

New Business Creation in

Rural

New England



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by Henry Renski
University of Massachusetts, Amherst

Entrepreneurship has been attracting attention as a model for rural economic development following several influential studies showing that new-business formation is strongly correlated with regional growth and job creation.¹ Some observers see a focus on rural entrepreneurship as inherently more cost-effective than traditional business-attraction efforts and more closely aligned with other development goals, such as reducing the dependency of rural communities on a few dominant employers.

Nevertheless, rural areas face challenges that must be understood before an effective entrepreneurial climate can be developed. To gain an understanding of the situation in rural New England, we can look at the U.S. Census Bureau's Statistics of U.S. Businesses (SUSB) and review recent trends in new-business creation. The SUSB reports on the number of independent—that is, nonsubsidiary—business start-ups by county and industry for each year between 1998 and 2006. (It excludes nonemployer

businesses, private households, certain types of agricultural production, and most government entities.)

New England has 37 rural counties and 30 metropolitan counties. Four of New England's rural counties are technically metropolitan, but they are designated as rural here because they have low population densities and do not contain a large central city. They are Franklin and Berkshire counties in Massachusetts and Grande Isle and Franklin counties in Vermont.

Recent Trends in New-Firm Formation

On the whole, New England lags the nation in new-firm creation for both rural and metropolitan areas. (See “Year-to-Year Change in New-Firm Formation.”) In a few periods, such as 2000 to 2001 and 2004 to 2005, rural start-up rates in New England exceeded national rates, but the gains were not sustained.

On a per capita basis, relatively more new businesses are started in rural areas than in

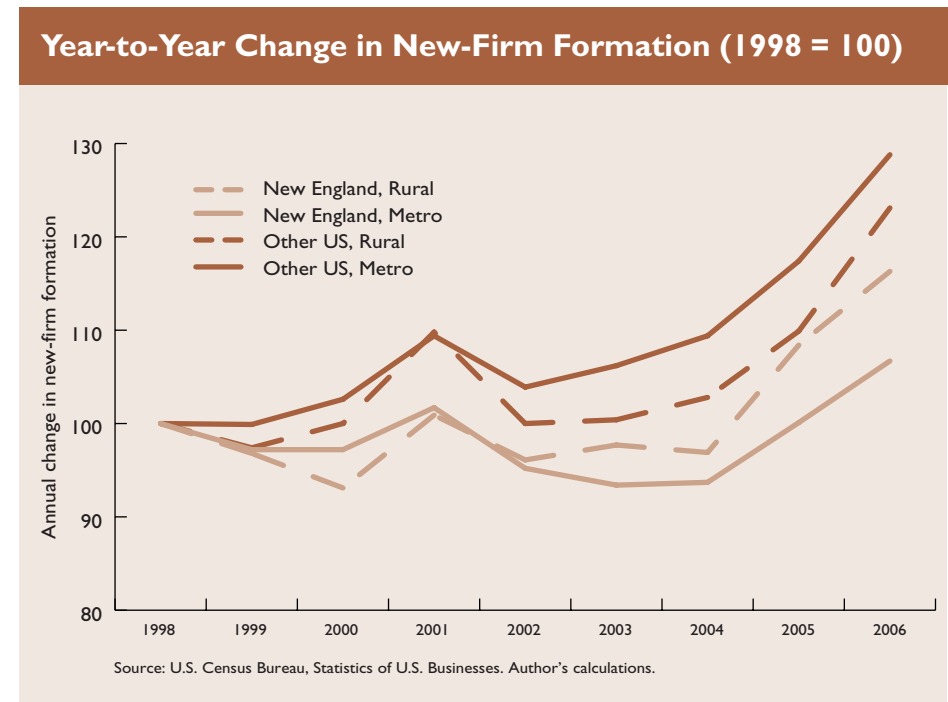
metropolitan areas. That may seem surprising since entrepreneurship is commonly viewed as an urban phenomenon resulting from superior market access, infrastructure, and younger and more highly educated residents. But if we define entrepreneurship as people starting a new business, we often find higher rural start-up rates. The six New England counties with the highest start-up rates are all rural. (See “Formation Rates of New Firms, 2006,” p. 24.) The average rate for rural New England counties is 35 new firms per 1,000 residents; the metropolitan average is 23 per 1,000.

Part of the rural-urban divide in the region may be cultural. Rural New Englanders have a reputation for independence and may prefer to “be their own boss.” Differences in economic conditions also matter. Rural start-up rates are higher in part because there are fewer options for paid work. Start-up rates also differ by industry, and the rural industry mix favors start-ups—for example, in tourism hot spots.

Simply being rural does not guarantee start-ups, however. There are many remote rural counties with low start-up rates. Sparse local markets may limit growth opportunities, and the self-employed may not attain the scale needed to hire others. Still, there may be start-ups in farming and other agricultural production that the SUBS undercounts.

The real challenge of entrepreneurship in rural places is not so much a deficiency of new businesses but fewer new businesses with high growth potential. Rural New England counties have a high concentration of start-ups in construction, retail trade, and accommodation/food services. They are underrepresented in emerging sectors such as professional and technical services, finance and insurance, and information. (See “Percentage of New England Business Start-ups by Industry.”) Higher rural start-up rates are seen in industries with low barriers to entry, such as low start-up costs. Low barriers, however, often correlate with heightened competition and thus with high failure rates. And because new firms in such industries typically serve a restricted market, their success often comes at the expense of incumbents—yielding little net change in regional employment growth.

In New England, the retail, accommodation (hospitality), and entertainment industries are often oriented more to tourists than to locals. Tourism industries are typically highly competitive within a spatially constrained market. And



although the jobs provide opportunities for young people to gain work experience, they are highly seasonal, affected by swings in the business cycle, and unlikely to offer the kind of long-term career opportunities that entice

young residents to return after college.

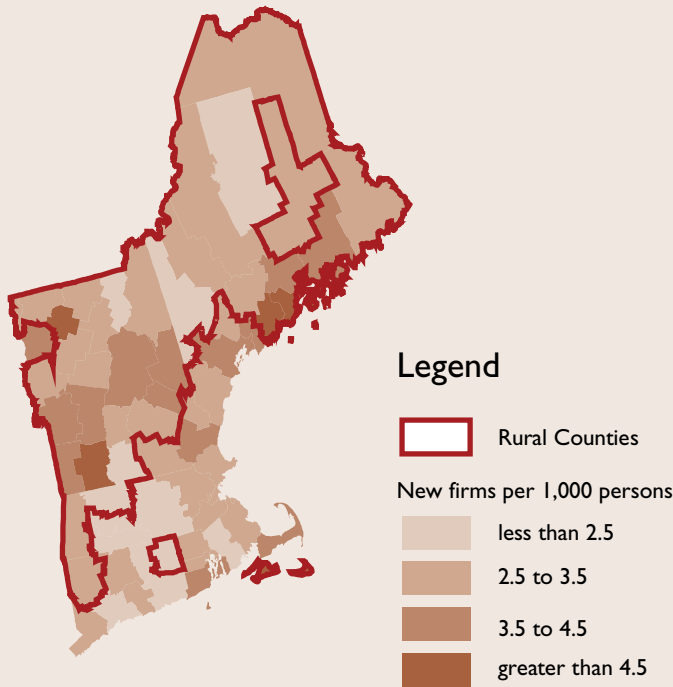
The industry mix of new firms generally mirrors the region's existing profile. For example, the Pioneer Valley of western Massachusetts, which has

Percentage of New England Business Start-ups by Industry

Industry	Share of “births,” annual average	
	1998 to 2006	
	Rural	Metro
Forestry, fishing, hunting, and agriculture support	1.90%	0.30%
Mining	0.10%	0.10%
Utilities	0.30%	0.20%
Construction	17.00%	12.20%
Manufacturing	4.10%	2.90%
Wholesale trade	3.00%	4.10%
Retail trade	15.10%	12.90%
Transportation and warehousing	3.30%	2.30%
Information	2.10%	3.00%
Finance and insurance	3.70%	6.30%
Real estate and rental and leasing	3.90%	4.30%
Professional, scientific, and technical services	8.10%	12.90%
Management of companies and enterprises	0.30%	0.80%
Administrative & support, waste management & remediation	5.20%	6.00%
Educational services	1.30%	1.20%
Health care and social assistance	7.80%	7.20%
Arts, entertainment, and recreation	2.30%	1.60%
Accommodation and food services	10.60%	9.00%
Other services (except public administration)	7.40%	7.40%

Source: U.S. Census Bureau, Statistics of U.S. Businesses. Author's calculations.

Formation Rates of New Firms, 2006



Source: U.S. Census Bureau, Statistics of U.S. Businesses. Author's calculations.

numerous precision-machining companies, tends to spawn an inordinate share of new precision-machining companies. A recent nationwide study estimated that more than 70 percent of the industry mix of all entrepreneurship is explained by the industry mix of incumbent firms. That is partly because most new businesses are built on the knowledge and experience that the founders acquired while working elsewhere in the same industry in the same region. Such path dependency poses a particular challenge for rural economic developers who struggle to diversify the economic base.

Suggestions for New England

The barriers to successful rural entrepreneurship are daunting, but not insurmountable. Examples of successful companies with roots in rural areas come to mind: for example, Marlborough, Massachusetts, bioenergy company Qteros Inc. Qteros grew out of the discovery of the Q microbe (an anaerobic organism with a combination of natural characteristics that streamline the production of ethanol) by University of Massachusetts Amherst microbiologist Susan Leschine.

Policymakers would do well to

promote a positive entrepreneurial climate in rural areas. A healthy balance of trade between local-serving and export-based industries is important. New England's rural areas thrived in an era when exports of manufactured goods and natural resources provided a steady stream of income. That, in turn, supported the growth of local-serving sectors. Today, the mix is unbalanced. And the poorest and most remote areas lack the people and wealth to support the growth of new businesses on their own.

One option is to advance policies that build connections between urban markets and rural producers. Expanding broadband high-speed Internet access would also help. Broadband infrastructure is particularly important to the production and distribution of niche market goods that leverage rural traditions of quality, craftsmanship, and connection to place—goods that do relatively well in rural New England. Stonewall Kitchen of York, Maine, provides an example of a company that started selling jams at local farmers markets in 1991 and grew into a specialty foods phenomenon with more than 6,000 wholesale accounts, nine retail stores, and a workforce of hundreds. Internet infrastructure was critical in helping Stonewall to expand its reach.

Another success, Hodgdon Yachts in East Boothbay, Maine, benefited from a different kind of assistance. Hodgson had been building luxury yachts for decades. Then it partnered with the Advanced Engineered Wood Composites Center at the University of Maine to pursue opportunities in the defense industry. By modifying its methods and materials in order to optimize strength and weight, Hodgdon was able to secure a contract with the U.S. Office of Naval Research to construct prototypes of the Navy's next-generation patrol boats.

Good infrastructure like broadband provides an opportunity to reach larger markets but does not guarantee it. Technical-assistance services for small and home-based businesses, including market development, web design, and business planning are also key. More needs to be done to help local manufacturers discover new markets and embrace innovation as a survival and growth tactic. Hodgdon represents an example of a rural manufacturer incorporating new materials, flexible production processes, and quality-control standards to compete in the global economy.

The owners of small companies wear many hats and need help understanding new technologies and how those technologies might let them connect with new markets. Technical-assistance services available at public universities and economic development organizations will continue to play an important role in bringing new ideas and technology to rural entrepreneurs.

Henry C. Renski is an assistant professor in the department of landscape architecture and regional planning at the University of Massachusetts in Amherst.

¹ *The Innovation-Entrepreneurship NEXUS: A National Assessment of Entrepreneurship and Regional Economic Growth and Development* (Powell, Ohio: Advanced Research Technologies and the Edward Lowe Foundation, 2005); Z.J. Acs and C. Armington, *Entrepreneurship, Geography, and American Economic Growth* (Cambridge, United Kingdom: Cambridge University Press, 2006); and D.B. Audretsch, M.C. Keilbach, et al. *Entrepreneurship and Economic Growth* (New York: Oxford University Press, 2006).

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