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Small business and entrepreneurship in Nebraska

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Small Business and Entrepreneurship in Nebraska

The less densely populated states depend more on small businesses for private non-farm employment than do the more densely populated states or the United States as a whole.

Small business and entrepreneurship in Nebraska is roughly comparable to the small business sector in other upper plains states. The less densely populated states depend more on small businesses for private non-farm employment than do the more densely populated states or the United States as a whole.

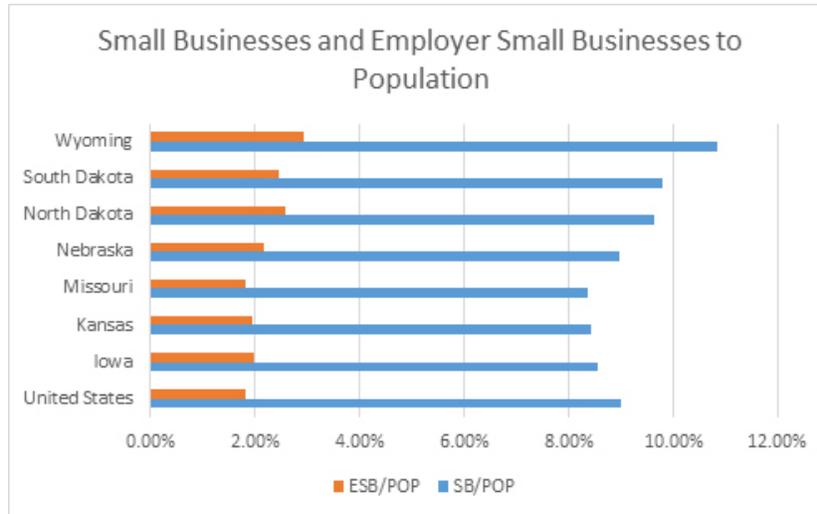
There are 167,878 small business establishments in Nebraska. Of these, 40,581 have employees. That is, 75.8% of small businesses in Nebraska have no employees. Since many non-employer small businesses are hobby or sideline businesses, much of the perceived volatility in small business survival is due to entry and exit by non-employer entrepreneurs. Nebraska small businesses employ 391,150 workers, or 47% of all private sector non-farm employment.¹

Nebraska communities vary in their success in encouraging small business development. Those that are successful appear to devote attention to small business development rather than business recruitment, tend to depend less on absentee ownership of commercial real estate, and tend to have at least one locally owned bank.

The terms “small business” and “entrepreneur” are often used interchangeably. There is no single definition of the term “small business” in federal law. Most small business owners in Nebraska consider themselves to be entrepreneurs. Although persons who are described as “corporate entrepreneurs” or “social entrepreneurs” or “government entrepreneurs” may make significant contributions to their communities, this study considers only those entrepreneurs who own a business.

Nebraska and its Neighbors

Nebraska is comparable to the United States as a whole in the rate of small business ownership among its population. Its 167,878 small business establishments are 8.97% of its 1,868,969 population (2013). Small business establishments in the United States are 8.99% of the U.S. population. Among Nebraska’s neighbors; Iowa (8.56%), Kansas (8.44%) and Missouri (8.36%) have somewhat fewer small businesses in propor-



tion to their populations. However, North Dakota (9.62%), South Dakota (9.78%), and Wyoming (10.83%) have significantly higher rates of small businesses.

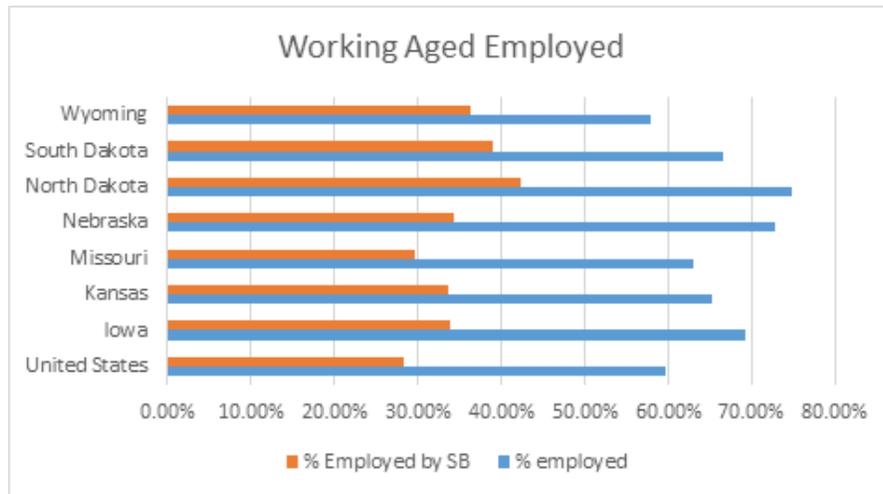
In Nebraska, as with its neighbors, a higher proportion of its small business establishments have employees than does the U.S. as a whole. Only 20.07% of small business establishments in the United States have employees. In Nebraska 24.20% of small businesses have employees. Among Nebraska neighbors, North Dakota (26.86%) and Wyoming (27.03%) have significantly higher proportions of their small business establishments with employees. South Dakota is near the Nebraska rate at 25.07%, while Iowa, Kansas and Missouri are below the Nebraska rate but still above the U.S. rate.

The low population density of states in the upper plains may be a reason for higher rates of small business formation and the higher rates of employer small businesses among all small business establishments. Major corporations in retail, wholesale, professional services and other economic sectors tend to crowd out small businesses in larger cities. While some of this happens in small and micropolitan cities in Nebraska, the scale of such crowding is significantly less. Independent pharmacies, groceries, and hardware stores, for instance, are far more likely in micropolitan Nebraska towns than in Omaha or Lincoln.

Generally, the seven upper plains states have a higher portion of their potential workforce employed than did the U.S. as a whole and a higher proportion employed by small businesses. The potential workforce was estimated by using the population within the working age of 18 to 65. The United States has 62.6% of its population within working age. Nebraska has 61.0% of its population within working age. The other upper plains states have working age populations below the national average except Wyoming, which was near the national average at 62.9%, and North Dakota, which was significantly above the national average at 63.3%.

North Dakota also has the highest rate of employment when its employed is compared to its working age population. Nebraska is second with 72.8% of its working age population employed. Nearly all other states in

	US	IA	KS	MO	NE	ND	SD	WY
% OF POPULATION	62.6%	61.0%	61.0%	61.9%	61.0%	63.3%	60.5%	62.9%
% EMPLOYED	59.7%	69.2%	65.1%	62.9%	72.8%	74.8%	66.6%	58.0%
% BY SMALL BUSINESS	28.3%	33.8%	33.7%	29.7%	34.3%	42.4%	39.0%	36.4%

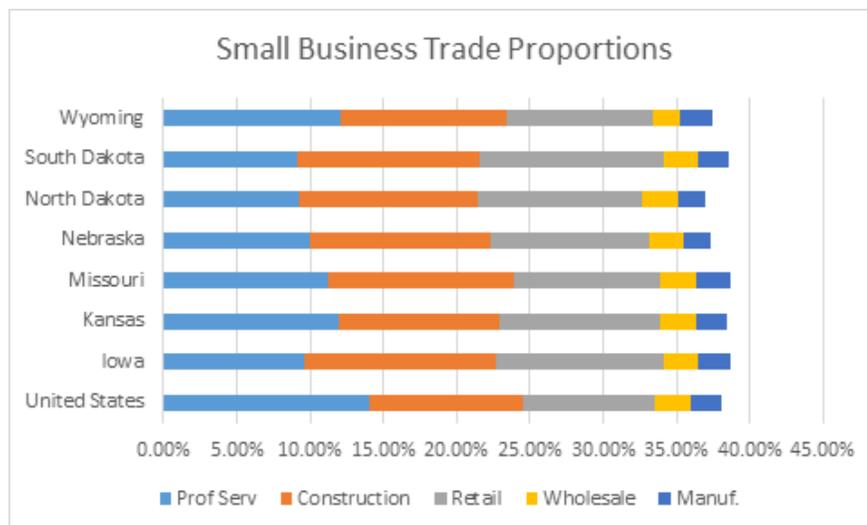


the mid-continent region also have a higher rate of employment as compared to their working age population than does the United States as a whole. The exception is Wyoming, which has only 58% of its working aged employed as compared to 59.7% for the U.S. as a whole.

When compared to the working age population, 28.3% are employed by small businesses in the U.S. In Nebraska it is 34.3%. All of the other upper plains states are above the national average with Missouri being closest to the national average at 29.7% and North Dakota being highest at 42.4%.

Characteristics of Small Businesses

The distinction between small business establishments and employer small businesses is important. Every person who files a Schedule C is included among small business establishments. Non-employer businesses include professional service firms, investors and inventors but they also include hobbyists, multi-level marketing sales people, and non-employee contract workers. That is why about 80% of small business establishments have no employees and why the small business turnover rate (often termed the “failure rate”) is so high.



The dominance of non-employer businesses among the small business is somewhat in concert with and somewhat opposed to the usual conceptualization of small businesses as “mom and pop” businesses primarily engaged in retail or in local service industries. Small retail and service businesses usually have employees but the number of employees is limited. This conceptualization of small businesses is truer in Nebraska than in the U.S. as a whole.

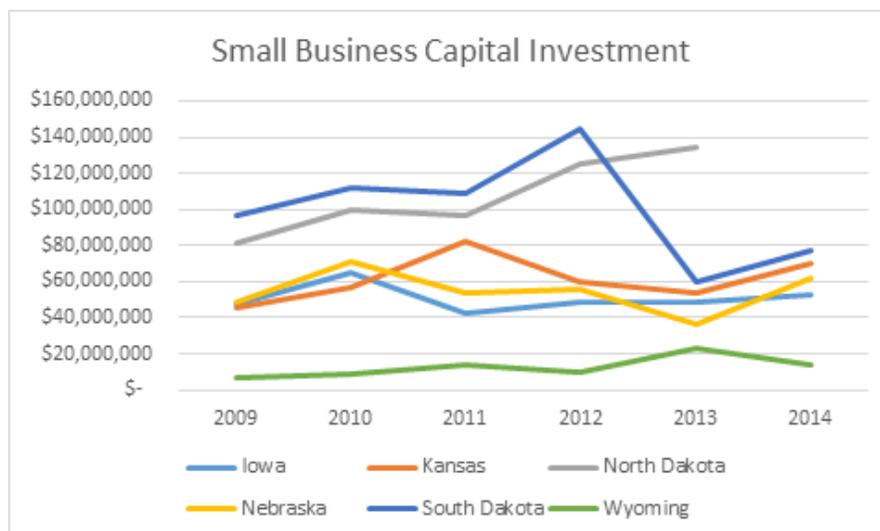
Only 8.98% of small businesses in the United States are in retail. In Nebraska 10.84% of small businesses are in retail. All of the upper plains states have a higher proportion of their small businesses in retail than is true of the U.S.

The most dominant industry for small businesses in the U.S. is professional services, which accounts for 14% of all small businesses. In Nebraska, professional services account for only 9.98% of small businesses. All of the upper plains states have smaller portions of their small business population in professional services than does the U.S. as a whole. The closest upper plains states come to the U.S. average is in Kansas and Wyoming, which each have about 12% of their small businesses in professional services.

The dominant small business industry in the upper plains is construction. Nebraska has 12.34% of its small businesses engaged in construction. The other upper plains states have similar levels with Iowa having the largest portion of small businesses in construction at 13% and Kansas having the smallest portion at 10.93%.

Wholesale and manufacturing firms are considered primary businesses because they sell their products outside of their community, bringing money into the community. Only 2.53% of small businesses in the United States are in wholesale and only 2.1% are in manufacturing. In Nebraska, the level is 2.28% in wholesale and only 1.88% in manufacturing. All of Nebraska’s upper plains neighbors have a higher percentage of wholesalers among their small businesses than does Nebraska, except for Wyoming. All of Nebraska’s upper plains neighbors have a higher percentage of manufacturers among their small businesses than does Nebraska, except for North Dakota.

Investment by small businesses was somewhat consistent during the half-decade between 2009 and 2013 except for 2010. The sharp increase in 2010 was due to an aggressive program by the U.S. Small Business Administration to encourage small businesses to re-finance using SBA guarantees. SBA offered banks



90% guarantees instead of 75% guarantees and eliminated the guarantee fee. Many small businesses that had been affected by the 2008 recession took advantage of the opportunity to restructure.

In the upper plains states investment by small businesses swelled in 2010 and 2011 then declined to previous levels in 2012. The exceptions were South Dakota and North Dakota, which had significant increases in 2012. North Dakota continued large small business investment in 2013, probably because of contract activity by small businesses in the oil industry.ⁱⁱ

Activity in Nebraska followed this pattern but there was a considerable decline in small business investment in 2013 with a robust recovery in 2014.

Small Businesses in Rural Nebraska

The higher rates of small business formation in the upper plains are an indicator of the importance of small businesses to the economy of the low population density portions of these states. A recent studyⁱⁱⁱ of 16 Nebraska communities that included interviews with small business owners and community economic development leaders provides a perspective on small businesses in Nebraska.

Six micropolitan communities (populations of 10,000 to 50,000) were studied. They were Beatrice, Columbus, Kearney, Norfolk, North Platte, and Scottsbluff-Gering. Ten smaller communities were studied. They were Alliance, Chadron, Hartington, Hebron, Holdrege, Imperial, McCook, Minden, Nebraska City, and O'Neil. Structured interviews were conducted with 71 business owners and 51 community economic development leaders.

One third of small business owners in rural Nebraska see themselves as entrepreneurs. Another 21% see themselves as both small business owners and as entrepreneurs. For more than half of rural Nebraska small business owners, then, the term "entrepreneur" includes them. That is true whether they own a pharmacy, a restaurant or a machine shop.

More than a third became business owners by starting their own enterprise. However, this was truer in micropolitan communities, which had 48% start-ups, than in smaller communities, which had 29% start-ups. Businesses in smaller communities were more likely to be the result of succession (37%). About a third of the current owners of small businesses in rural Nebraska acquired the business from a previous owner.

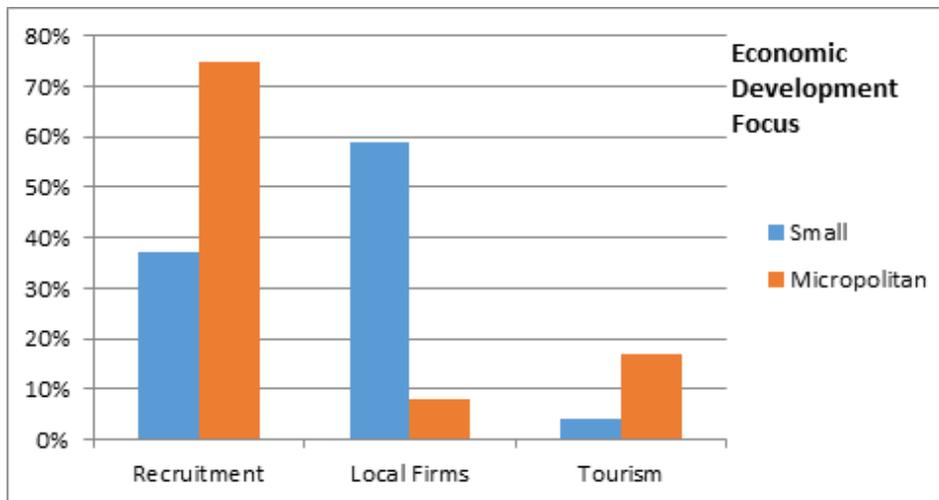
Significantly, 43% of small business owners in rural Nebraska credit their parents with developing their interest in business ownership. Another 34% say that they became entrepreneurs because of a personal desire for independence or greater control of their lives. Only 23% credit a mentor for sparking their interest in entrepreneurship. A majority (61%) would be pleased if their own children chose entrepreneurship as a career and 56% say that they have mentored other entrepreneurs. However, only 23% are aware of an entrepreneurship program in their local high school or community college.

Economic Development and Small Businesses

Nebraska communities vary in their success at encouraging employer small businesses. This variance appears to be related to the approach the community takes toward economic development. Those communities that focus economic development efforts on small business development tend to do better at encouraging

entrepreneurship than do those communities that focus economic development efforts on business recruitment. LB 840 money, for instance, is used to support visible main street improvements in communities with long-term growth in employer small businesses but is used to support infrastructure tied to business recruitment in communities without significant long-term growth in employer small businesses. There appear to be other factors as well. Communities with long-term growth of employer small businesses tend to have at least one locally owned bank and tend to have less absentee ownership of commercial facilities. Interestingly, it did not appear to matter if the community was or was not located on Interstate 80.

To determine the long-term success of communities in encouraging the growth of employer small businesses, the study looked at Census data for businesses with five to 49 employees. Only the 16 communities in the study were analyzed.



Statistically Significant Growth

Kearney (Buffalo County), North Platte (Lincoln County), Columbus (Platte County), O’Neill (Holt County), Hartington (Cedar County), Holdrege (Phelps County) and Imperial (Chase County) were found to have a statistically significant growth in employer businesses with 5 to 49 employees.

Growth not Statistically Significant

Nebraska City (Otoe County), McCook (Red Willow County), Norfolk (Madison County) and Chadron (Dawes County) were found to have a positive trend coefficient. However, the growth displayed was not statistically significant.

Statistically Significant Decline: Alliance (Box Butte County), Beatrice (Gage County) and Scottsbluff-Gering (Scotts Bluff County) were found to have a statistically significant negative trend coefficients at the level of significance $\alpha=0.05$ suggesting a declining trend in number of establishments with five to 49 employees.

Decline not Statistically Significant: Minden (Kearney County) and Hebron (Thayer County) were found to have negative trend coefficients. However, the decline displayed was not statistically significant.

Banks appear to play a role in the success of small business development in a community. Of the seven

communities with statistically significant increases in employer small businesses, four had at least one locally owned bank and two were within the market area of a bank owned in a nearby town. Only one had no locally owned bank. Of the three with a statistically significant decline in employer small businesses, two had no locally owned bank. In a corollary, the business owners in the two communities without a locally owned bank also complained that the commercial properties they leased had absentee owners.

While bank loans, whether or not guaranteed by the SBA, are an important source of capital for small businesses, other sources of financing are equally important. In this study of rural small businesses, 42% of business owners said that their business was financed by themselves, family and friends. Another 12% said that it was financed by angel investors or other sources.^{iv}

The Local Option Municipal Economic Development Act, popularly known as LB 840, allows communities to impose a tax (property or sales) or fee to fund economic development activities. The act has been amended nine times. Smaller communities have more freedom to use the funds to promote small businesses. The communities studied that have LB 840 programs were: Alliance, Beatrice, Chadron, Columbus, Gering, Hartington, Holdrege, Imperial, McCook, Nebraska City, Norfolk, North Platte, O'Neill, and Scottsbluff. Hebron, Kearney and Minden do not have an LB 840 program.

Most economic development leaders focus on business recruitment. That is truer in micropolitan communities, where 75% said that recruitment was their priority, than in smaller communities, where 37% said that recruitment was their priority. Among economic development leaders interviewed were executive directors of economic development corporations, chamber executives, city officials, and bankers.

Their orientation to a recruitment priority is in keeping with economic development theory from the 1950s that divided employers into primary and secondary businesses. A primary business is one that sells its goods and services outside of the community and employs persons in the community. A secondary business is one that sells its goods and services inside of the community and employs persons inside the community but that sends a portion of its sales outside of the community to pay for inventory and operation support. It is presumed that secondary businesses will occur naturally in response to increased primary income.

In the 21st Century, however, there have been significant changes to the dynamics of local economies that make the automatic impact of primary income less reliable. First, improved roads and automobiles make it easier for residents of a community to travel to larger communities to do their trading. While this affects the smaller towns of under 10,000 population more than the micropolitan communities, trade loss is a problem for every rural community in Nebraska. Second, the Internet has provided a new trade channel that affects every Nebraska community, no matter its size.

The perceived high failure rate for small businesses, the unpredictability of small business operations, and the influence of national media on consumer desires propels many economic developers to favor chain stores (including franchises) over local stores in combating trade loss.

Less than one-third of economic development leaders (29%) indicated that their community invests in facilities and street improvements to support local retail. Investment tends to go to infrastructure to support recruitment (49%) or healthcare (22%).

An indication that focus is elsewhere is the lack of recognition of small business owners. Only 39% of

communities have a recognition program for small business owners. These are usually run by the chamber and limited to chamber members. The recognition is for leadership within the chamber or for leadership in customer service. There was no instance of a program that recognized small businesses for their contribution to community economic development. A correlation to this finding is that no business owner interviewed had ever been asked to make a presentation in the local high school or community college to a business or entrepreneurship class.

Yet, 59% of economic development leaders said that they would be happy if one of their children chose small business ownership as a career and 75% said that the best business leader in their community was an entrepreneur rather than the manager of a branch plant or healthcare facility.

ⁱ The Small Business State and Territory Profiles (2014). Office of Advocacy, U.S. Small Business Administration, Washington, DC.

ⁱⁱ Data is from Small Business Development Centers in each state and includes debt and equity. It does not include direct equity investment not tied to bank loans (venture capital). North Dakota data for 2014 was not available.

ⁱⁱⁱ Bernier, R. E., et al. (2014). Entrepreneurship Based Economic Development, Rural Futures Institute, University of Nebraska, Lincoln, NE.

^{iv} The term “angel investor” is used here to indicate a person who takes an equity interest in the business. Angel investors in rural Nebraska are unlike those in centers of venture capital as popularized on “Shark Tank” and similar television shows. They are usually local entrepreneurs or farmers who make their investment as much to support the town as to earn a return from their ownership.



About the Author

Robert Bernier has served as state director of the Nebraska Business Development Center since 1979. Bernier is the longest serving state director of a small business development center program in the country. He held leadership positions in the Association of Small Business Development Centers, including president in 1990. He started the ASBDC national office in 1989 and oversaw its transfer to a Washington, DC location in 1996.

Bernier earned his Ph.D. in public administration and his MBA in finance from the University of Nebraska at Omaha. He earned the BA in journalism from Kent State University. He worked as a newspaper reporter in Ohio before joining the University of Nebraska at Omaha as assistant director of University Relations in 1974. His academic research focuses on the process of economic development, particularly small business development.



About the Nebraska Business Development Center

NBDC is a cooperative program of the U.S. Small Business Administration (SBA) and the College of Business Administration at the University of Nebraska at Omaha (UNO). NBDC partners with the University of Nebraska at Kearney, Southeast Community College, Wayne State College, Mid-Plains Community College and Chadron State College to provide consulting and business support services from offices in Omaha, Lincoln, Kearney, Grand Island, North Platte, Wayne, Auburn, Scottsbluff and Chadron. Learn more about NBDC at nbdc.unomaha.edu

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