

Small Towns Lack Capacity For Successful Development Efforts

Smalltown residents in Nebraska put a high premium on the need for economic development efforts, yet most think their towns' efforts fall short. Some towns, especially the smallest, don't even try to put together a development project. And those that do try often need help of a kind that State and Federal agencies do not offer. Nonetheless, Nebraska is trying some new programs that match State aid with a town's needs and willingness for self-help. Based on a survey of 135 small towns in Nebraska.

About half of the small Nebraska communities we surveyed engage in some kind of economic development efforts. Such efforts, however, depend on community size, with the smallest towns having the fewest development projects. Despite some successes, community leaders perceive their economic development efforts as largely unproductive in creating new employment or wealth for their towns and villages. Community leaders regard these efforts as very important and are understandably frustrated.

The policy implications of these findings are sobering. The smallest jurisdictions may have little hope of ever generating the organizational and resource capacity to stimulate development activity. Even communities with some basic abilities often lack capacity in some area critical to economic development. Larger small communities need technical assistance, especially with financial packaging and solving general problems of organization for economic development. Yet these communities seldom know about help available from outside agencies, and the help that does come from those agencies is often episodic and poorly coordinated.

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Critical Mass Needed for Economic Development Work

Half of the 135 small Nebraska communities we surveyed reported that they had undertaken one or more economic development projects; that is, the community had initiated an activity to stimulate economic investment by a specific business or industry. The 87-percent return rate on our questionnaire (135 of 153) suggests considerable interest in such projects. Population is a major factor (fig. 1) in community economic development activity. Only 33 percent of the communities under 2,500 population reported specific economic development projects, while 66 percent of larger towns identified specific businesses to assist. Size is merely an index for a variety of factors that affect a community's ability to carry out development projects. The factors include the leadership pool, availability of skills and knowledge, financial resources, and the like. While each community, large or small, has a different mix of influencing factors, small towns are less likely to be involved in development projects (one chance in three).

In addition to size, we also looked at population growth, per capita income, community wealth, and location as possible indicators of the likelihood of a community initiating an economic development project. None of these factors proved to be significant. A poor community located in a rural area was as likely to undertake economic development as a rich town located along the freeway. However, a disproportionate number of the poor towns were also small.

The number of projects per community shows another facet of the level of development activity. While 50 percent of the towns reported at least one project, 29 percent reported two projects, and only 18 percent

reported three projects. More than half (57 percent) of these activities related to manufacturing, or wholesale and retail business development. Seldom mentioned were residential area improvements, health care facilities, housing for the elderly, tourism, or public utility improvements. In fact, much project activity in very small towns centered around retail and main street retention or development. Such activity does little to stimulate the flow of new dollars into the local economy.

Our case study analysis showed similar findings. Small jurisdictions had few resources for project activities. Cambridge represents the typical small town. In this community of 1,200, project activity was almost nonexistent. Few new or expanding business opportunities had been established in the last several years. While some residents had expressed interest in being more active, little support or motivation surfaced. In contrast, a community like Gibbon, population 1,500, is the exception. Here much activity was under way. City leaders helped retain a clothing factory and worked to support expansion of beef and turkey processing facilities. In addition to these basic industries, financial and retail businesses were also established.

What accounts for the difference? Part of the difference is that Gibbon has strong committed leadership and an active city government and chamber of commerce. Another plus is that local business leaders have been willing to commit time and money to development efforts. In contrast, Cambridge had little leadership support for development. Economic resources are held by a few people who have expressed little interest in development efforts. No formal organization existed to undertake such efforts and resource capacity is limited.

Economic development activities were often traditional and unspecific among our sample of communities. Most communities (53 percent) reported that they "keep current information" on the community, provide site assistance (46 percent), seek grants or outside funding (46 percent), prepare advertising and fliers (40 percent), and undertake prospect trips or host prospects (38 percent). Only a hand-

ful mentioned telemarketing, direct mail, training programs for new employees, and preparing financial packages.

Success breeds success in economic development. Communities that have been successful in obtaining State-administered Community Development Block Grants were much more likely than those that did not receive such grants to perceive themselves as successful. The dollar volume of these grants was strongly associated with getting further grants and having volunteers and suitable sites for business development. There was a strong association between grants awarded, size of grants, and population size: larger communities often received more grants with a higher dollar volume, further improving their competitive advantage. The smallest communities simply did not compete or were unsuccessful when they did.

Small communities lacking outside resource support also lack local resources. Typical is Ashland, population 2,300. This community had no focused effort in economic development, no local resources had been generated, and few business initiatives existed. Milford, on the other hand, with population 2,100, has undertaken several projects in recent years, including the purchase and resale of a commercial building, the acquisition of a medical clinic, and the development of a golf course. In each instance, funds were donated by local citizens and businesses, and local leadership saw the projects to completion. The difference seemed to be leadership and access to capital. Milford has public and private interests who took initiative to achieve results, while Ashland lacks such initiative, especially in the private sector.

Small towns were generally at a disadvantage to larger towns in competing for development funds.

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Informal, Skeletal Staff Typical of Development Projects

Both questionnaires and interviews indicate that the common organizational structure responsible for the development effort in small towns is either a nonprofit corporation or a local chamber of commerce. Although both types of organizations have large community-wide boards of directors, they function very informally and rely heavily on a small number of interested persons. Milford created different types of organizations to serve different purposes: a nonprofit corporation for acquiring a business structure, a medical association for acquiring a medical clinic, and a golf association to build a golf facility. McCook, on the other hand, relies exclusively on an industrial development corporation to carry out project activities.

Most of the organizations involved in economic development began in response to specific opportunities: a rumor that a certain corporation had expressed interest in locating a business in their town, for instance. Once the project was completed, the organization often became inactive. In other cases, the organization had never really been active.

Chambers of commerce have as their primary focus the general marketing of the community, training of business employees, and acting as a clearinghouse for information. Rarely do they become directly involved in project development. Nonetheless, many formal development corporations that worked on project activities were connected in some way with local chambers.

The internal operations of these development organizations were minimal. Almost 75 percent of the communities with projects had no budgets for economic development programs. Of those that did list budgets, only half reported more than \$2,500. Fewer than 40 percent of these small communities with projects reported any paid staff, and most of those had only one or two. Thus, economic development work depended largely on volunteers. Here, again, only a few had any formal training or prior experience in the field.

In many communities, the leadership base for economic development is narrow. Community leaders we interviewed reported difficulties in finding and retaining leaders for economic development. Typical comments: "I've got to quit this project and get back to making a living." A Milford public official stated: "We had someone who did pretty well, but he retired and moved to Arizona. Since then, no one has had the time and interest to pick up the ball."

Most community leaders interviewed reported that it is difficult to recruit younger leaders. Larger small communities with a larger pool of college graduates perceived their communities as being more successful in stimulating economic development activity and more optimistic about projects, perhaps fostering a better climate for economic development efforts.



Outside Agencies Seldom Used, Generally Offer Technical Help

Like all States, Nebraska has an array of State, local, and private organizations that offer assistance in economic development. Yet, our study shows that Nebraska community economic development groups had little regular interaction with these organizations. The very small communities had the least contact with outside agencies and received the least assistance.

The most frequent contact occurred between community groups and the State economic development department, regional utility district organizations, and the State municipal league. The next most frequent contacts were with county governments and regional economic development districts. Rarely mentioned were universities, community colleges, other State agencies, and private consultants. Local development agencies, the regional public utilities, the State economic development agency, and the State municipal league can help with

preparing financing packages, locating prospects, and assisting staff. Other providers can help with specific technical problems.

Outside assistance was directed almost exclusively at technical assistance, rather than capacity building, that is enhancing a town's abilities to carry out development efforts itself, rather than depending on outside expertise. Interviewees reported that capacity-building assistance is frequently not available, especially training in development techniques. Outside development assistance also appeared to lack coordination. In Ashland, for example, public officials complained about the lack of followup and support after State agencies visited their community to offer support for mainstreet improvements.

Perceptions of Failure for Most Development Projects

Community perceptions about the importance of economic development

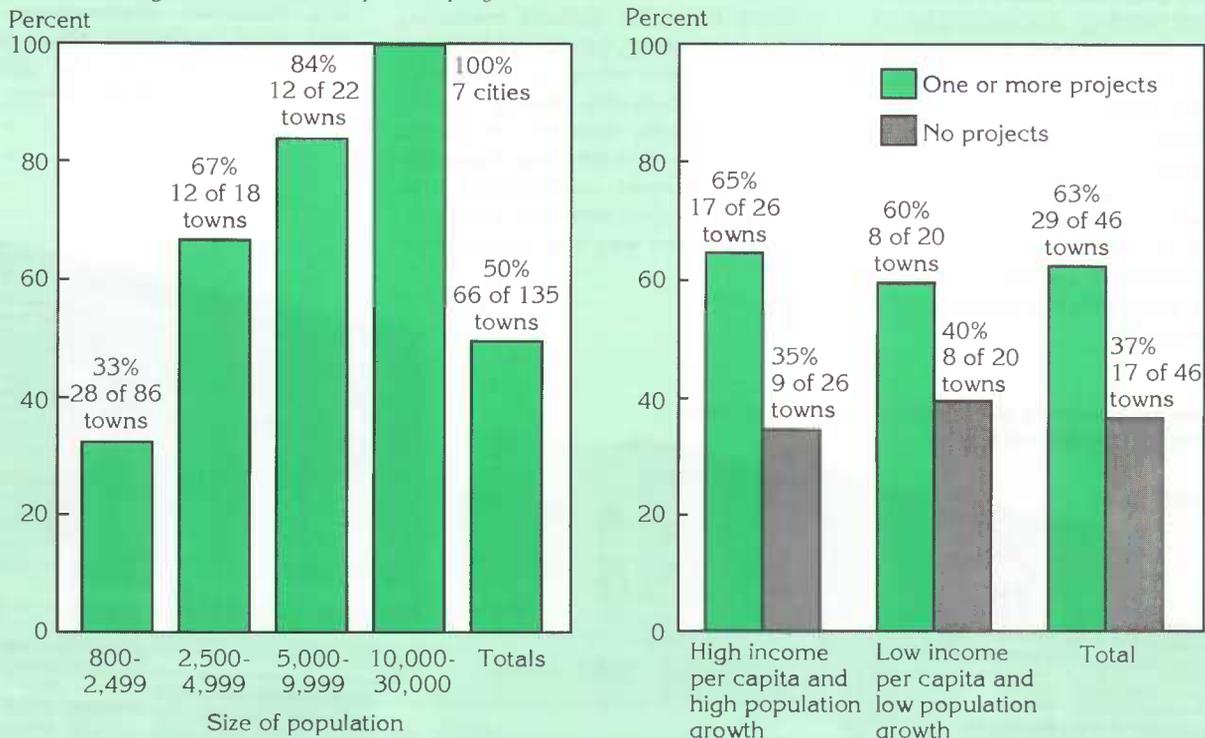
contrasted sharply with actual outcomes. Over half the respondent communities, including those without any projects, regarded economic development as "very important." Two-thirds felt that it had become "more important" in the last 2 years. About 80 percent of all respondents felt that top economic development priorities were getting more jobs for local residents, helping to retain or expand businesses, and getting new businesses to locate in the community. These perceived priorities reflect the many kinds of community projects. However, the respondents perceived little success in achieving these goals. Only 20 percent saw high success in job development and in efforts to retain and expand existing businesses.

On new business development, another important goal, respondents again saw their communities as unsuccessful. However, communities that had job, population, and income growth over the previous 3 years were more likely to see themselves as win-

Figure 1

Factors influencing community development projects...

Income and population growth rates have little effect on whether or not a community takes on development projects.



Based on survey responses from 135 Nebraska small towns with populations ranging from 800 to 30,000

ning the economic development competition with other communities.

Smalltown Development Efforts Need More, Better Help

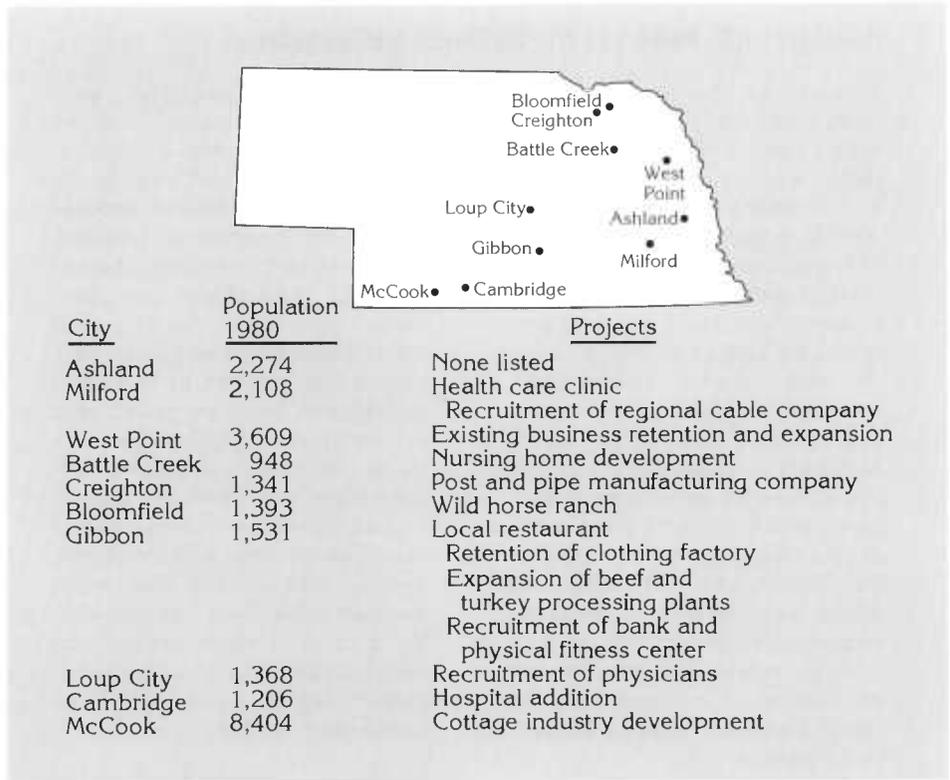
This survey of experiences and perceptions of leaders in Nebraska's small communities leads to one major conclusion: while organization, planning, leadership, and resources all matter in economic development, size matters most of all in both effort and outcomes. In addition, there is the wide disparity between smalltown interest in economic development and the capacity to carry it out.

Very small rural jurisdictions have little chance of success in stimulating economic activity. This is true despite economic development's high priority and increased importance among smalltown leaders. Budgets, staff, training, planning, and operations were almost nonexistent. Under these circumstances, local economic development was reactive and episodic, if it existed at all. Economic development is the domain of large communities. Among small towns and villages, the perception of success is quite low and this perception is borne out by the lack of project activity in these communities.

Outside helping agencies' efforts lacked coordination and focus to effectively support local efforts. Small communities were frustrated, and found little outside support to overcome the barriers that faced them. These communities are the least able (and in some cases the least willing) to change. They are unable to tap existing internal and external resources.

Rural communities often lack the basic public facilities and organizational and leadership capacity to stabilize or increase economic activity. They lack access to basic building-block financial and organizational resources. This, in turn, results in ineffective use of sophisticated economic development tools and financing resources. Small communities with limited capacity and weak delivery systems find such tools of limited use.

Even where institutional capacity does exist in small communities, external



resources may not be available because State and Federal agencies that control many of these resources often funnel them to larger jurisdictions. These agencies expect better results by focusing economic development tools and resources in communities with proven capacity.

What Can States Do?

State policies can help deal with problems faced by the smallest rural communities. First, broad-based economic development assistance to every small community that demands it is unrealistic. The limited resources of State governments make such a policy untenable. Further, as shown by our survey results, most very small communities are in no position to use many of the economic development tools and resources that do exist. Where a community's economic viability has disappeared, it may be more appropriate to provide support in coping with this reality rather than raising local expectations that something can be done to change the situation.

However, it may also be bad politics and bad policy to exclude very small communities from access to such tools and resources if they dem-

onstrate the basic motivation, commitment, and capacity to use these resources effectively. Resource support under such circumstances can help. While a large percentage of communities under 2,500 population may be unable to sustain a credible economic development effort, others who do have such capacity can effectively use resources to stimulate business investment.

States can also develop assistance policies to help increase physical and organizational capacities where some already exist. This will result in more effective use of economic development tools by these communities. Where communities lack the basic organizational and financial building blocks, States may be able to advise on how to manage a town in decline. State resources might be apportioned based on a town's existing capabilities, resources, and motivation. Commitment of community organizations, and present conditions of the town's facilities should also be considered.

Multi-community regional development programs may also provide an opportunity for very small communities that lack fundamental resources. Circuit-riding development specialists, cooperative extension spe-

Background: Methods for Gathering Information

Research for this study is based on two sources. First, a questionnaire was mailed in 1988 to public and private sector leaders in communities from 800 to 30,000 population in Nebraska. The questionnaire was organized into five parts: perceptions of city economic condition, organizational and budgetary structure, internal and external relationships, assessing economic development activity, and information needs. Activity was measured in terms of the number of specific economic development projects the respondents indicated were occurring in their communities. The questions asked were aimed at soliciting respondents' perceptions of success in economic development. We received 135 responses from the 153 communities, an 87-percent response rate.

To provide additional information on the dynamics of community economic development, we conducted case studies of 10 communities within the larger sample to clarify organizational and leadership characteristics, and to get detail on development work.

cialists, and State and university field offices have all been used effectively for this purpose.

Our survey and case studies demonstrate a major lack of planning and priority setting among all small communities. They need to be able to diagnose their current conditions. Through such an analysis, communities can determine realistic actions to take. Some may need to stimulate improved leadership, organizational capability, and facility improvement. Others may need to develop a realistic strategy to retain what services they have or prepare for further losses of existing services.

It's Already Being Done In Some Places

Nebraska has recently moved in this direction. First, the University of Nebraska at Omaha, in cooperation

The 10 communities were selected to be illustrative of the range of community settings in Nebraska. Important criteria included in the selection process were size, geographic location, and social and economic characteristics, particularly the economic conditions facing each community. Interviews were conducted with leaders in important positions in both the public and private sectors. Topics covered a range of issues including organization and finance, specific project initiatives, and respondent views about how well economic development activity was being pursued within their communities. We also used economic data on communities derived from studies prepared by University of Nebraska research groups.

We define economic development broadly to include efforts by public and private individuals and organizations within small communities to stimulate, directly or indirectly, the retention, creation, or expansion of economic wealth to the benefit of that community.

with the League of Nebraska Municipalities and the Nebraska Department of Economic Development, has developed an economic development strategic planning program for small communities. This program called S.T.A.R.T. (Strategic Targeting and Resource Training) has been used in over 20 small communities to develop plans for economic development. After completion of the process, State agency resources are matched with community needs identified in the strategic plan to assist with development. Since our study was completed, Cambridge has used this program to help identify realistic economic development initiatives.

A second State effort combines University of Nebraska resources with those of State government to create a community improvement program. This effort, operated through the Nebraska Department of Economic

Development, works through a certification process to build capacity at the local level in three areas: economic development, community services, and governmental services. State governments in Missouri and Oklahoma have similar efforts under way.

While economic development is here to stay, the prospect for many of the smallest communities is questionable. Therefore, mechanisms to help communities of all sizes and all economic conditions cope with the dramatic changes of the times are increasingly important. State governments can take advantage of the opportunity to help even those communities that will continue to face stagnation and decline.

RDP

For Additional Reading...

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