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Developing Entrepreneurial Rural Communities

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ABSTRACT

Rural communities in the United States have diversified and their dependence on agriculture has decreased substantially. In the 1980s, rural deindustrialization occurred and rural areas continued to become more service oriented; employment opportunities declined because of shifts in the world and U.S. economies, and anti-rural public policies. In response, some rural communities have become entrepreneurial communities, whose characteristics include: healthy acceptance of controversy; a degree of economic surplus to allow for risk-taking; willingness of community to tax itself to maintain infrastructure and schools; the ability to define community broadly and to network both vertically and horizontally to obtain resources; and dispersed community leadership. Entrepreneurial behavior in the context of more favorable state and federal policies could help stabilize many rural communities.

Major changes are taking place in rural America in response to the changing structure of agriculture and the restructuring of the national economy. These changes will have enormous impacts on the structure and vitality of rural communities. However, the future of rural communities is not foreordained. If communities and community development professionals can mobilize and modify local organizations and institutions to take advantage of the changing circumstances, rural communities can offer a viable option to Americans in terms of lifestyle and livelihood. But if communities and the individuals within them

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take a passive role or a reactionary stance of denial, rural communities of the future will not only be much smaller and many fewer than in the 1980s, but much poorer as well.

In our ongoing work with communities in the Great Plains and the West, we have identified a number of characteristics of entrepreneurial communities. These are communities that are able to respond to the changing macroeconomic circumstances and cause development to happen.

The Changing Structure of Agriculture

Overproduction, a chronic problem of American agriculture since 1880, is now worldwide, foretelling continued low prices and highly competitive world markets (Avery, 1985). Farms will become increasingly vertically integrated as farm operators seek to become part of the modern economy by insuring the predictability of their conditions of production and marketing. The division of labor in our agriculture which led to the demise of the integrated farm unit in favor of specialization in a few crops or animal enterprises will now shift to what Braverman (1974) calls the "task" division of labor, with higher priced management labor making the technical decisions and lower priced manual labor carrying them out. The relative capital intensiveness and long-term capital commitment required in such land-intensive crops as cattle and grains may mean that land ownership remains relatively dispersed. As a result, fewer decisions will be made on the farm and more will be made by specialists, either in farm management firms or in corporate headquarters. Increasingly, different individuals will provide management and labor. Land ownership will become less relevant for capital accumulation or the ability of the farmers to control their own labor processes.

In our study of grain and livestock farming dependent counties in the western United States, we found that an increase in farm size, even with family ownership, was associated over time with indicators of declining community viability (J. Flora and C. Flora 1988). However, it was not because farm population decreased more with growth in farm size. Farm population decreased regardless of change in farm size. As the size of farms increased, so did the number of hired workers per farm. The larger operations were not substituting capital for labor any faster than were moderate-sized farms in the 1970s, the decade under study.

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1Our research consists of a series of approximately 60 mini-case studies and three major case studies carried out over an eight-year period. The validity of the characteristics of entrepreneurial communities has been tested in over 25 presentations in Kansas, Nebraska, South Dakota, Texas, Idaho, and Washington. We are more systematically evaluating them in a nation-wide study of self-development rural communities.
Farm labor became differentiated as management decisions were separated from the individuals doing the manual work. More rural communities will be faced with the "deskilling" of the farm population, and decreased community participation and limited social mobility will threaten their solid egalitarian base.

There is a growing separation of rural communities from agriculture in the United States. Fewer U.S. counties are farming dependent, as defined by having an annual average of 20 percent or more of total labor and proprietor income from agriculture (Bender et al., 1985; Henry et al., 1986). The majority of the farm population, even on family-size farms, is dependent on off-farm income for survival, although that income may come from government payments rather than off-farm work. For most of rural America, income must be generated from nonagricultural sources, either through self-employment or wage labor. The diversified farm, in which a number of different agricultural enterprises are interrelated to support the household, is being replaced by the diversified rural household, which may engage in as many as ten different nonagricultural enterprises to survive (J. Flora and C. Flora, 1988a; C. Flora, 1988).

The Changing World Economy: Rural Industrialization in the 1970s

Creation of manufacturing jobs to supplement or replace agriculture is even more difficult than in the past. During the 1970s, world economic conditions included a relatively cheap U.S. dollar reinforced by low or negative interest rates and an expanding world economy fueled by growth in developing areas of the world. This favored not only U.S. agricultural exports, but also expansion of light manufacturing in the rural United States. The continued substitution of capital for labor in U.S. agriculture created a reserve labor force in many rural areas, with a strong work ethic and a weak labor movement. Further, rural communities, anxious for growth, invested considerable public monies and deferred future public income through tax breaks to attract industrial plants.

The rural industrialization option brought with it some disadvantages for rural communities. While private retail revenue increased, so did public expenditures for schools, police services, and fire protection. In our research on rural manufacturing counties we found that while net migration was of little consequence with the introduction of low wage industries, gross migration increased dramatically. Those employed by low-wage manufacturing plants tended to move in and out of the community, leading to a breakdown of the traditional mechanisms of social control (J. Flora and C. Flora, 1978).

The "smokestack chasing" approach to rural economic development is now less viable for rural communities. Indeed, many of the options for creating alternative employment opportunities in rural areas have been reduced as a result of (1) major shifts in the world economy in the 1980s; (2) the resulting
restructuring of the U.S. economy; and (3) a series of policies intrinsically anti-rural in effect.

Restructuring of the U.S. Economy: Deindustrialization and the Shift to Services

There has been a basic restructuring of the U.S. economy from manufacturing to services. Deindustrialization has occurred as capital movement, facilitated by tax laws, encouraged transfer of basic industries to areas of the world where a cheap and docile labor force was available and production could be carried out unencumbered by laws concerned with worker health and safety or environmental protection. Services which facilitate capital movement have replaced manufacturing in economic importance. While rural communities experience some locational disadvantage in manufacturing due to costs of transportation of raw materials and finished goods, their disadvantage in a service economy is even greater. Most services require a high population density to be profitable, and most rural areas, by definition, lack high population density.

Services include both ends of the wage scale. Rural communities could become ghettos of certain undesirable service labor which are location neutral, such as telephone solicitations, or they could provide skilled services oriented to a world market. In order to take advantage of the new economic order, rural communities must carefully identify service industries that are location-neutral, such as utilizing the new telecommunications technology (Dillman, 1985). But the current policy environment may make a shift to such a telecommunications-based service economy difficult for rural communities.

Restructuring Rural Retail Trade

Coupled with deindustrialization as a threat to traditional rural development strategies is the restructuring of rural retail trade. The 1950s and 1960s saw the demise of “mom and pop stores” in urban areas as grocery chains, fast food franchises, and shopping malls profited in areas of relatively high population density. During that period, the relative isolation and dispersal of the rural population kept retail trade alive as an option for the rural entrepreneur who tended to use small inventories and little capital investment to offset low profit margins (Vidich and Bensman, 1968). Retail trade centralization spread to rural areas by the 1980s. In the Great Plains, we refer to it as the “Wal-Marting of rural America.” Major chains provide goods cheaper and in greater variety than the main street businesses ever could. (Some well-structured cooperatives, such as True Value Hardware stores, may provide a competitive organizational structure.) Further, they are able to use their size to advertise extremely effectively, and use part-time employees and other mechanisms to cut labor costs.
Mainstreet businesses in rural communities have been doubly hit by both failing farms and the structural changes in retail trade. Local entrepreneurs and chambers of commerce must begin to plan to fill the empty storefronts not with new businesses selling goods, but with businesses dispensing services. And those services must be closely linked to the local population and their needs, particularly the unique needs of the elderly population.

The Policy Environment

The policy environment also has proven disadvantageous to rural communities in the 1980s, limiting options that were previously available for community development. Communities seeking to augment declining employment in agricultural production and other natural resource based industries need to be aware of other kinds of employment opportunities and alter their strategies accordingly. We have identified eight such adverse policies (C. Flora and J. Flora, 1989; Schoening, 1986). These are:

1. **Deregulation.** Deregulation allowed a variety of financial and transportation services to become more efficient in terms of return to investment, but also increased the cost of capital and decreased access to those services in rural communities. Rural communities have long recognized their relative disadvantage vis-a-vis monopoly capital. Farmer movements in this country have consistently sought to mobilize the power of the state to offset the advantages of monopolies which are often, as in the case of railroads and utilities, the result of government-funded investments and franchises. Farmers fought for regulations that insured the availability of transportation, electricity, telephone, and other services necessary to link rural areas with information and markets at reasonable rates with reliable service. Differential long haul versus short haul rates, favoring customers in large cities over those in rural areas, have in the past triggered the political mobilization of rural residents. Deregulation has led to a further deterioration of the quality and availability of such semipublic services in rural areas of the United States (Richards, 1987). For example, new kinds of highly specialized telecommunications equipment—and the basic maintenance of old equipment—may become prohibitively expensive in rural communities. This denies rural agricultural producers the option of controlling their own marketing channels and thus their own production decisions.

2. **Relaxation of anti-trust laws.** This resulted in the consolidation of competing manufacturing and agricultural processing enterprises. As a result of the relaxation of anti-trust laws in the 1980s, the U.S. economy experienced rapid absorption of small firms by large ones. Such small firms were often in rural areas. Once acquired, these same firms which were profitable when locally owned and operated were merged with other less profitable enterprises of the acquiring firm and often shut down, thereby decreasing national production...
capacity and local employment. Multinational firms, led by capital movement rather than trade (Drucker, 1986), took advantage of the strong U.S. dollar during the 1980s to move overseas many of the light industry firms previously in rural areas of the United States. Such absorption of small firms by large ones—and large ones by even larger or more speculative ones—also diverted capital from productive investment to speculative investment, decreasing the options of rural areas in the face of ever-increasing capital costs. There are inefficiencies in such “Pac Man Economics,” as the skills required to take over a corporation are quite different from the skills necessary to manage the bloated, indebted conglomerates.

With outside takeovers, ownership moved out of the community to national or international headquarters. Our comparative case studies in Kansas suggest that whether or not a firm is locally owned has an impact on corporate decision making. While a locally owned firm may act somewhat paternalistically toward its employees, that paternalism means involvement and investment in the community, and employment and investment decisions based on a long-term profit perspective, rather than short-term profit maximization.

3. Federally mandated increases in the cost of labor. Increased payroll taxes did not accrue directly to rural workers, but hit labor intensive rural manufacturing particularly hard. In contrast, policies which deliver direct and immediate benefits to workers, such as an increase in the minimum wage, do circulate within the community and have a multiplier effect.

4. Tax laws favoring capital intensive urban development and urban construction. These actions increased the cost and decreased the availability of capital in rural communities. These tax structures not only channeled capital away from rural areas, they channeled capital away from productive investment into tax sheltered investment.

Financial mechanisms must be developed by residents of rural America to make capital available in rural areas to finance location-neutral service industries and provide the communications technology necessary to make agricultural entrepreneurs viable. Such mechanisms must allow rural entrepreneurs to borrow capital competitively at market rates. They should not, as occurred in the 60s and 70s, artificially cheapen capital in favor of capital-intensive farming practices.

5. A huge increase in spending for agricultural programs. Such spending tended to favor large farms and did not result in income being reinvested in the community.

6. A disproportionate cut in Federal nonmetropolitan discretionary non-military spending. The programs cut included public works programs, social programs, revenue sharing, rural housing, and other people-oriented programs.

7. A shift from formula funding to competitive funding. This shift favored those already privileged nonmetropolitan areas.
8. Inappropriate assessment of the costs of providing services to rural areas. This has hit providers of medical services particularly hard.

Community Response to the Changing Conditions

The degree to which rural communities can capture or generate income in the current macroeconomic climate is one of the major challenges for rural communities. Rural communities traditionally have exported raw materials, including agricultural crops and livestock, timber products, minerals, including oil and natural gas, and educated young people (Flora, 1976). It will take a combination of favorable policies and well-organized state and local initiatives to retain those resources locally long enough to assure that the profit accumulated in production and transformation circulates within rural communities. Entrepreneurial communities must prioritize goals and develop appropriate strategies and tactics. What are the characteristics of communities that are entrepreneurial in the current situation?

Entrepreneurial Rural Communities

Farming-dependent communities in the Great Plains that have displayed local initiative, we hypothesize, share the following attributes:

1. Acceptance of controversy as normal, indicated by a weekly newspaper willing to print controversy;
2. The ability to depersonalize politics;
3. A long-term emphasis on academics (compared to sports) in the schools;
4. Enough surplus, often generated from slightly larger than average family farms, to allow for collective risk-taking;
5. Willingness to invest that surplus in local private initiatives;
6. Willingness to tax themselves to invest in the maintenance of rural infrastructure;
7. The ability to define community broadly, so that consolidation has meant larger boundaries for smaller communities, not a win-lose battle;
8. The ability to network vertically and horizontally to direct resources, particularly information, to the community; and
9. A flexible, dispersed community leadership.

Acceptance of controversy. In rural communities, especially those with high density of acquaintanceship (Freudenberg, 1986), role homogeneity is high. There is a high degree of overlap among the different roles community members perform. Your banker buys at your hardware store, is treasurer of the Rotary Club where
you are president, the coach of your daughter’s Little League baseball team, a member of the school board, a deacon in your church, and the parent of your son’s date to the junior-senior prom. In such situations, with a high degree of interaction and interdependence, there is a tendency to repress controversy, to insist that “we are all just folks,” instead of raising and discussing clear differences of opinion. As a result, when disagreements do surface, they have been harbored so long that they burst into the open as full-fledged conflicts, often deeply splitting a community.

In such communities, the weekly newspaper tends to be long on ads and short on news. There is great emphasis on the biggest zucchini of the season and the scores of the volleyball game. But there is seldom a reporter at the school board meeting, and no hint of any bad news is allowed to appear in print. People generally love this kind of home town paper. But those towns tend to be dying towns. Only in the minority of communities is the editor willing to offend people and print disagreements and potential problems. Here community members are prepared to mobilize to control their own destinies, rather than react, often with great emotion but little concrete action, when they realize the finality of the changes that have taken place. In those communities, citizens lack the basic information and the debate on the information that can foster informed public decision-making (Tichenor et al., 1980).

Depersonalization of politics. If politics is not mentioned in the local paper, it is a constant topic of coffee shop conversation in most rural communities. However, discussion generally does not involve issues, but personalities. Entrepreneurial rural communities are those that deal with honest disagreement and do not turn a public stand on a controversy into a symbol of moral rectitude or moral degeneracy. Policies, not people, are the focus of discussion. As a result, those who disagree on one issue can be allies on another. Furthermore, disagreements can surface early and not be kept undercover until they explode and divide the community.

Emphasis on academics. Schools have traditionally provided the symbolic center for rural communities. They have been the center of social life and an active indicator that the community was alive and functioning. However, that focus on community solidarity has often placed undue emphasis on extracurricular activities. Academic excellence and the provision of courses like foreign languages and laboratory sciences have been neglected. The emphasis on consensus and distaste for controversy often drives out teachers, principals, and school superintendents who raise new ideas or question the sacred nature of the way things always have been done. In these communities, school board elections are seldom contested (it would be bad manners to run against a neighbor). The only school issues debated are the hiring of the football coach or the theme for the homecoming dance.

Presence of surplus. Although there is a widely quoted old saw that states that necessity is the mother of invention, anthropologists persuasively argue that
surplus is the mother of invention. Only when there are enough resources to insure the provision of basic necessities will individuals or communities innovate. Innovation means risk. Only when basic necessities are assured will people risk that which they value, but do not depend on, for survival. Where land or other means of production is highly concentrated, such collective risk taking does not occur.

Willingness to invest private capital locally. We have found that communities that have relative equality and slightly larger than family-sized farms are more likely to pool resources and invest (take risk) in community-based enterprises than similar communities with smaller-sized farms. This is in contrast to communities constantly sending investment capital out of the community either directly or through local financial institutions. In one community of this type we studied, community residents have galvanized local resources to build a home town carnival, a feedlot, a dairy, a movie theater, and most recently, mobilized funds to buy a factory and attempted to buy out the FDIC when a local bank went under. In none of these cases was there any single major investor. Many community residents put up relatively equal amounts that were enough to form a solid investment, but not enough to force any one to leave town broke if the venture did not pay off.

Willingness to support local services through taxes. A low tax ideology generally predominates in rural areas (Vidich and Bensmen, 1968). This is logical, given that rural people, particularly in agriculture, are “land poor.” However, as a result, not only do communities delay construction and repair of needed infrastructure, but they depend on state or federal governments to provide the capital. That establishes a dependency in attitude and action that relies on the outside to provide—or not to provide—the basic community needs and to set the agenda, based on national priorities, on what gets done locally. In contrast, communities that are willing to raise necessary local capital through local taxation develop a sense of empowerment that allows them the independence to recognize local needs and act collectively to meet them.

Broad definition of community. The rural community has been a major source of identity and participation for its residents. However, as population declines and services of various sorts are consolidated and shared, those communities that have wide and relatively permeable boundaries not split by school consolidation are more likely to further community development. Such mechanisms as a countywide Chamber of Commerce and the organization of multicommunity events are helpful in bringing about a broad definition of community.

Vertical and horizontal linkages. Although entrepreneurial communities are not dependent on outside agencies to initiate action, they are active in seeking out resources from similar communities and from state and federal entities. They generally participate in regional planning groups, contact the Cooperative Extension agent and specialists, and apply for federal block grants. Further, they engage
in lateral learning from other communities. When a community member visits another community and sees a process of interest, she or he is likely to go back home and organize a group to visit to learn how they can do the same thing. Further, they encourage other communities to learn from them.

Flexible, dispersed community leadership. Networking with the outside and communication within the community are not dependent on a single “broker” with contacts or charisma. Entrepreneurial communities have a rotation in public office and a sharing of informal leadership roles. Because of a favorable attitude toward change, leadership is seen as positive, rather than a way of “putting on airs.” Often newcomers to the community (those of less than twenty years residence) are active in leadership positions, and are welcomed, rather than criticized, by the long term residents. They bring with them a convert’s appreciation of the community and an awareness of outside forces acting upon it.

Conclusions

Unfortunately, communities that share these characteristics are a distinct minority. The more popular stance is to look to the past, often a past that assumes mythical virtues, rather than to seek and apply knowledge about current conditions that affect the community. Lack of awareness of agriculture’s dependency on the greater community economy and of trends in global economy hinder the ability of rural communities to plan actively for the future.

Rural communities will be challenged and transformed by the changes in agriculture and the rest of the economy. Increasingly sophisticated technology can lead to a further marginalization of rural communities as mere providers of raw materials, including human beings, for urban growth. Or that same technology, if coupled with innovations in social organizations and institutions, can lead to the integration of rural communities into a global economy as relatively self-sufficient and equal players. Sociologists and other practitioners of community development can be most effective when they work with communities to understand the current context and form local organizations to decide upon goals and plan strategies congruent with these goals if they are indeed to be entrepreneurial.

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