponsorship based upon competitive pressures (the sponsoring agencies stand to gain when entrepreneurs are successfully fostered), knowledge and technology transfer, leveraging entrepreneurs' capabilities and skills (through expert training and mentoring), and facilitating access to capital (through a mix of public-private mechanisms) (Lyons, 1999).

[Figure 2 about here]

Our proposed model emphasizes the electric cooperative as the catalyst for change. The National Rural Electric Cooperative Association (NRECA) points out that rural electric cooperatives have been involved with economic development for over 60 years. They have been involved with economic development even when there was not a formal process as they "brought new business, new services, and new facilities to rural America.... But community and economic development today requires new funding, new partners, and new strategies (NRECA, 2003, p. 3).

Rural electric cooperatives are an unusual business organization because they belong to their members. They share a responsibility to their members to preserve and promote what is in the best interest for their community. Thus, they have a unique self-interest in the economic well-being of the communities they serve. "Commitment to community and economic development is a necessity in order for a rural electric cooperative to survive" (NRECA, 2003, p. 5).

From a theoretical perspective, the model of rural entrepreneurship that we propose can be extended to many rural communities because of the commonality that exists among the central figure in our model, the rural electric cooperative. Building a model around rural electric cooperatives takes advantage of the predisposition of rural electric cooperatives to engage in economic development (NRECA Website, 2004). As Figure 1 demonstrated, rural electric cooperatives are located throughout most of the continental U.S. Thus, the proposed model can be implemented in a variety of locations, with only minor modifications to the overall structure based upon the potential partners available to the individual electric cooperative.

## **RESEARCH DESIGN**

We propose to extend Lyons (2002) and Wortman's (1990) perspectives on rural economic development by evaluating a similar, but somewhat different approach to economic development based upon case studies of two rural electric cooperatives. Previous research has emphasized the value of the case-study method as a qualitative research strategy (St. John and Heriot, 1991; Audet and d'Amoise, 1998). In particular, Yin (1994) and Earnstadt (1989) have explained the value of the case method. The choice of a case study method is theoretically driven. Case research has high exploratory power and allows dynamic, decision-making processes to be more deeply investigated (Audet and d'Amoise, 1998).

The selection of the two locations was not random. It was purposeful as is appropriate in a case study where the researcher seeks a deeper, richer understanding of a process or phenomena (Yin, 1994). Each of these electric cooperatives is highlighted in material developed by the National Rural Electric Cooperative Association that was made available to the researchers. Additionally, the researchers were able to speak with the general managers of each of the electric cooperatives in order to gain a deeper insight into their situation.

## **The Case Study**

### Whiteville, North Carolina

The Brunswick Electric Membership Cooperative (BEMC) service area is in southeastern North Carolina, a region that has suffered economically in recent years due to shutdowns in local manufacturing and declining farm incomes. The co-op has responded to the situation in a number of ways, including providing facilities to encourage the development of small businesses.

BEMC supports three business development centers through its Rural Consumer Services Corporation (RCSC) located in Winnabow, Whiteville, and Tabor City, NC. We focus on the Whiteville location. The Whiteville location provides affordable, commercial space for new and expanding businesses. This location is a mixed-use incubator that supports professional, service, manufacturing or light assembly businesses. The facility also provides a supportive environment for entrepreneurs that includes business counseling, access to high speed internet, light office equipment, secretarial support, general interior and exterior maintenance, and a shared conference room and training facility.

In 1989 BEMC worked to develop partnerships and build a nonprofit business incubator facility in southeastern North Carolina. This was one of the first applications approved under a new program funded by (then) Rural Electrification Administration (REA) to stimulate economic development in rural areas in the U.S. BEMC tackled the project by setting up a spin-off corporation, the Rural Consumer Services Corporation (RCSC), in 1989. The co-op financed RCSC through partnerships with a number of local and national entities, including the Rural Electrification Administration (now USDA Rural Development's Rural Utilities Service), the Farmers Home Administration (whose business, community and housing programs are now part of Rural Development), and the North Carolina Technological Development Authority. Further funding and other support came from local community colleges, local development organizations and local businesses and individuals. The first funds were used as seed money to open a Business Development Center in Whiteville, N.C., in 1991.

Two more centers were later opened using additional funding in nearby Winnebow and Tabor City. According to Chip Leavitt, CEO and General Manager of BEMC, the co-op minimized

expenditures of members' funds. "The basic approach was for BEMC to serve as a catalyst for the project," he says. "Our investment was not in membership dollars, but primarily in staff and management resources to develop partnerships, pursue other financing sources and garner community support for the project" (NRECA, 2003, p. 29). BEMC provided a loan of \$128,000 to help finance the building in Winnabow.

RCSC is now self-supporting from rental income. Annual expenditures for the business centers total \$160,000, including management and technical support, maintenance, utilities, etc. Since the first center opened in 1991, the overall program has housed 32 businesses and helped create almost 800 new jobs.

Table 1 summarizes the financial resources necessary to make the Whiteville Business Development Center a reality. RCSC has not accomplished everything on its own. As researchers suggest (see, e.g., Lyons, 2002), they have partnered their efforts with public and private organizations to help create opportunities for small start-up businesses. The ongoing management of RCSC Business Development Centers is made possible by the continuing partnership between BEMC, RCSC and the Small Business Development Center. Southeastern Community College provides on-site management for the Whiteville facility. The community college also provides business counseling services and entrepreneurial training programs (USDA Website, 2004).

[Table 1 about here]

### Black River Falls, Wisconsin

Much like the facility in Whiteville, NC, the facility in Black River Falls, Wisconsin is the result of the efforts of the Jackson Electric Co-op. Since the 1970s Jackson Electric Co-op (JEC) in Black River Falls has been the moving force in the development of an industrial park, a business incubator and a satellite of the Western Wisconsin Technical College in its service area. The co-op receives 50 percent of its commercial and industrial KWh sales from the 76-acre industrial park, in which all sites are sold. The business incubator graduated eight small businesses totaling 100-plus employees. Major employers are: Leeson Electric Motor Company (250 employees) and Nelson Industries (100 employees). Recently, Jackson Electric Co-op competed with 40 other communities to win the site for a Land O' Lakes animal milk replacement plant, employing 45 people at a total cost of \$15 million. Since the original park sites are filled, a new adjoining park is under development. Adjacent to the park is a medium security prison (350 employees) and the Ho-Chunk Tribal Corporate Headquarters (350 employees).

From 1970 to 1978, JEC manager Mike Anderson, then manager of Customer Services, served as mayor of the City of Black River Falls. He was able to obtain 90 grants from the US. Economic Development Administration and the Upper Great Lakes Regional Planning Commission to develop the 76-acre industrial park. He also created a \$500,000 city of Black River Falls revolving loan fund, to be used to assist in the financing for business and industries that were locating in the park.

The Jackson Economic Development Corporation (JEDC), established by Jackson Electric Co-op, has a \$480,000 revolving loan fund. JEDC has a \$4 million portfolio, the result of funding from the Cooperative Finance Corporation (CFC), the RUS, Dairyland Power Cooperative (G&T), the state of Wisconsin and the use of the revolving loan fund.

This \$4 million has generated an additional \$35 million of investments in the industrial park and other area businesses. Private and public sector funders provide \$1.5 million in loans at low interest rates. Public sector funds are provided through the US Department of Agriculture's Rural Business Services program (formerly the Rural Utilities Service).

[Insert Table 2 about here]

Black River Falls project has not accomplished everything on its own. As researchers suggest (See, e.g., Lyons, 2002), they have partnered their efforts with public and private organizations to help create opportunities for small start-up businesses. The ongoing management of the facility is provided by Marilyn Vasquez. The original industrial park, business incubator, and the satellite campus of a nearby technical college are the result of partnerships between JEC and several organizations, both public and private. Western Wisconsin Technical College offers special courses for small businesses. Enrollment in this satellite campus of the technical college has grown to over 1,400 students in a county with only 18,000 citizens. JEC created the Jackson Economic Development Corporation to manage the overall project.

## CONCLUSION

The two case studies in this paper demonstrate the potential for developing entrepreneurship in rural areas of America by building a network of economic support with a rural electric cooperative as the "hub". The research model proposed in this study emphasizes the electric cooperative as the catalyst for developing rural entrepreneurship. However, a perusal of the model shows that partnerships are critical to its overall success. The proposed model is good business for electric cooperatives and the regions they serve. The U.S. government regularly publishes statistics that demonstrate the strong impact that small new business ventures have on our nation's vitality (SBA, 2002). By trying to develop new businesses and new jobs, rural electric cooperatives are able to ensure that people will continue to want to live and work in their region.

**References** Available Upon Request.

Figure 1. Location of America's Cooperative Electric Utilities



Source: National Rural Electric Cooperative Association Website  
([http://www.nreca.org/nreca/About\\_Us/Our\\_Members/Our\\_Members](http://www.nreca.org/nreca/About_Us/Our_Members/Our_Members))

Figure 2. A Model for Building and Sustaining Rural Entrepreneurship

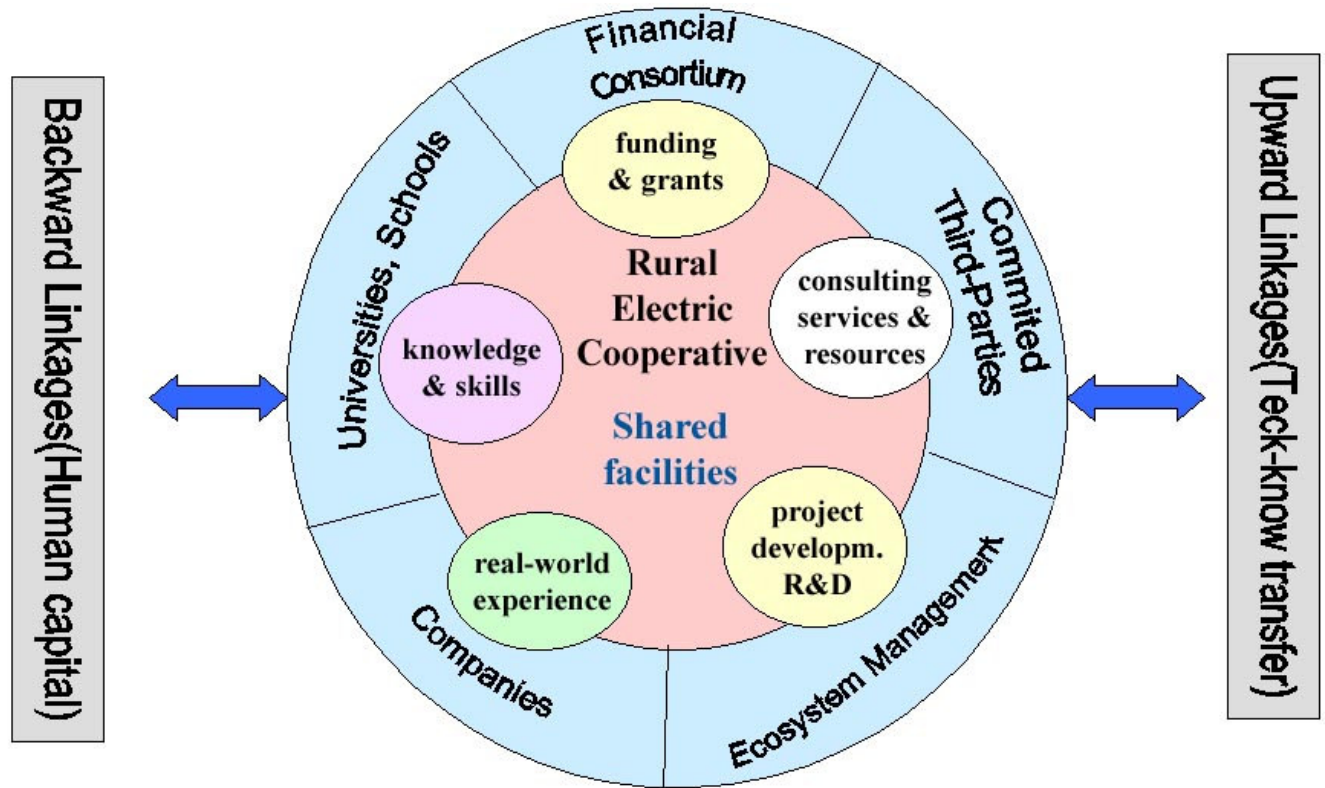


Table 1. Funding of the Whiteville, NC Rural Electric Co-op's Facility. <sup>2</sup>

<i>Source of Funds</i>	<i>Amount of Funds</i>
USDA Rural Economic Development Loan (repaid)	\$100,000
North Carolina Technological Development Authority	\$100,000
<i>North Carolina Rural Economic Development Center, Inc.</i>	\$30,000
<i>USDA Industrial Development Center</i>	\$32,000
<b>Columbus County, NC</b>	\$32,000
<b>Total</b>	<b>\$379,000</b>

<sup>2</sup> The road and building are owned by BEMC and leased to RCSC.

Table 2. Funding of the Black River Falls, WI Rural Electric Co-op's Facility.

<i>Source of Funds</i>	<i>Amount of Funds</i>
<i>City of Black River Falls</i>	\$80,000
<i>Dairyland Power Cooperative</i>	\$100,00
<i>State of Wisconsin</i>	\$100,000
<i>Rural Utilities Service (USDA)</i>	\$100,000
<b>Total Loans</b>	<b>\$380,000</b>