Locally owned small businesses pack powerful economic punch

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Thinking small and local, not big and global, may help communities ignite long-term economic growth, according to Penn State economists.

Small, locally owned businesses and startups tend to generate higher incomes for people in a community than big, nonlocal firms, which can actually depress local economies, said Stephan Goetz, professor of agricultural and regional economics.

"Local ownership matters in important ways," said Goetz. "Smaller, locally owned businesses, it turns out, provide higher, long-term economic growth."

The association of small businesses with enhancing economic growth in communities, regardless of the community's population size and density, was statistically significant, said Goetz, who serves as director of the Northeast Regional Center for Rural Development. Small local businesses are standalone firms with 10 to 99 employees owned by residents or businesses with headquarters in the same state.

The presence of large firms that employ more than 500 workers and that are headquartered in other states was associated with slower economic growth.

Big-box and large corporations have internal systems for services such as accounting, legal, supply and maintenance that are not necessarily based within the county or state. In addition to outsourcing services that were once provided by community businesses, nonlocal large companies may displace more entrepreneurial small firms. Examples of non-locally owned large companies include retail chain stores such as Wal-Mart and Best Buy, and service providers such as U.S.-based call centers for car rental agencies, banks, health care providers and telecommunications firms.

According to Goetz, small businesses and startups provide more than just jobs for community members. They also can improve innovation and productivity on a local level and use other businesses in the community such as accounting and wholesalers, while larger businesses develop their own infrastructure.

The researchers, who report their findings in the current issue of *Economic Development Quarterly*, studied data from the Edward Lowe Foundation on the economic growth and residence status of business owners in 2,953 U.S. counties, including both rural and urban counties.

"This is really a story about startups," said Goetz. "Many communities try to bring in outside firms and large factories, but the lesson is that while there may be short-term employment gains with recruiting larger businesses, they don't trigger long-term economic growth like startups do."

Goetz, who worked with David A. Fleming, graduate student in agriculture, environmental and regional economics, said the economic benefit of locally owned businesses appears to diminish as the firm grows. Medium-sized and large-sized businesses owned by residents are not associated with faster economic growth in later years.

Goetz said a better strategy to promote economic growth may be encouraging local businesses rather than recruiting large outside firms.

"We can't look outside of the community for our economic salvation." Goetz said. "The best strategy is to help people start new businesses and firms locally and help them grow and be successful."

Provided by Pennsylvania State University

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