

Rooted Corporations

Growing an Entrepreneurial Economy

May 2019

Achieving Community Prosperity

When communities engage in community economic development, they should have some clarity on the outcomes they are striving to achieve. Our work across North America employs what we call the **Community Prosperity Framework**, which is based upon our belief that when opportunity, income and wealth are widely available, a more prosperous, resilient economy is the result.

Our 40-plus years of work in this field has convinced us that *entrepreneur-led development* is the strongest pathway to more vibrant economies and societies. Gross domestic product growth alone is not adequate if most of our communities' residents are struggling and lacking opportunities to get ahead. Traditional economic activities can no longer sustain enough people, particularly in many of our rural communities.

Community Prosperity Model



Communities that make *smart investments in growing entrepreneurial talent and behavior* set in motion a set of outcomes leading to a more prosperous economy such as:

Increased Economic Competitiveness. In a free-market economy no community has the “right” to exist. Every community is responsible for its own development and relevancy. In this highly competitive environment, investing in entrepreneurs who in turn become more competitive positions a community for increased competitiveness. When more entrepreneurial ventures become more competitive over time, a community becomes more competitive.

Expanding Economic Diversification. Entrepreneurs, particularly in our current age of communication and information technology, can live in a community and engage in economic activity throughout not only their region but globally. Entrepreneurs who pursue their competitive advantages and market niches inherently create more



diversified economies. Diversification is the foundation for not only prosperity now, but resiliency that sustains prosperity over time.

Greater Value-Added Products and Services. Much of rural America is rooted in what Chris Gibbons with the National Center for Economic Gardening refers to as the “commodity trap.” My home state of Nebraska is one of the greatest producers of agricultural products in the world. However, much of agriculture is tied to commodities where the producer has limited control over price resulting in a lower value or poorer economy. As entrepreneurs develop and become more competitive in niche markets, they generate greater value. With greater value the opportunity for wealth formation increases for not only the entrepreneurial venture owners, but for their workers and suppliers and the larger community.

Increased Resiliency. A diverse and value-added economy grows more resilient over time. With resiliency ventures and their home communities are more able to respond to a natural disaster or economic setback. Resilient communities also have greater capacity and rooted wealth to capture development opportunities when they emerge.

Ventures

We use the term “ventures” to refer to for-profit businesses, nongovernmental or nonprofit organizations and governmental entities like schools, state parks, etc.

By supporting and building entrepreneurial behavior, we increase economic competitiveness and diversification and generate a higher value-added economy that becomes more resilient over time. The cumulative impacts of increased economic competitiveness, diversification, rising economic values and greater resiliency positions our community and society for increased prosperity that is sustainable over time.

Entrepreneurship – Prosperity – Philanthropy Connection

Growing an entrepreneurial ecosystem requires robust and sustained investment. Ironically, in America the greatest pathway to personal wealth is through entrepreneurship. Rooted local entrepreneurs typically have strong attachments to their hometowns. Connecting philanthropy through place-based foundations (e.g., community foundations) with entrepreneurial donors can provide the capital communities need for ecosystem building efforts.

Rethinking Entrepreneurs

Before we get to this paper’s topic of rooted corporations, let’s explore what we mean by entrepreneurial talent. At our previous home with the national Center for Rural Entrepreneurship, we developed one of the most widely used **entrepreneurial talent typologies** employed throughout rural North America.

| Entrepreneurial Talent Typology | | |
|---------------------------------|--|--|
| Category | Types | Impacts |
| Entrepreneurs | High Growth Serial Entrepreneurs Growth-oriented | These entrepreneurs create significant impact through new investment, tax base expansion and job creation for the 90% of us who really want to work for someone else. Local and regional economies grow when these entrepreneurs grow. |
| Venture Owners | Successful & Stable Lifestyle & Doing Fine Survival – Struggling Retiring – Transitions | Owning a business does not make one an entrepreneur. Growing a business does. Venture owners (both for-profit and non-profit) are important to local commerce and quality of life. Life changes can restart entrepreneurial activity within this category. |
| Potential Entrepreneurs | Aspiring – Startups Youth – Retirees Displaced – Returnees | These are folks who are frustrated and want a change in their lives. They don’t want to move but need to make a living; they have a dream or are going through life changes that increase their entrepreneurial potential. |
| Limited Potential | Prefer to Work for Others Don’t Work Can’t Work | Nine out of 10 Americans fall into the “limited potential” category. Some are not in the workforce, but most just prefer to work for someone else. However, their potential may rise when their circumstances change. |

In our current field work as e2 Entrepreneurial Ecosystems with NetWork Kansas, we are testing a new entrepreneurial talent typology that offers some practical advantages. In this typology we organize entrepreneurs and their ventures (including for-profit, nonprofit and governmental ventures) into one of five types based on their role in our community and regional economies.

| Types of Entrepreneurial Ventures | | |
|---|------------------------|---|
| These entrepreneurs contribute to the secondary economy. * | Essential | Whether a rural community or an inner-city neighborhood, there are essential ventures that provide us food, health care, education and other things foundational to our well-being. |
| | Amenity | Amenity ventures might include an art gallery, wine bar or local breakfast café. Amenity ventures are foundational to quality of life. Our lives and communities are better with amenity ventures. |
| These entrepreneurs contribute to the basic economy. * | Growth-Oriented | Growth-oriented ventures are typically well established essential or amenity ventures that are larger Stage 1 (2-9 employees) or smaller Stage 2 (10-99 employee) ventures. They have not achieved sustained growth, but they are positioned and motivated for growth. |
| | Growth | Growth ventures are larger Stage 1 and Stage 2 ventures that are experiencing robust (say double-digit annual sales) and sustained growth (say occurring over a series of three to five years). |
| | Breakout Growth | Breakout growth ventures refer to that very small segment of all ventures nationally that achieve significant growth creating Stage 3 (100 to 499 employees) and even Stage 4 (500+ employees) ventures. Breakout growth ventures become candidates for acquisition by larger ventures or going public. |
| *Traditional economic development divides economic activity into “secondary” and “basic” activities. Secondary economic activities primarily service and sell to consumers within the same geography where the venture is located supporting area spending capture. Basic economic activities are those located in a community or region, but primarily sell to consumers outside of that geography supporting attraction of income and wealth into the area community. | | |

In our [e2 development framework](#) we recommend that communities focus energy on essential and amenity ventures strengthening local spending capture and improving the community’s quality of life. **By working with these “main street” type ventures, we also can identify possible growth-oriented entrepreneurs. This is the sweet spot for focused entrepreneurial development.** Growth-oriented entrepreneurs are present in large numbers in most communities, but also can most benefit from our assistance. By supporting growth-oriented



entrepreneurs we can create a pipeline that generates more growth entrepreneurs and even some breakout growth entrepreneurs.

The Growth-Oriented Entrepreneur Connection

For most communities it is easy to identify larger employers ranging from the local hospital to a community college, K-12 school system, large truck stops or manufacturing plant. But many of our larger employers (Stage 3 with 100 to 499 employees and Stage 4 with 500+ employees) are not growing by adding more workers. Our job creating engine is with growth-oriented entrepreneurs that achieve sustained and robust growth. These ventures create not only jobs, but as we address in the next section, careers.

Taking time to identify those ventures in your community that appear to be growing is worth your effort and will create opportunities for supporting additional growth. Remember, do not forget nonprofit and/or governmental ventures. A larger social service agency may be growing and create significant development opportunities. A great example is the Mayo Clinic in Rochester, Minnesota that started as a relatively small Catholic Hospital partnering with the private practice Mayo Brothers. Another example might be a state park. Custer State Park (part of South Dakota state government) located in the Black Hills of South Dakota is an economic engine. It attracts visitors from all over the world. Over the years Custer State Park and its allied activities have experienced significant growth.

When growth-oriented entrepreneurs become growth entrepreneurial ventures they typically create small and medium-sized rooted corporation entities. Let's explore why this transformation is foundational to smart economic development today.

Rooted Corporations – A Sweet Spot for Development

In this section of our paper we define what we mean by rooted corporations, why they are so important to community development and how we can support them through focused entrepreneurial ecosystem building. We also touch on the risk and threat associated with external ownership of ventures in today's climate.

What are Rooted Corporations?

When the word corporation is said certain images come to mind. In this paper we are not focusing on a specific legal structure, but on the ways corporations contribute to economic and community development and well-being. Rooted corporations are ventures that have local, area or regional ownership. There is connection between the corporation and a specific geography. In this case we are thinking about an organization that has become large enough to create jobs, but most importantly, attractive careers. More on this point in the next section of our paper. Rooted corporations often meet area needs, but when they begin to sell outside of the local area, they become major contributors to the community's basic economy. Examples of rooted corporations could include a local, county-owned health care system, the regional community college, a state park, an agricultural cooperative, a rural telephone or power utility, a home-grown manufacturing company and the list goes on.

Why are Rooted Corporations Important?

Rooted corporations are possibly the most important building block of a successful rural economy today. These ventures – whether for-profit, nonprofit, governmental or community structured – form the foundation of modern successful rural economies and communities. When there are enough rooted corporations in a community with connections to a range of economic sectors and markets, they can not only create a more vibrant economy, they can create a more diversified, higher value and resilient economy.

There are three primary reasons why rooted corporations are so important developmentally to our rural communities:

1 – Competitive Economy. As we have already articulated, rooted corporations can create a diversified, higher value and more resilient economy. When there are sufficient numbers of rooted corporations their economic activity creates economic engines that increase community population, markets and opportunities for other ventures to succeed.

2 – Community Builders. Rooted corporations generally have deep ties in the community. There is a hometown connection and history. As a result, and when compared to most externally owned ventures, rooted corporations source higher levels of leaders, volunteers and philanthropic giving. Rooted corporations create new wealth not only for their owners and investors, but their employees, suppliers and the community at large. Finally, successful rooted corporations create community branding and identify. For example, the success of Affiliated Foods created identity for Norfolk, Nebraska over decades of time.

3 – Jobs and Careers. While foundationally important, a competitive economy and the role of rooted corporations as community builders do not compare to their contribution to the attraction, development and retention of human talent. Rooted corporations typically not only create jobs in a community, they create a diversity of attractive and sustainable careers.

Types of Rooted Corporation Careers

| | | |
|--------------------------|------------------------|------------------------|
| Management | Human Resources | Information Technology |
| Research and Development | Finance and Accounting | Marketing and Sales |
| Distribution | Production | Administrative Support |

The kinds of jobs and careers rooted corporations create are attractive to the children and grandchildren of families residing in rural communities. The ability to create “pathways home” and attract new residents to rural communities is profoundly important. This is particularly true for rural communities in America that have been experiencing chronic and severe depopulation. Growing rooted corporations is central to rural America’s people attraction game plan.

Challenges of External Ownership. In our development practice we never discourage a community from seeking outside investment and ventures. However, with external ownership, particularly where there is investment group ownership with high return on investment expectations, there are increasing risks. The following story on ShopKo and its recent collapse illustrates some of the challenges with external ownership. Other considerations include that external owners may be less engaged to provide leadership, volunteers and levels of local charitable giving.

Lessons from Shopko

The story goes that James Ruben founded Shopko in Ashwaubenan, Wisconsin in 1962 (nearly 60 years ago) and opened the first Shopko store in Green Bay, Wisconsin. Shopko went public in 1991 and remained a publicly traded company until 2005 when Sun Capital Partners privatized the company. Shopko acquired Pamida in 1999 and rebranded rural Pamida stores as Shopko Hometown stores. In 2015 Shopko acquired another rural mainstay, ALCO. Shopko stores could be found in all markets, but the Shopko Hometown stores targeted rural communities of 3,000 to 8,000 residents. Shopko stores not only offered dry goods, but also offered pharmacy and optical services. In January 2016 Shopko filed for Chapter 11 bankruptcy and then in March 2018 announced it would be close all 350-plus stores nationally by the summer of 2019.

The Shopko story is important because it illustrates what is happening to higher cost and lower density rural markets and communities. When Shopko moved into rural communities there was celebration. Over time competition from Shopko eliminated locally owned pharmacies and optical businesses. With the acquisitions of Pamida and ALCO stores there was further market concentration and the narrowing of offerings and competition in rural communities. Now with the closure of rural America's Shopko Hometown stores, there are many rural communities left without local pharmacy and optical services contributing to rural health care deserts.

How Can We Support Rooted Corporation Development?

Our **e2 Development Framework** provides a customizable and practical resource for supporting growth-oriented entrepreneurs and helping them become growth entrepreneurs and rooted corporations. Our thought paper on [Growth-Oriented Entrepreneurs](#) and our [e2 books](#) can help you get started. For now, consider three basic commitments and actions:

- 1. Identify and engage with your growth-oriented entrepreneurs.**
- 2. Anticipate their needs and be ready to network them to the right resources*:**
 - a. Access to the right kinds of growth capital
 - b. Market intelligence research and analysis
 - c. Executive team and workforce talent
 - d. Spaces and places for growth
 - e. Peers, advisors and access to specialized technical assistance

*Chances are good that many of these resources are not fully available in your community. Energize your networks and find regional, state or even national resources you can connect to your growth-oriented entrepreneurs.

3. Continue to stay connected and a helpful partner in their growth.

Growing a stronger economy and local community begins with helping one entrepreneur become more successful in their venture. But ultimately you need to help numerous entrepreneurs to grow a stronger area and regional economy over time. Next, we explore regional growth strategies that can optimize your local work with individual entrepreneurs.

Growing Regional Prosperity

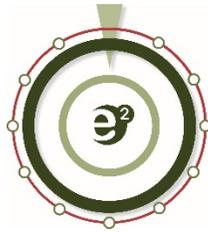
Every community should care about regional prosperity. When we have vibrant and competitive regions the opportunities for community success increase dramatically. Unfortunately, America is not very effective at supporting regional economic development when compared to other parts of the world such as Canada, Europe or even Japan.

While our primary development focus is likely local, we are suggesting a reasonable commitment to regional development as well. We are not talking about traditional regional development projects like four-laning a state highway. Rather we are talking about the all-important work of knitting together growth entrepreneurs with other ventures in our region. Articulating supply and distribution chains together where growth ventures are using regional resources can create “value chains” and even micro and full-growth economic clusters. Fostering value-chain and cluster development can accelerate overall development and contribute to a stronger regional economic as well as increased local development opportunities. To learn more about **Value Chain Development**, check out [WealthWorks](#). For those wanting a deeper read on the underlying theory of regional development look for Michael Porter’s 1990 book *The Competitive Advantage of Nations*.

Moving to a Brighter Future

For most of rural America our past success was rooted in natural resources and location. Farming, fisheries, timber, energy, mining, transportation nodes and corridors and access to tourism assets have brought us into the 21st Century. While these economic forces and sectors are likely to remain important to many rural regions, they are now insufficient to ensure the prosperity of all rural communities because of automation or decline. A new generation of strategies rooted in entrepreneur-led development are required. By supporting all entrepreneurs, we can get this ball rolling to a brighter and more prosperous future. Ultimately, we must help create a new generation of growth entrepreneurs with rooted corporations if we are to succeed in our goal of becoming a prosperous community.

We hope this thought paper gets your mind going. We welcome your questions, comments, insights and even constructive push back. Together we can grow better communities that enrich the lives and work for of all our residents.



How e2 Can Help

e2 Entrepreneurial Ecosystems can help communities increase prosperity through entrepreneur-focused economic development and ecosystem building through:

- **Mentoring.** We mentor and coach new practitioners seeking to pursue entrepreneur-led development. We provide advice and support for building entrepreneurial ecosystem strategies that work.
- **Analytics Support.** E2 helps communities and regions understand their entrepreneurial potential through research. Please view a sampling of our research tools at: <https://www.energizingentrepreneurs.org/solutions/start.html>
- **Fostering the eMovement.** We support the national entrepreneurship movement along with our partners including the **Federal Reserve Bank of Kansas City, SourceLink, Edward Lowe Foundation, Kauffman Foundation, and NetWork Kansas.** Together, we continue to advance the foundational ideas of building entrepreneurial ecosystems and entrepreneurship-led economic development.

Our emerging vision includes the following solutions:

- **e2 Institutes.** Explore our new generation of e2 Institutes where teams come together, learn from each other and explore the expanded world of strategies, tactics and resources needed in entrepreneurial ecosystem development work.
- **National e2 Resource Network.** e2 offers a resource network capable of connecting those seeking help with those who can help across North America.

e2 Entrepreneurial Ecosystems (formerly the Center for Rural Entrepreneurship) is led by Don Macke, who has more than 40 years of community economic development and policy experience. We have a national team of practitioners, both inside and outside e2, who bring research, coaching, incubation, market intelligence and other expertise to this work.

Questions & More Information



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The mission of **e2 Entrepreneurial Ecosystems** is to help communities and regions connect, learn, and share best practices for building sustainable entrepreneurial ecosystems across North America. With more than 25 years of field experience, particularly in rural America, e2 is the preferred resource for communities of all sizes wanting to pursue prosperity.

For tools and resources, visit our online library at
<https://www.energizingentrepreneurs.org/library/>.

To learn more about e2, go to www.energizingentrepreneurs.org.

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