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Modern Challenges of New Business Creation & Entrepreneurship in Rural Areas¹

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Abstract

Some authors (Suarez-Villa, 1989)(Wortman, 1990) have indicated that, despite its known contributions towards regional economic development, entrepreneurship has been under-studied and still remains a mystery for those who would like to establish public policy that would encourage and support it. Less known still, is the nature of entrepreneurship in rural areas where fewer resources are made available to encourage its development and subsequent growth.(Henderson, 2002)(Stauber, 2001) This paper reviews briefly the economic challenges confronting rural communities today. US rural public policy has been unsuccessful for the past two decades in dealing with many of these challenges.(Stauber, 2001). Almost without regional exception, demographic data across the US show the continued decline in the number of small farms and ranches, reduced employment in extraction industries and the migration of young workers from rural to urban areas. Attempts to offset the adverse economic impact of these trends, rural communities have taken the initiative in identifying and exploiting certain societal trends that generate rural in-migration due to establishment of amenities, the desire for a natural environment and economic enablers such as the internet and wireless communications. We conclude that rural communities in concert with federal and state policy makers can take action to help stabilize rural America's economy by supporting new business opportunities and new approaches to entrepreneurship.

US Rural Economic Challenges

Rural areas are comprised of all territory, population, and housing units located outside of urbanized areas (UAs) and urban clusters (UCs) according to the US Bureau of the Census. According to the US census in 1990, approximately 24.8% (61.7 million) of the U.S. population lived in rural areas while the 2000 census yielded the figures of 23% and 60.4 million, respectively. These figures indicate a continued decline in rural based population in the US.

Farming and ranching have been traditional methods for earning a living in the rural countryside. However, the US farmers have found that today's new transportation and refrigeration methods have enabled global competition to offset the domestic market proximity advantage they held for many years. Ranching has also not been spared the attack by foreign suppliers to take away significant market share. The rancher has also had to contend with environmental concerns and fewer and fewer federal lands available for grazing. The federal government has responded to the plight of the farmer with

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commodity price supports or with supplementary income for not planting if oversupply is anticipated. Although lobbying efforts from farmers and ranchers have solicited assistance from the federal level, the result has been that many family farms and ranches are no longer viable in the face of modern agricultural methods and cheap labor overseas. However, there have been niche markets created recently by consumer preferences for organic fruits and vegetables or organically fed farm or ranch animals. These opportunities have not been without problems since new farming methods and quality control procedures are required in order to compete in these new markets. Immigrants from Mexico and other Latin American countries have taken low-wage farming and ranching jobs in the US and filled a significant rural labor need but new border restrictions and the attraction of higher paying jobs in urban areas such as in construction and service establishments has minimized the positive impact that this new labor pool could have for the rural community.

Supplemental income for the farm or ranch based family is made available when a family member(s) take on a job in the area. If the farm or ranch is near a metropolitan area, this often means commuting to the urban area on a daily basis and becoming a wage earner. These wages stabilize the farm/ranch family income and keeps the family on the land. If the farm/ranch is not anywhere near a metro area, steady wages can still be earned by working for the county, the local school district, the post office or other federal agency. The extraction industries – logging, mining, mineral processing, etc., - that had provided jobs in the US for its rural based population have been on the decline for decades. New environmental rules and more efficient methods of resource extraction and processing indicate that jobs in these areas will continue to disappear.

Opportunities for business creation

In addition to supplying new consumer markets with organic produce and meats, rural entrepreneurial families have formed other types of small businesses. Rural areas near metropolitan centers have found that urban-based tourists enjoy antique shops, bed & breakfast inns, rural artisan-ware, restaurants with home-style cooking and direct purchase of produce, cheese, preserves and cured meats. In some cases cottage industries specializing in such esoteric products as dry flower arrangements, stuffed animals, weaving or embroidery crafts, etc., have emerged that take advantage of the cheap labor and handcraft skills that are prevalent in rural areas.

The pristine nature of rural areas with picturesque scenery, association with unspoiled landscapes, clean air and water, and un-crowded infrastructure draws urban folk who desire a more tranquil home environment. In addition, people seeking a retirement home are attracted to rural areas to live out the rest of their lives in a slower and peaceful setting. Retirees do require health services and access to assisted living eventually. Clusters of retirement homes have started appearing in rural areas where these requirements are met. An observation made in Lorah and Southwick (2003) that validates this retirement trend is that government transfer payments, mostly social security benefits, exceed aggregate wages from all extraction industries in the rural West (11 states).

Other trends that have appeared to assist wage growth in rural areas are recreation, vacation homes and tourism. Lorah and Southwick (2003) offers evidence that rural counties with protected wilderness areas have shown both population and wage

growth in the last two decades. The assertion made is that new service establishments, construction of second or third homes, hotels and recreational facilities, and new community infrastructure all lead to job creation in these rural areas with protected federal lands. An associated trend is the “amenity migration,” described in Price, Moss and Barrett (1997), that claims that the natural environment can be a driving force in attracting those workers that can perform their duties almost anywhere. Improved and inexpensive forms of communications – cellular phones, broadband internet, fast file transfer via the web, rooftop satellite dishes, etc., - all have enabled the development of a migrant knowledge workforce. The statistics from the study in Lorah and Southwick (2003) indicate that income growth rates are 2.75 times higher in rural counties with protected lands. The unexpected conclusion of the study made by Vias (1999) that jobs follow population growth instead of the reverse may be explained by the migration of the knowledge workforce (income derived elsewhere) attracted to rural settings or retirees (with investments or pensions) that choose to live out their lives in non-metro areas. Stauber (2001) observes that a “retirement base” was a significant factor for rural counties that did not lose population in the 1990’s. These trends have already encountered some problems, a notable example of which is “Aspenization,” or the result of creating a rural community in which living expenses, principally housing, can become so expensive that service workers cannot live there. (Lorah and Southwick, 2003) This phenomenon has been observed to happen where land for housing is scarce due to federal or state protected lands, reservation land for native American tribes, over-restrictive local zoning ordinances or poor civic planning.

Amenities (includes recreation, second homes, etc.), retirement and knowledge worker migration constitute important trends that may change the economic landscape of rural areas in the US in the next decade. It behooves public policy makers at the federal and state level to understand how new resources focused on exploiting these trends can promote job creation and wage growth in rural areas. New rural extension services supported by government funds could include entrepreneurial training. Rural families could tap these entrepreneurial training and advisory services for creating new businesses.

Enablers of Opportunity

There have been a few enablers that have facilitated the consideration of rural areas for economic development. Rural areas suffer from remoteness and low population density, two economic factors that have inhibited rural business creation in the past. First, the internet has greatly enlarged markets for rural manufactured products. Although specialty catalogs and targeted mailing lists were used previously by rural-based businesses, the internet now allows would-be customers worldwide to access their products. Telecommunications costs have dropped dramatically in the last ten years so telemarketing is now possible from remote, rural areas. Wireless networks can connect lightly populated areas and deliver telephony and broadband internet service. In addition, call centers can now be established in rural areas to take advantage of the cheap labor often available there. Light manufacturing in rural areas has been given a boost by the growth and pervasiveness of the overnight delivery services such as UPS or FEDEX. Branding of products, especially organically grown, from rural areas, such as “Vermont maple syrup,” “Vidalia Onions,” “Hatch chili,” assists farmers in protecting their

markets. Some rural areas have discovered and then exploited their differentiation in the products or services they can market in the face of global competition. Another amenity enabler is the result of Native American tribes capitalizing on their legal autonomy to establish gambling casinos, golf courses and resorts in rural tribal lands. Construction and service jobs are created both for tribal members and other rural dwellers.

The recognition of the US societal trends described above, namely amenities, retirement and knowledge worker migration, can help rural communities orient their investments in regional economic development such as infrastructure (civic planning, water & power, roadways, telecommunications, regional transportation, public education, police and fire protection) or in business creation or assistance, youth entrepreneurship programs, support for vocational training in nearby community colleges, farm and ranch extension programs for organic products, etc. Those rural areas that take the initiative in capitalizing on these trends will likely be the winners in the new rural US economy.

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