



# Rural Entrepreneurship in a Time of Recession<sup>1</sup>

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## Talking Points

- State economic development incentives often target growth-oriented or “opportunity-led” entrepreneurs and small businesses. But those who are entrepreneurs by necessity can also be very important especially to rural economies.
- The paper concludes that economic development policies should support necessity entrepreneurs, particularly women, in rural areas.



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## Introduction

Entrepreneurship is increasingly seen as a vital part of economic development. National leaders, policymakers and researchers point to entrepreneurship as a key strategy for short and long-term prosperity. Indeed, for many rural communities, it is the only form of economic development that has any real hope of creating jobs and wealth. Locally grown entrepreneurship offers unique opportunities for value creation that is resilient especially in times of economic stress. The recent Great Recession, which officially came to an end in July 2009 (although its effects are still being felt across Missouri and the nation), raised questions about what effect it had on entrepreneurial activity and what this means for the future.



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Much of the literature suggests that recessions do not discourage entrepreneurs from starting new businesses. In fact, there is evidence that some of the more successful public companies, such as Microsoft, Southwest Airlines, Morgan Stanley, and Allstate were founded in a recession (Kedrosky, 2008). The recent Great Recession lowered national annual job growth rates to negative numbers between 2008 and 2010, but this also pushed the reorganization of firms’ production processes and the transformation of strategic plans. Indeed, productivity grows in difficult

<sup>1</sup> This brief is based on Figueroa-Armijos, M., B. Dabson, and T.G. Johnson (2012), Rural Entrepreneurship in a Time of Recession. *Entrepreneurship Research Journal*. Volume 2, Issue 1, January 2012.

times as entrepreneurs create more competitive firms and jobs and higher value products. That is not to say that entrepreneurship is easy in recessions as they bring higher levels of risk and uncertainty (Egan & Tosanguan, 2009; Meece, 2009), and often higher costs and scarcer resources.

There is a lot of research on what motivates individuals to become entrepreneurs, but a common distinction introduced in 2001 by the Global Entrepreneurship Monitor (GEM) Consortium is between two main types of entrepreneur (Reynolds et al, 2002). On the one hand are the “opportunity” entrepreneurs who actively seek opportunities to create and grow businesses. They are motivated by pull factors to start an enterprise. On the other hand are the “necessity” entrepreneurs, who create businesses because there are few other available options to earn a living. A global survey shows that two-thirds of entrepreneurs describe themselves as opportunity-driven, and one-third, necessity driven (Hechavarria & Reynolds, 2009).

The literature on entrepreneurship and its impact in a rural context contains a number of contradictions. Some stress the inherent locational disadvantages of rural locations that make entrepreneurship particularly challenging, while others point to the fact that entrepreneurship is the only route to creating diversified and sustainable rural economies, and that in some areas, entrepreneurship is clearly contributing to economic vitality. Nevertheless, given the relationship between prevailing economic conditions and entrepreneurial motivation, it might be expected that entrepreneurs in rural areas may be more driven by necessity than by opportunity.

This study sought to tie these themes together and provide empirical evidence by asking the following questions: Did the recession have any impact on motivations for entrepreneurship and was there any particular impact on entrepreneurship in rural areas?

To answer these questions, the study combined several sources of data. US individual data was gathered from *The Global Entrepreneurship Monitor (GEM) Consortium*, which currently conducts an annual survey of entrepreneurial activity in 70 countries. United States data from this survey for the years 2005-2010 provided information on opportunity and necessity entrepreneurship both before the recession 2005-2007, and during 2008-2010. *The Bureau of Labor Statistics* provided employment data to calculate county level annual job growth rates. *The cross tabulation of urban-rural and metro-nonmetro systems* developed by *Isserman (2005)* provided a means of classifying counties according to the degree of urban-rural integration and separation so as to give insights into the effects of increasing rurality on entrepreneurial activity and motivations. The resulting database contained 19,849 individual observations from 2,421 US counties, and was analyzed using rare events logistic regression.

The main findings of the study were as follows:

- In the years before the recession, individuals living in rural counties (both metro and nonmetro) were more likely to engage in opportunity-driven entrepreneurship than people living in more urban counties. This was contrary to expectations, and supports the more optimistic view of the potential of entrepreneurship in rural areas.

- Opportunity entrepreneurship was positively related to employment growth rates in all types of county. During the recession, there was a marked shift towards necessity-driven entrepreneurship. Having a lower income (less than \$50,000) or part-time employment increased the likelihood of engaging in necessity entrepreneurship.
- Individuals with at least a college education and those who were African-American were more likely to engage in opportunity entrepreneurship during the recession, whereas women, retirees, and individuals with incomes of less than \$100,000 were less likely.

The study concludes that the recession marked a clear shift in entrepreneurial motivations. Necessity entrepreneurship increased from approximately 16 percent of total entrepreneurial activity in 2007 (Tozzi, 2010) to 28 percent in 2010 (Kelley, Bosma, & Amoros, 2011). This shift was the result both of individuals in part-time employment and with lower household incomes creating businesses out of need, and by those with full-time jobs being averse to taking the risk of starting a new venture when the economy is weak and the future uncertain. Positive employment growth rates before the recession motivated people in rural America to identify and exploit entrepreneurial opportunities, but this was not the case during the recession. The clear decline in opportunity entrepreneurship during the recession was consistent across different levels of rurality.

### **What does this mean for Missouri?**

Major economic transitions affecting rural areas in the last decades have forced community leaders to look for innovative ways to rebuild their economic base and improve the quality of life for their residents. This is no different for Missouri. Entrepreneurship has increasingly outshined other economic development strategies given its tendency to promote growth from within that optimizes local resources and create viable rural businesses. Entrepreneurship policy has evolved to address obstacles faced by entrepreneurs such as financial and social capital, nonetheless little is known about how local institutions and policies can rightfully support businesses that are most likely to succeed in rural areas. Economic development policies need to be revisited to address this need.

Recruitment strategies that rely on incentives are the favored way of pursuing economic development at the state and local level, but they have little or no impact in the majority of rural counties. The study shows that opportunity-driven entrepreneurship is an important feature of rural economies when economic conditions are good, but necessity-based entrepreneurship in leaner times is an effective way of providing employment and supplementing income. Although there is a natural tendency to want to support opportunity entrepreneurship as the most likely generator of sustained income and wealth, necessity entrepreneurship should not be ignored, even less in times when other job options become scarce. In addition to the short-term remedial benefits, history shows that many of the more successful companies were born out of necessity in times of recession. Perhaps many of these companies started driven by necessity and transformed later into opportunities for success? What if more of these companies were born and supported in rural America and rural Missouri?

Rural metro and nonmetro counties also seem to offer inherent unexploited opportunities for women entrepreneurs. The study found that women entrepreneurship in these counties fared relatively well during the recession. This suggests that the recession may have caused changes in women's entrepreneurial behavior that warrant further exploration and analysis.

The findings of this research challenge the frequent bias in policy against necessity entrepreneurship in favor of opportunity and growth-oriented entrepreneurship. Considering the intractable decline and out-migration that rural America has been experiencing for decades, rural development strategies must be re-examined. To strengthen and invigorate rural communities, economic development programs need to focus on improving the success rate and sustainable growth of both types of entrepreneurs.

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