

Building the Economic Base: A Survey of New and Expanding Firms

F. Larry Leistritz and Brenda L. Ekstrom

Expanding and diversifying the economic base, long a priority for local and state leaders, has become more important in North Dakota in recent years as unfavorable trends in the agriculture and energy sectors have precipitated a state-wide economic slump (Coon and Leistritz 1989). Central to the formulation of effective policies and programs to achieve economic growth and diversification is an understanding of the potential of different industries and enterprise types to expand the state's economic base and of the factors important to firms' location, relocation, and expansion decisions (Ekstrom and Leistritz 1988, Pulver 1988).

OBJECTIVES and PROCEDURES

The purpose of this study was to identify the types of new export-oriented businesses and industries in the Upper Great Plains states of North Dakota, South Dakota, and Nebraska and to determine both their economic contribution and factors critical to their location decisions. Only firms that (1) sell more than 10 percent of their product or service to out-of-state markets and (2) either began operations since 1977 or expanded their work force by 10 percent or more since that time were included in the analysis. A total of 314 firms met these requirements and constitute the data base of this study. A mailed questionnaire was used to obtain information about each firm's current operations, its history, and the factors that were important in location, relocation, or expansion decisions.

RESULTS

Key findings from the survey are presented for all firms and, in many cases, by major firm types, by relocation status of the facility, or by whether the facility is a branch or an independent entity. (For a more detailed discussion of the results, see Leistritz and Ekstrom 1990).

General Characteristics

The respondent facilities were relatively evenly distributed among the three states (Table 1). Manufacturing firms made up more than 78 percent of the qualifying respondents. Total annual sales averaged about \$8.5 million for all firms, \$7 million for durable manufacturers, and \$6.1 million for nondurable manufacturers. Median values, which may be more representative of the typical firm, were considerably smaller and ranged from \$1.5 to \$1.9 million for these three groups. About 65 percent of sales for all firms were made to out-of-state markets. Most of the respondents (56 percent) perceived no barriers to expanding out-of-state sales. Others

stated that the expense of marketing and the difficulty of raising capital for expansion barred them from marketing more of their product out of state.

Table 1. Selected characteristics of respondent facilities, 1989.

Item	Value
Total Annual Sales:	
Mean	\$8,539,000
Median	\$1,750,000
	Percent
State where facility is located:	
Nebraska	30.9
North Dakota	39.8
South Dakota	29.3
Primary product or service:	
Mining/construction ^a	2.3
Agri-products/sales ^b	8.3
Manufacturing, nondurable ^c	28.6
Manufacturing, durable ^d	50.3
Miscellaneous sales ^e	3.2
Miscellaneous services ^f	5.7
Distribution:	
\$100,000 or less	5.7
\$100,001 to 500,000	20.1
\$500,001 to 1,000,000	13.3
\$1,000,001 to 5,000,000	30.8
\$5,000,001 to 10,000,000	11.8
\$10,000,001 to 50,000,000	5.1
\$50,000,001 or more	3.2
Percentage of expenditures to labor:	
Mean	27.8
Median	25.0
Percentage of remaining expenditures made in state:	
Mean	38.2
Median	30.0

^aGold processing, construction/repairs.

^bHandling sales, grain/pellets, animal supplies, live animals, plants, food sales, grain dealers.

^cFood processing, clothing products, wood products, furniture products, paper products, printing, film developing.

^dChemical products, rubber/plastic, concrete/stone, steel/metal, products, farm equipment parts, electrical products, transport equipment, precision instruments, sporting equipment, tools-hydraulic, miscellaneous parts.

^eSales, hardware, auto supply, clothing, sporting.

^fVehicle repair, miscellaneous repairs, telemarketing, weld/machine service, miscellaneous service, truck services.

Leistritz is professor and Ekstrom is former research associate, Department of Agricultural Economics.

The average firm reported annual expenditures within the state of \$3.8 million or 55 percent of its total outlays. Branch plants had a lower percentage of in-state purchases than other facilities (50 percent vs. 57 percent), but their total in-state expenditures per plant were much greater (\$5.3 million vs. \$3.4 million).

When expenditure patterns are compared by the firm's age and location status, new firms (i.e., those that had begun operations since 1977) were found to have the highest percentage of in-state purchases (58 percent of their total sales) followed closely by existing firms that had expanded (57 percent).

Comparison of in-state expenditures between the durable and nondurable manufacturing firms revealed that nondurable manufacturers (such as agricultural processing plants) made a much higher percentage of their expenditures within the state (63 percent vs. 50 percent).

Employment

The average firm reported 57 full-time employees (Table 2). A few firms with large work forces affected the average substantially, however; the median value was 17.5. The firms surveyed had experienced substantial employment growth over the past few years. The average firm reported an 80 percent increase in full-time employees in the last five years and a 246 percent increase in the last 10 years. Part-time employment also increased, on average, during this period with the percentage changes being similar to those for full-time employment.

Table 2. Previous and current workforce characteristics of respondent facilities, Upper Midwest states, 1989.

Item	Value	Item	Value
Number currently employed full-time:	(no.)	Percent change in full-time employed in last 5 years. ^a	(%)
Mean	57.3	Mean	+ 79.7
Median	17.5	Median	+ 50.0
Number currently employed part-time:		Percent change in full-time employed in last 10 years. ^a	
Mean	5.3	Mean	+ 245.5
Median	1.0	Median	+ 115.5

^aApplies only to those firms that were in business five or ten years ago, respectively.

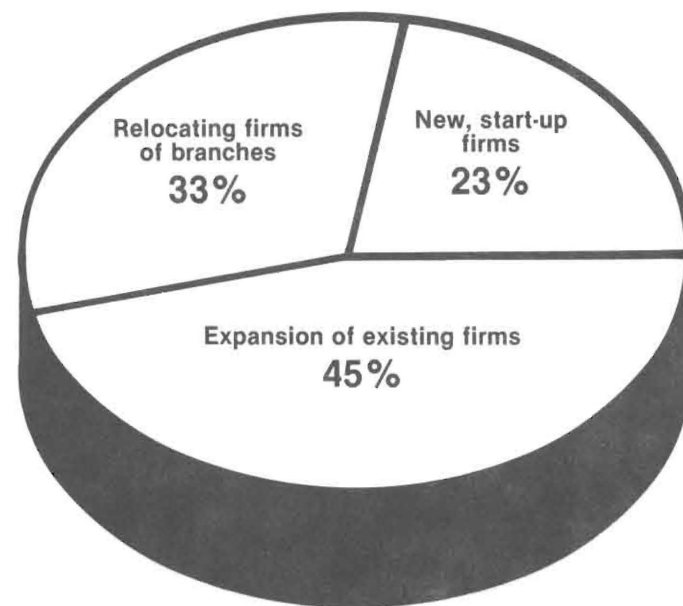
Operators and fabricators were the largest occupational category, followed by laborers and precision production crafts. Women made up 31 percent of the work force. When the work force composition of branch plants was compared to that for other facilities, branches were found to have substantially smaller percentages of executive and managerial personnel and sales representatives but a much higher percentage of operators and fabricators.

Survey respondents were also asked about their minimum requirements and recruiting efforts for new employees. Some postsecondary education was typically required for executive and professional positions, but a high school diploma was often deemed sufficient for clerical workers and operators or fabricators. Prior work experience was most

often required for sales representatives, operators or fabricators, and executives. The respondents believed it was most difficult to locally recruit qualified employees for professional, executive, and sales positions. About half the respondents reported it was also difficult to attract executive and professional candidates to their geographical area.

A major current issue in rural development policy concerns the role of different types of firms in generating new jobs. The firms included in the survey had created a total of 11,133 jobs in the last 10 years, an average of 39 per firm. Of this total, expansion of existing firms accounted for 45 percent of the jobs, firms that relocated or opened new branches were responsible for about 33 percent, and new firms were credited with almost 23 percent (Figure 1). As a group, branch plants (including some that had been operating for more than 10 years) accounted for 38 percent of the total employment growth in the last 10 years. Among existing firms that had expanded, those with fewer than 20 employees 10 years ago accounted for only 26 percent of the total jobs created by this group.

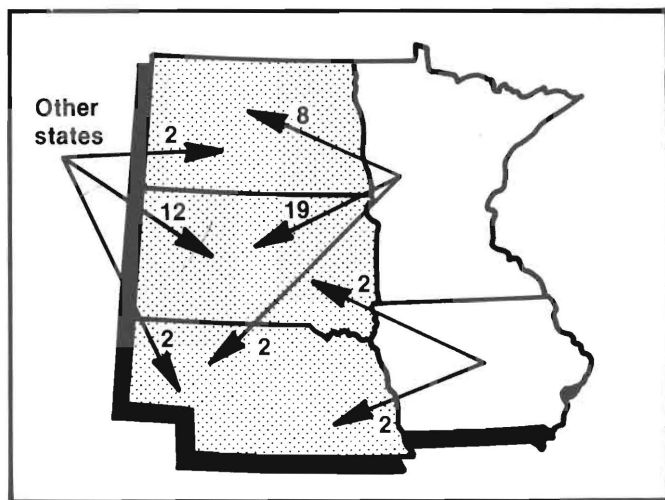
Figure 1. Contributions to net employment change over the last 10 years, by firm type.



Location of Business

Of the firms included in the study, about 25 percent had relocated to their present site. About 68 percent of these had moved from an out-of-state location, and 59 percent had relocated the entire company. Minnesota was the most frequent origin of relocating firms, and South Dakota the most frequent destination (Figure 2).

Figure 2. Origin and destination states of relocating firms.

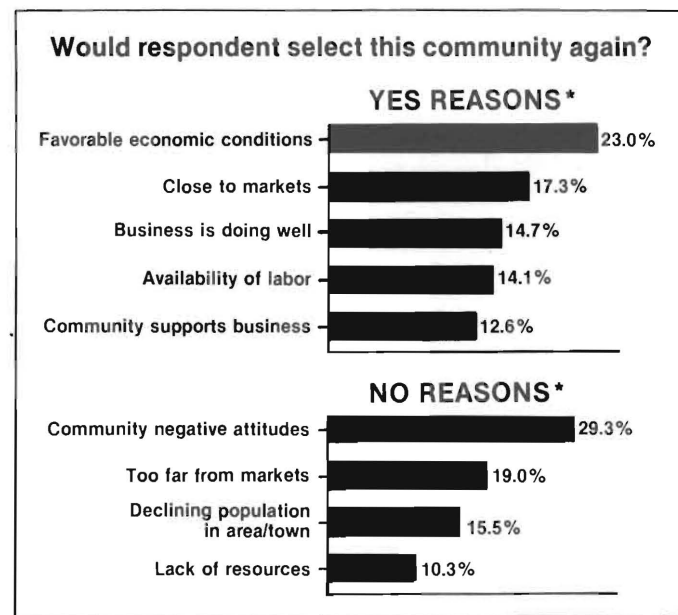


The ratings of different factors that might be important in making location decisions were generally similar among all types of firms. Work attitudes and labor productivity, the absence of a union, and existence of right to work laws generally were rated higher than wage levels. Labor availability was viewed as a very important factor by about one-third of the firms, and executive and professional personnel were often reported to be both hard to find locally and difficult to attract to the area. Motor freight service was substantially the most important transportation dimension. Proximity to customers was viewed by expanding firms as more important than close proximity to suppliers or to others in the industry, whereas new and relocating firms rated proximity to suppliers and raw materials as most important. About half of both groups of firms viewed the availability and cost of electricity as very important or critical to location decisions. Other utilities were less important.

State and local taxes were of concern to many of the respondents. Of the new or relocating firms, 67 percent viewed the overall tax burden as a very important or critical factor, while 60 percent of the expanding firms held this view. Worker's compensation and unemployment insurance were both regarded as very important by both groups of firms. Local property taxes and state personal income taxes were also viewed as important, but particularly by new or relocating firms.

Incentives and assistance programs, available land and buildings, and state business and regulatory climate also influenced location decisions. Within this general category of factors, survey respondents gave the highest rating to the overall community attitude toward business development. The cost of property, the availability of local financing, and development incentives were identified as very important or critical factors by about half of the firms. Availability of suitable buildings was a very important or critical factor for the new and relocating firms. State incentives and the state regulatory climate also were important to many firms. When asked whether they would choose this community again, almost 78 percent responded affirmatively. Reasons most frequently cited among those who would choose the community again were favorable economic conditions and proximity to markets (Figure 3). For those who would not choose their community again, reasons most frequently mentioned were the community's negative attitude and being located too far from markets.

Figure 3. Reasons for and against selecting the same community for their business, respondent facilities in Upper Midwest States, 1989.



* Includes only responses mentioned by 10 percent or more of respondents.

Start-up Capital

Many recent state and local development initiatives have focused on making capital more accessible to rural entrepreneurs. Of the firms represented in this survey, 144 had begun operations since 1977 and provided information about their initial financing. These firms reported an average of \$1.6 million in total start-up capital; the median value was \$140,000. More than 84 percent reported that their start-up capital was \$1 million or less; nearly 30 percent stated it was less than \$50,000.

Personal funds and commercial loans were the sources of financing reported most frequently (Table 3). More than 72 percent of the respondents reported using personal funds as a source of financing, and about 30 percent of their total funding came from this source. Commercial loans were received by 55 percent of the respondents, and only 6.0 percent of the respondents reported that they had applied for a commercial loan but had not received one. Small Business Administration loans and financing from a variety of government programs each were reported by about 19 percent of the respondents, respectively, while personal loans from family and friends were used by 18.1 percent. Credit from suppliers and sale of corporate stock were other sources reported. Personal funds and personal loans generally became less important as sales increased, while government programs, commercial investors, and sales of stock became more important.

Outlook

The firms surveyed expected substantial future growth in sales and employment. The typical (median) firm expected a 35 percent increase in sales over the next five years and 70 percent in 10 years. The median firm also expected its employment to grow by 23 percent in five years and 38 percent in 10 years. About 11 percent of the firms planned to

relocate within the next five years (46 percent of these would relocate out-of-state), while more than 57 percent plan to expand their physical facilities.

Economic Development Policy

Survey respondents were asked to rate the supportiveness of state and local government with respect to their business needs. Most respondents rated both state and local governments as neutral; about 15 percent rated state and local governments as somewhat unsupportive or unsupportive. When asked how the situation could be improved, respondents indicated a need for greater awareness of the needs of existing businesses and for fairness in the use of financial incentives.

When asked about the top strengths of their state from a business perspective, the respondents most often noted reasonable taxes and quality work force. In identifying shortcomings, they most frequently cited the need for more cooperation between business and government and for lower taxes.

Table 3. Sources of start-up capital for businesses that began operations after 1977.

Sources	Percent of respondents who received funds from this source	Percent of total funding
Personal funds	71.5	30.2
Personal loans from family and friends	18.1	4.7
Commercial loans (commercial banks, S & Ls, credit unions, finance companies)	54.8	29.7
Small Business Admin. loan	19.4	9.1
Commercial investors (venture capital firms, insurance companies)	2.1	0.7
Supplier or dealer credit	11.8	2.3
Government programs (Industrial Revenue Bonds, Urban Development Action Grant, Economic Development Administration, state and city loans.)		
Sale of corporate stock	11.1	4.6
Other sources ^a	11.3	8.4

^aIncludes loans from the previous owner and monies from the parent company.

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