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EDITOR'S NOTE

For more than twenty-five years, the *Journal of the Community Development Society* has disseminated information on the theory, research, and practice of community development. Biannual publications have contained the most relevant materials that add to our knowledge of community development. While much of the material in the *Journal* articles has been derived from generally accepted principles, concepts, or practices of community development, from time to time a few of the articles may have attempted to dramatically extend current thinking. We learn by challenging what has been accepted. For generations the social sciences have advanced using some modification of this learning model.

The editors welcome articles that critically examine community development as long as they meet basic quantitative or qualitative research standards. All submissions, of course, go through the peer review process and many of the reviewers would welcome articles that are critical or "cutting-edge" in their approach. One possible outcome of publishing articles that may generate alternative interpretations is the establishment of a dialogue among competing viewpoints, research, or experiences.

When appropriate, the editors of the *Journal of the Community Development Society* will publish responses or rebuttals to recent articles. Original authors will be given an opportunity to respond to criticism. While these responses need not be manuscript length (e.g., 20 double-spaced, typed pages), they should conform to basic scholastic research standards. In this manner, the *Journal* can provide a forum for the dialogue of differing viewpoints concerning important community development issues, concepts, and practices. The editors welcome the input of readers regarding this proposal.

As is the custom, the editors want to express their appreciation to the many reviewers who have spent hours reading and evaluating manuscripts. Without their willingness to give time and provide helpful and practical suggestions for improving manuscripts, the *Journal of the Community Development Society* could not continue. Following are the most recent reviewers:

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Journal of the Community Development Society Vol. 25 No. 2 1994

IS SMALL BEAUTIFUL? SMALL BUSINESS DEVELOPMENT IN RURAL AREAS

By Gary P. Green

ABSTRACT

Over the past decade local, state and federal governments have adopted a variety of policies promoting small businesses. A wide array of technical and financial assistance programs have been developed to address the special needs of small businesses. Proponents of these programs have argued that small businesses generate a disproportionate share of the new jobs created, provide higher quality jobs than do large firms and inject a source of innovation into the economy. These issues are assessed by analyzing recently collected data from 1,700 firms in rural Georgia. Medium-size firms consistently provide more benefits than do small firms. In addition, medium-size firms are more likely than small businesses to hire minorities, and to innovate and adopt new technology. Contrary to much of the existing evidence, small firms are not necessarily more closely linked to the local economy than are medium-size firms. Additional community development programs are needed to improve the benefits of employment in small businesses.

INTRODUCTION

The decade of the 1980s was a period of economic restructuring and decline for most nonmetropolitan communities in the United States. The farm crisis, restructuring of manufacturing industries, deregulation of key industries and new federalism placed most rural communities at a competitive disadvantage in the competition for capital with metropolitan areas. Conventional approaches toward promoting local economic development, such as providing tax breaks and financial incentives, became less effective as the economy shifted from a manufacturing to a service-based economy. Service firms are influenced by a

Gary P. Green is Associate Professor, Department of Rural Sociology, University of Wisconsin/Extension, Madison, Wisconsin.

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different set of location factors than are manufacturing firms; they are driven less by traditional location factors such as transportation, labor availability, and tax incentives, and more by market size. The "arms race" in economic development, however, continues to pressure states and localities to offer incentives to attract manufacturing firms (Grady, 1987).

In response to these political economic changes, many states and localities have begun adopting innovative approaches to economic development. Eisinger (1988) has characterized this shift as a move from supply- to demand-side economic development activities. Supply-side approaches to local/regional economic development focus on attracting existing, mobile capital and demand-side tactics are directed at expanding existing businesses or generating new businesses (see Ayres et al., 1992; Loveridge & Smith, 1992). Although most localities continue to invest heavily in supply-side programs, an increasing number of localities are now using tactics that emphasize high technology, venture capital funds, and promotion of small businesses (Eisinger, 1988).

Among the various demand-side economic development activities, none have been as widely acclaimed as small business development. Small businesses, defined by the Small Business Administration (SBA) as those with fewer than 500 employees, created 3.2 million jobs in the sluggish period from 1988 to 1990, while large businesses had a net loss of jobs (*Business Week*, 1993).[1] Although employment growth for small firms was substantially lower in nonmetropolitan than in metropolitan areas, they generated a relatively larger share of employment growth in nonmetropolitan areas than in metropolitan areas (SBA, 1990).

During the 1980s programs to nurture and fund small firms proliferated. By 1988, forty-three states had adopted programs to aid small businesses and were providing an estimated $700 million per year in startup financing (Brown et al., 1990). The evidence on the effects of capital and technical assistance programs on small business organizations, however, is inconclusive (cf. Chrisman et al., 1985; Mokry, 1988).

Increased interest in small business development by policy makers and academics can be attributed largely to the provocative research findings of David Birch (1987). Job growth, according to Birch, is influenced more by expansion of existing firms and creation of new businesses than it is by recruiting new businesses to a locality. Birch examined the number of jobs created and lost in the economy and

[1] These figures are somewhat deceiving as it is the smallest firms (those less than 20 employees) that are the real job generators. Mid-size firms, those with 20 to 499 employees actually lost more jobs than did large firms during this period.

found that small businesses create approximately 80 percent of the new jobs in the economy. Based on these findings, policy makers have found justification for their policies providing tax and regulatory relief to the small business sector.

Another reason for the interest in small business development was the argument that the economy was shifting from mass production techniques to flexible specialization (Piore & Sabel, 1984). The shift toward flexible specialization, flexible technology, and manufacturing networks was based on the growth of small rather than large businesses. These changes have prompted the introduction of industrial extension services in several states and programs to establish networks among specialized firms. Not all of the research, however, has found that the economy has moved toward flexible specialization and away from mass production, thus favoring the growth of small businesses (Amin, 1989).

There is a growing consensus among policy makers, academicians, and practitioners that small businesses are the leading-edge of the economy, in terms of job creation and technological innovation. There also is an assumption that small business employment is more satisfactory than employment in large firms because working conditions are better and workers have more autonomy in their jobs (Zipp, 1991). However, the evidence for these assertions is weak at best. Several studies have examined the issue of job generation by small businesses, and have concluded that small businesses do not produce a disproportionate number of new jobs (Armington & Odle, 1982). Brown, Hamilton and Medoff (1990) analyze data showing that the U.S. economy is not becoming more dependent on small firms for employment; the percentage of small firms in 1986 is not significantly different from the percentage in 1958. There also is evidence suggesting that small business employment is not as favorable as employment in large businesses. Brown, Hamilton and Medoff (1990) review the literature on the quality of jobs produced in small firms and conclude that jobs in large firms are much better than those in small ones. Employees in large firms receive higher wages (about 35 percent), more benefits, and better job security than do employees in small firms. They conclude that the working conditions in large firms are not necessarily inferior to that in small firms.

These empirical findings make sense when we look at the literature on organizations. The organizational literature suggests there are several advantages to firm size: (1) access to capital; (2) tax laws; (3) governmental regulation; and (4) competition for labor (Aldrich & Austin, 1986). Large firms also are favored in market exchange because of economies of scale. Large firms can purchase inputs at a lower cost than small firms because large firms usually buy in bulk, and they pay less than small firms for the same products. Similarly, large firms receive higher prices for their products or services than do small firms. Large firms also have a better established market for their products and services than do small firms, which tends to reduce risk and uncertainty. Thus, large firms have higher profits, which enables them to more favorably compete for good employees by providing higher wages and benefits. Based on these arguments, large organizations should be more beneficial than small ones to communities.

Many of the advantages of firm size may be disappearing, however, particularly for firms in rural areas. As Noyelle suggests, "the size of firm dimension, which played an important role in distinguishing between the old core and periphery, now seems less relevant" (1987, p. 101). There are several reasons for decline in advantages of firm size. First, the economic restructuring process occurring over the past two decades has eroded many of the advantages workers have had in working in the core sector and in large firms (Tigges, 1987). International competition and increased capital mobility have reduced the profitability and therefore benefits of employment in large firms. Obviously, much of the decline in benefits of working in large firms can be attributed to the demise of unions in the United States over the past two decades. Unions also have had to make major concessions to retain jobs.

Second, the growth of the service sector has important implications for the benefits of firm size. One of the chief characteristics of the service sector in the 1980s was the bifurcation of wages (Harrison & Bluestone, 1988). Many of the industries within the service sector are those that are growing in average firm size. Many of the industries in the manufacturing sector are declining in average firm size. Thus, large firms are characterized increasingly by low-wage, low-skilled jobs that provide very little mobility within the firm.

The advantages of firm size may be negligible in rural areas because of the types of firms locating in these areas. Most manufacturing firms locating in rural areas tend to be late in the product or profit cycle, which means they have fewer resources available to employees (Markusen, 1985). Production is routine and requires few skills and little training. Firms choosing to locate in rural areas are frequently looking to reduce labor costs and are unlikely to provide many benefits.

Although there is a growing interest in the role of small businesses in economic development, there is only a limited amount of evidence on the attributes of jobs and the contribution different size firms make to local economies. This research contributes to these debates by comparing medium-size and small firms in rural communities on several important dimensions: job quality, innovativeness and adoption of new technology, composition of work force, and location of sales and purchases. There are weaknesses to both small and large firm employment. It is important for community development practitioners to understand these issues to maximize the contribution the business sector can make locally.

METHODOLOGY

The data for this paper are drawn from a study of approximately 1,700 businesses in 25 nonmetropolitan counties in Georgia. Counties were included in the sample only if they had no city greater than 10,000 in population and were not located in a metropolitan area.[2] Farm operations, non-profit organizations and commercial banks are excluded.[3] The sample is a 33 percent random (systematic) sample obtained by selecting every n^{th} element. This sampling strategy assures that those counties with more small businesses are represented in greater numbers. The sampling frame was based on a list of firms updated for the first week of July 1990, and is based on yellow page telephone directories and several industry-specific sources (e.g., trade directories, vertical files, customer records, government listings and city directories).

The response rate to the survey was 86 percent. Because the list of firms was about six months old when the interviewing began, some of the small businesses drawn in the systematic sample already were out of business. The response rate is calculated by the number of interviews completed divided by the number of firms successfully contacted. If no contact could be made in three phone calls, the firm was dropped from the sample. When answering machines were contacted, a message was left that the Small Business Development Center (SBDC) was interested in interviewing them and that they would be contacted again regarding the appropriate time for an interview. Several factors contributed to the relatively high response rate. This procedure may have left out some of the smallest firms in these communities, but data reported below suggest that the sample is fairly representative of the distribution of firms in the state. Consultants from the SBDC were trained and conducted the majority of the interviews. Respondents

[2] These counties include: Bacon, Brooks, Calhoun, Candler, Chattooga, Clay, Crawford, Dodge, Elbert, Emanuel, Grady, Greene, Haralson, Lumpkin, Macon, McIntosh, Meriwether, Murray, Pickens, Polk, Putnam, Tattnall, Union, Wilkes, and Worth.

[3] One of the purposes of the study was to evaluate problems small businesses face in gaining access to credit. Commercial banks were interviewed in another part of the study and were matched with the firms included in this sample. Because commercial banks were included in another part of the study, we did not interview them in the same way.

were told that the research would be used to develop programs meeting the needs of small businesses in their communities. In addition, the research was highly publicized in the communities, and in many cases the Chambers of Commerce wrote letters of support.

The interviews took approximately 45 minutes to complete and were conducted with owners where possible. In many cases, however, the interviews only could be conducted with managers and other personnel knowledgeable about the firm.

Although only counties in nonmetropolitan areas are included, the distribution of firms across major industrial categories is similar to the state's. Compared with the state industrial distribution, the sample somewhat overrepresents retail and service firms, and underrepresents wholesale trade. The percentage of firms in the manufacturing sector in our sample (6 percent) is the same as the percentage for the state. It might be argued the data are limited because they are drawn from a single state. A comparison with the national distribution of firms across major industrial categories reveals that Georgia is not all that atypical. Georgia has a smaller percentage of firms in the manufacturing sector than the national average, but the distribution of firms in the retail and service sectors is similar to that of the entire United States. The sample also was compared to the population of firms in the 25 nonmetropolitan counties in the study. Based on data from the County Business Patterns (CBP) for 1988 (1990), the sample is quite representative of the distribution of firms in these 25 counties. For example, the CBP reports that 33.5 percent of all businesses in these 25 counties is in the retail sector. In our sample we found approximately 40 percent were in this sector. The differences between the distribution reported by CBP and the sample in this study could be attributed to the fact that the study's methodology may have picked up self-employed firms that are often neglected by the methodology used by the Bureau of the Census.

In the following analysis small and medium-size firms are defined on the basis of full-time employment: medium-size firms have 25 or more employees and small firms have less than 25 employees. This definition uses a lower threshold than many previous studies. If we had used a higher cutoff we would have very few medium-size firms in the analysis. Given the size of firms in these communities, this definition appeared to be a more reasonable cutoff point than the one used by the SBA—500 employees. There are actually only a handful of firms in these counties that have more than 500 employees. The analysis consists of a difference of means test between small and medium-size firms with regard to the measures of job quality, innovation and technological adoption, work force composition, and local linkages.

FINDINGS

In the sample, 43 percent of the businesses are classified as services and 41 percent are in the retail sector. Only 6.5 percent of the firms are manufacturers; 3.2 percent are in the wholesale sector; 2.7 percent in construction; and 3.3 percent in other sectors. It should be noted, however, that the manufacturing sector is proportionately a much larger employer than other sectors. A wide range of businesses are represented, with the most common being grocery stores, where there are 133 firms (8 percent). The industrial structure of small and medium-size firms, however, is quite different. Small businesses are predominantly retail (43 percent) and service (44 percent) firms, with very few manufacturing establishments (5 percent). Medium-size firms are much more likely to be in the manufacturing sector (35 percent) and much less likely to be in the retail sector (16 percent) than small firms.

The literature on small businesses frequently fails to distinguish between establishments and firms. An establishment is a single physical location where a business is located. A firm may consist of a single establishment or several establishments. Seventy-eight percent of the firms in the sample are independent, single establishment firms. Almost 11 percent of the firms have one or more branch establishments; 3.9 percent are locally owned, but offer "brand-name" products or services; and less than one percent is a franchisor that sells the right to use its concept to one or more franchises. Among branches and franchises, 20 percent of the headquarters are located in the same county as the establishment; 32.3 percent are located elsewhere in Georgia; 45.9 percent are located elsewhere in the U.S. (outside Georgia); and 1.7 percent are located outside the U.S. As one might expect, almost all small firms are independent, and medium-size firms are somewhat more likely to be a multiestablishment firm or have branches than are small firms.

Among the firms in our sample, 1,200 (72.7 percent) have one to five employees, including the owner and immediate family members; 344 (20.8 percent) have 6 to 24 employees; 83 (5 percent) have 25 to 99 employees; and only 24 (1.5 percent) have more than 100 employees. The average number of workers, including both full- and part-time employees, is a little more than 10.

Small businesses have an extremely high rate of failure, particularly during the first three years after startup. Most small businesses in the sample are relatively young, although a surprising number have operated for decades. Almost half (49 percent) of the businesses began operation prior to 1980, and 20 percent since 1988.

Only 7.8 percent of the firms are minority-owned, a much smaller percentage than the minority population of the state (approximately 33 percent). However, the minority population is smaller in rural than in urban areas of the state. Twenty-one percent of all firms in the sample are women-owned, which is similar to national figures. As one might expect, minority- and women-owned businesses are much more likely to be small than medium-sized firms. There appear to be two primary reasons for this relationship. One, many women- and minority-owned firms are relatively young and have not had as much time to grow and expand as other firms. And two, minority- and women-owned firms may lack key resources, such as managerial experience, access to credit, and ties to important social/business networks.

It is possible that many of the benefits attributed to firm size are actually a function of the size of community in which the firm is located. For example, large firms may be located in large communities where there is greater competition for labor and employee mobility than there is in small communities. Relatively little variation exists, however, in the ratio of the number of small firms to medium-size firms across the 25 communities in this study. A chi-square test of significance revealed that there was not a statistically significant relationship between type of firm and community. Thus, it is assumed that the effects observed are due primarily to organizational structure rather than community.

Job Quality and Job Creation

One of the key indicators of job quality is employee benefits. Benefits have probably become more important than wages in distinguishing between good and bad jobs. Respondents were asked to indicate whether their firm provided full-time employees with a variety of benefits. Because most of the extremely small firms employ only family members, we asked these questions only of firms that have more than five employees. The differences in provision of benefits between small and medium-size firms undoubtedly would have been larger if the very small firms were included in the analysis.

Among the various benefits considered, employers are mostly likely to provide a paid vacation (86.3 percent), bonuses (71.3 percent), and health/medical insurance (69.9 percent). Few firms provide child care assistance programs (2.4 percent), have credit unions (10.8 percent), or offer stock ownership plans (12.2 percent). Benefits are restricted by most firms to only full-time workers; only 25.7 percent provide benefits to seasonal or part-time workers.

As expected, small firms are less likely than medium-size firms to provide key benefits, such as paid vacation, health/medical insurance,

Table 1. Firm Size by Benefits

	Small			*Medium-Size*			
Benefits[1]	*Mean*	*SD*	*N*	*Mean*	*SD*	*N*	*T-Test*
Paid vacation	.85	.36	486	.95	.21	105	4.02***
Paid sick leave	.61	.49	464	.54	.50	101	−1.17
Parental leave	.35	.48	436	.42	.50	100	1.29
Health/medical insurance	.66	.47	447	.90	.31	105	6.46***
Dental insurance	.18	.38	445	.22	.42	101	.88
Life insurance	.55	.50	462	.87	.34	104	7.68***
Retirement plan	.27	.44	454	.49	.50	101	4.32***
Childcare assistance	.02	.15	434	.03	.17	97	0.45
Tuition reimbursement	.22	.42	439	.32	.47	96	2.13*
Bonuses	.71	.45	470	.69	.47	100	−0.54
Stock-ownership plan	.12	.32	441	.14	.35	98	.68
Flex-hours	.53	.50	457	.35	.48	97	−3.23**
Credit union	.08	.28	439	.21	.41	98	2.97**

[1] Questions regarding employee benefits were asked only of businesses that employed five or more workers (including the owner/manager).

* $p < .05$.

** $p < .01$.

*** $p < .001$.

Source of data: Survey of Small Businesses, Small Business Development Center, University of Georgia, 1990.

life insurance, and a retirement plan (Table 1). The biggest differences in benefit coverage tend to be for health and medical insurance and life insurance. This difference in health care coverage is a persistent problem for policy makers who have proposed mandated health care benefits for all employees. One of the more interesting findings is that small firms (52 percent) are much more likely than medium-size firms (40 percent) to offer flex-hours. Many employees find this flexibility an important advantage to employment in a small firm.

Another measure of job quality is the turnover rate among firms. There are several possible reasons for a high turnover rate, such as a high level of employee mobility, a tight labor market, or the quality of the jobs in the firm. As we mentioned earlier, there does not appear to be any systematic difference in the location of small and medium-size firms. Thus, differences in the turnover rates of firms should be due primarily to organizational rather than environmental (community) influences. Employers estimated the turnover rate during the past 12 months. The average turnover rate was about 20 percent, with more than a third (34.3 percent) having no turnover at all among employees. There is a statistically significant difference in the turnover rate between small (18 percent) and medium-size (30 percent) firms.

Promotion of small businesses over the past decade has been based largely on the assumption that they create the vast majority of new employment in the economy. Employers in nonmetropolitan Georgia counties reported the number of full-time employees, including immediate family members and themselves, and how many employees the firm had five years ago. Although small firms, on average, generated more new jobs than medium-size, the difference was not statistically significant. Small firms generated an average of .78 jobs over the five year period, while medium-size firms lost an average of almost two jobs. Of course, the time span considered is relatively short, and jobs lost due to business failure are not considered. A follow-up of these firms is being conducted to investigate this issue over a longer time period.

Innovation/Technological Adoption

Employers rated various components of their business strategy on a scale from one to four, one being critical and four as insignificant. The two most frequently reported elements of their competitive strategy are better service (58 percent critical) and quality products/service (56 percent critical). Given the large number of retail and service firms, these findings make sense. A central element of the competitive strategy for many firms is customized products and services to clients. The items least likely to be reported as critical to their competitive strategy are development of new/advanced technology (10 percent) and more effective marketing and/or advertising (11.7 percent).

There is considerable evidence that business and marketing plans are critical to business success (Variyam & Kraybill, 1992). Business and marketing plans are particularly important for lenders evaluating loan applications (Green et al., 1994). More than half of the firms in the sample had not developed formal written business and marketing plans. Only about seven percent indicated that they relied very much on these written business and marketing plans. A somewhat larger percentage of firms (9.6 percent) reported that they regularly use, modify and update plans very often. Eighteen percent of the respondents indicated that they regularly set goals, priorities, and follow-up to ensure they are attained.

There are consistent differences in the business strategies of small and medium-size firms (Table 2). Medium-size firms are more likely to develop and use new technology than are small firms. These differences may be due to the fact that medium-size firms have more resources and better access to credit sources than do small firms.

Not surprisingly, small firms were less likely than medium-size firms in the sample to use and up-date a formal business plan, set goals

Table 2. Firm Size by Innovation/Technological Adoption

	Small			Medium-Size			
Competitive Strategy[1]	*Mean*	*SD*	*N*	*Mean*	*SD*	*N*	*T-Value*
Utilize new/advanced technology	2.39	.99	1,434	2.11	.98	99	2.76**
Develop new/advanced technology	2.95	1.03	1,304	2.44	1.02	95	4.52***
Have business and marketing plan	3.91	1.42	1,500	3.05	1.48	105	5.98***
Regularly up-date plan	3.45	1.49	1,472	2.61	1.36	101	5.44***
Set goals and priorities	2.88	1.40	1,524	1.94	1.07	106	8.51***
Accurately forecast operational results	2.99	1.43	1,518	2.16	1.14	105	7.07***

[1] Coded: 1 = critical; 2 = important; 3 = marginal; 4 = insignificant. Although these variables are ordinal variables, we are treating them as interval data to be consistent with the other tables. Research suggests that treating ordinal data as interval level data does not produce major differences in the results.

** $p < .01$.

*** $p < .001$.

Source of data: Survey of Small Businesses, Small Business Development Center, University of Georgia, 1990.

and priorities, and accurately forecast operational results. The data do not support the argument that small firms are necessarily more innovative or more likely than mid-size firms to adopt new technology.

Composition of Work Force

The work force in the sample was about equally divided between men and women. The racial composition of firms was comparable to the population in the 25 counties. On average, firms reported that 20 percent of their work force was African-American and 80 percent was white.

There were no significant gender differences in the work force composition of small and medium-size firms (Table 3). There were, however, significant racial differences. Medium-size firms hired a greater proportion (and greater absolute numbers) of African-Americans than did small firms. There exist several explanations in the literature for this difference in hiring practices. Because small firms are likely to be in the retail and service sector, owners may believe that their clientele prefers to have contact with white employees (Noyelle, 1987). Another possibility is that owners of small firms are more likely to discriminate because there is less pressure from the government on them than on medium-size firms to hire minorities. Finally, the difference in work force composition may be due to skill matching. Medium-size firms in nonmetropolitan Georgia had more jobs that are considered unskilled or semiskilled (see below), and were

Table 3. Firm Size by Composition of Work Force

	Small			*Medium-Size*			
Composition[1]	*Mean*	*SD*	*N*	*Mean*	*SD*	*N*	*T-Value*
Percent Women	.46	.33	485	.52	.35	101	−1.76
Percent Men	.53	.33	485	.47	.35	101	1.54
Percent Black	.16	.23	485	.35	.28	97	−6.47***
Percent White	.84	.24	479	.63	.29	93	6.42***
Unskilled/semi-skilled	1.60	3.05	564	30.06	39.33	108	−7.52***
Skilled	1.93	2.81	564	23.58	48.62	108	−4.63***
Clerical/administrative	1.03	1.36	564	5.22	7.17	108	−6.05***
Professional/technical	.74	1.56	564	5.31	10.67	108	−4.43***
Managerial	1.45	1.51	564	4.56	4.53	108	−7.07***
Sales	.81	1.71	564	6.61	27.30	108	−2.20***

[1] Questions regarding the composition of work force were asked only of businesses that employed five or more workers (including the owner/manager).

* $p < .05$.

** $p < .01$.

*** $p < .001$.

Source of data: Survey of Small Businesses, Small Business Development Center, University of Georgia, 1990.

thus more likely to hire minorities, who were likely to have less education and training than whites.

Another element of the composition of the work force is the occupational structure. Jobs in medium-size firms are much more likely to be unskilled or semi-skilled and small firms have a higher percentage of managerial and sales positions. It should be pointed out, however, that the literature suggests that there is much more job mobility within medium-size firms than in small firms (Kalleberg & Sorenson, 1979). Thus, although there may be more unskilled positions in medium-size firms, there may be a greater likelihood that workers can obtain training and experience in the firm and move up to more skilled or managerial positions.

Finally, there are differences in the educational level of employees in small and medium-size firms. Medium-size firms tend to employ more workers with low levels of education than do small firms. More than 35 percent of the employees in medium-size firms do not have a high school diploma or GED equivalent, while this is true for only about 22 percent of the employees in small firms. Almost twice as many workers in small firms than in large firms have an education beyond the high school level (Small Business Development Center, 1990).

Table 4. Firm Size by Local Linkages

Linkages in County	*Small*			*Medium-Size*			
	Mean	*SD*	*N*	*Mean*	*SD*	*N*	*T-Value*
% Sales	.79	.28	1,522	.45	.42	98	7.93***
% Purchases (A)[1]	.30	.41	1,462	.23	.39	102	1.75
% Purchases (B)	.27	.40	1,156	.21	.38	86	1.46
% Purchases (C)	.28	.41	978	.16	.32	84	3.10**
% Purchases (D)	.32	.42	793	.18	.34	70	3.40***

[1] Respondents were asked to estimate the percent of purchases they made from suppliers of inputs in 1989 in their county, in the state, in the U.S., and outside the U.S. The data were reported for their four major suppliers. Thus, we report the percentage of inputs purchased locally (in the county) for the providers of these inputs: A = largest supplier of inputs; B = second largest supplier of inputs; C = third largest supplier of inputs; and D = fourth largest supplier of inputs.

** $p < .01$.

*** $p < .001$.

Source of data: Survey of Small Businesses, Small Business Development Center, University of Georgia, 1990.

Local Linkages

To examine the local linkages among firms, employers were asked to report the percentage of purchases they made from major suppliers in their county, their state, in the U.S., and outside the U.S. From their major supplier, firms purchased almost 30 percent of their supplies in the county, 47 percent in their state, 22 percent outside the state in the U.S., and less than one percent from foreign firms. The figures were almost the same for the other major suppliers of the firm.

Most firms make sales in their county. Firms in the sample reported that an average of 75 percent of their sales were in their county. Only about three percent reported no local sales, and more than a third indicated that all of their sales were made locally.

As expected, there were significant differences in the location of sales and purchases among small and medium-size firms (Table 4). Small firms made about 79 percent of their sales in the county and medium-size firms made only 45 percent of their sales inside the county.

The evidence regarding purchases, however, did not support the idea that there are significant differences in the purchase of major inputs between small and medium-size firms. Small firms appeared to be more often linked into the local economy in terms of sales, but not necessarily for purchases of inputs. The real economic benefits for the community are derived from the latter.

CONCLUSIONS AND SUMMARY

The results suggested that the benefits of small businesses to the local community and economy may not be as great as has been claimed in the mass media and academic circles. Consistent with much of the literature, small businesses in nonmetropolitan Georgia counties were less innovative and less likely to adopt new technology than were medium-size firms. Small businesses were less likely to provide benefits to workers and to hire minorities than were medium-size firms. The primary reasons for not providing benefits were the weak market position and the low profit margin of small businesses. The issue regarding the composition of the work force, however, is complex. Small businesses may hire fewer minorities than medium-size firms because of discrimination, skill mismatch, customer/worker preference, or simply the fact that small businesses are to a large extent family operations. This issue needs much more research. Although the small firms made a greater percentage of sales locally than did the medium-size firms, there were few differences in the extent to which small and medium-size firms purchased inputs locally. Thus, we did not find support for the argument that small businesses are necessarily linked more tightly to the local economy.

The findings suggested that there are several dimensions to consider in the debate over firm size. Several policies could be developed to reduce the obstacles facing small businesses and to improve their contributions to rural communities. First, much of the effort to help small businesses has been directed at providing technical assistance and helping them with marketing information. These data suggested that small businesses were disadvantaged in these areas. Small businesses were less likely to have a formal business plan and to set goals and priorities than were medium-size firms. Similarly, small firms were less likely to use and develop new technology than were medium-size firms. Efforts to help small businesses develop business plans and adopt new technology appear to be a good investment.

Second, one area in which small firms were disadvantaged was in providing benefits, particularly health care, to their employees. Because they provided fewer benefits than other businesses, small firms may have been at a disadvantage in the labor market in attracting good employees. More importantly, many employees who are not mobile may be lacking basic health care and life insurance because of their employment status. Small businesses also are disadvantaged because they pay more for health coverage than do large firms. One policy that has been seriously considered is to require all employers, except for those in the smallest firms, to provide these basic benefits. If this policy is adopted, some plan for providing benefits to these employees not covered is necessary. Alternatively, the Clinton administration is considering a plan that would encourage small businesses to form networks that would bargain for cheaper rates to provide medical care.

Policy issues regarding minority hiring are fairly complex. Medium-size and large firms have been under considerable pressure to diversify their work force, particularly with regard to minority hiring. Affirmative action policies will be more difficult to enforce when applied to small firms. Future research needs to separate the effects of client preferences, co-worker preferences, employer discrimination and other factors contributing to the different hiring practices of small and medium-size firms.

These findings have several interesting implications for community development practitioners. There may be several community development strategies that may help overcome some of the costs and weaknesses to small business employment. Over the past few years, research has placed an emphasis on small business networks (Piore & Sabel, 1984). Studies have pointed to northern Italy as a region where the development of social networks has helped small businesses survive and thrive. The findings from this study suggest that there may be some merit to these ideas. The development of networks may help small firms overcome many of the obstacles that result from economies of scale. Such policies seem particularly appropriate because they allow small firms to benefit from some of the costs of size without losing the benefits of smallness. The data on linkages reveal that there is plenty of room for improvement in terms of linking firms more tightly in rural communities. Community developers can play a particularly important role in establishing these small business networks and adding value to products locally.

Efforts to promote small businesses in rural communities need to be focused because most small businesses are not high-growth firms or innovators. Practitioners may find that they may have a greater impact in rural communities by designing programs for those firms that are likely to be growing in the near future. Generic programs for retailers and service firms are not likely to have as great an impact as programs designed for high-growth firms. And as we found in this study, the jobs that were created in most small firms were not of high quality. Community developers involved in industrial recruitment have found that targeting certain industries is beneficial for most communities. The same is probably true for the small business sector. Community developers need to focus their activity in the area of small business development that has the greatest promise for growth (and survival).

Many community developers have found that business counseling is an area where there is a great deal of demand. The results of this study suggest that this activity may have a large payoff for communities, as small firms often lack business plans and information on new technology and markets. While there is a large institutional infrastructure supporting this type of activity for small businesses in urban areas, it is often lacking in rural areas. Community developers can play a particularly important role in rural areas by providing both one-on-one counseling and classes on starting a business, business plans, and marketing.

The findings indicate that minorities are less likely to own businesses than are nonminorities. This fact may help explain why minorities are less likely to be employed by small than medium-size firms. Community developers can play an important role in helping minorities overcome the obstacles they face, particularly in the areas of credit and information, in starting a new business. Many lenders in rural areas are faced with a problem in demonstrating that they are satisfying the requirements of the Community Reinvestment Act (CRA). Community developers can provide an important role in linking qualified minorities interested in owning their own businesses with lenders interested in increasing their lending activity to minorities. This activity may require some additional educational programs for lenders to understand the special issues surrounding minority entrepreneurs. Such programs may be the most effective way to deal with the different hiring practices of small and medium-size firms.

The issue of job quality in small businesses is rather difficult for community developers to resolve. As indicated earlier, targeting of small businesses may help identify firms that are not only likely to grow, but likely to provide jobs with good benefits. Another way of looking at the problem, however, may be that greater emphasis should be placed on retention and expansion activities for medium-size and large firms in rural communities. These programs will help strengthen those firms that are providing the good jobs in the community and likely to survive over the long run.

Recent economic changes offer many challenges for community development practitioners. Many new programs, tools, and strategies are being developed without a strong research base. This study suggests that small business development does not necessarily provide a viable local economy, quality jobs, and innovation. Additional community development programs are needed to ensure that small businesses really benefit their locality.

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UNDERSTANDING THE DYNAMICS OF DIVERSITY WITHIN NONPROFIT BOARDS

By John Michael Daley and Julio Angulo

ABSTRACT

As nonprofit organization boards increasingly reflect the rich human diversity of the communities they serve, understanding and nurturing the many voices within boards is crucial. This paper describes a number of frameworks that seem promising for exploring board dynamics, including the use of language to further interests, social exchanges, the political context of boards as elements of a pyramid of civic participation, the socialization and acculturation of board members and the composition and representativeness of boards.

INTRODUCTION

Understanding and nurturing diversity is a significant challenge facing community developers and the governing boards of nonprofit organizations (NPOs). To implement the community development values of inclusive citizen participation, open discussion of civic issues and democratic decision making (Christenson & Robinson, 1989), while maintaining the special place of NPOs in American society (Salamon, 1989), governance boards need to consider creative ways of operating, ways that will value diverse people and diverse ideas and that will integrate diverse perspectives within coherent governance policies.

The present paper proposes the beginnings of a conceptual map that can be used to study the dynamics that occur within NPO boards as they seek to integrate the many voices of diversity. To accomplish this purpose a number of conceptual frameworks (elements of a map) that seem promising for helping to explore board dynamics will be described and discussed. The final brief section summarizes an approach to the development of a map that can be used to study the dynamics of the many voices within NPO boards.

John Michael Daley is Professor and Julio Angulo is Adjunct Assistant Professor, School of Social Work, Arizona State University, Tempe, Arizona.

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We use the mapping metaphor with a purpose. Conceptual maps are important elements in our understanding social systems (Hampton-Turner, 1981). Without a map of the terrain, even the best small scale research may produce only isolated points of understanding, the interpretation of which may be problematic when applied to the complexities of individual boards or the diversity within the universe of nonprofit boards.

Hopefully, by identifying a number of conceptual layers or overlays that highlight elements of the topography, more coherent strategies for knowledge building can be developed, and current points of knowledge can be located and used to build understanding.

Over the past quarter century, governing boards of nonprofit organizations increasingly reflect the diversity of their communities (Houle, 1989:29; Middleton, 1987). Yet within a governing board, as Carver notes, "Diversity must somehow be funneled into a single position" (1990, p. 136–137). This paper focuses on the incorporation of diverse people and perspectives within nonprofit boards. A rich and growing literature on NPO boards tends to prescribe the manner in which boards should operate (O'Connell, 1981; Flanagan, 1984, p. 105–128; Carver, 1990; Houle, 1989). Less attention has been paid to the manner in which boards actually function, with Fink (1989) and Middleton (1989) offering promising exceptions. Literature on the dynamics of decision making groups in general is of limited use due to the unique nature of NPO boards. In contrast to therapy groups, social groups and various advisory and study committees, NPO boards are responsible for developing policy. Their decisions bind the nonprofit organizations in legal matters. Further, NPO boards often are expected to represent diverse perspectives reflecting the community in general, consumers and other groups of special concern to the nonprofit organization. Intergroup dynamics within nonprofit boards constitute relatively unstudied phenomena. Therefore our task is to explore and to develop greater understanding, one small step at a time. Being able to map the territory can facilitate this process.

Diversity

Diversity has many dimensions. Much has been written about the cultural/ethnic diversity of modern communities in the United States. Diversity as used here also includes the human richness as defined by gender, age, ability, socioeconomic class, ideology, cohort history, status as a service client or person to be impacted by a policy decision, length of time a person has served on a board or lived in the community, political influence or connections, and so on (Houle, 1989, p. 29–30).

A board may reflect diversity in one dimension, but not in others (Middleton, 1987, p. 144–145). Thus a nonprofit board may include persons from a variety of ethnic groups but be homogeneous in terms of gender or socio-economic class.

We distinguish between *demographic diversity* (having a diverse board composition) and *functional diversity* (incorporating the diverse voices or perspectives into the policy making process). Board members with diverse perspectives and interests might not express these viewpoints during board activities. An exploratory study by Daley and Angulo (1991) found that under conditions of demographic diversity, functional diversity was limited. The present paper is interested in the experiences of NPO boards as they seek to achieve functional diversity. Within a nonprofit board functional diversity may be reflected along one dimension (for example, the voices of men and women may be heard) while along another dimension (for example, social class) functional diversity may be absent. Further, within a board the lack of either demographic or functional diversity along one or more dimension may limit expressions of functional diversity along other dimensions. For example, the essential middle class nature of a board may limit functional diversity along other dimensions (ethnicity or gender).

Board diversity offers a number of advantages to NPOs. Diversity can ensure needed expertise. It can contribute to the legitimacy and influence of the board and agency with specific groups (Alexander, 1976; Middleton, 1987, p. 143–147). It may be necessary to meet the requirements of funders. Finally, a diverse board can communicate to various audiences that the board and agency stand for key values: citizen participation, consumer involvement, broadly inclusive, open policy making, public accountability, and so forth.

Many authors explicitly view diversity within governing boards as a positive element. Carver (1990, p. 186–187) for example, describes the excitement of a churning policy debate based on different perspectives. Delbecq and associates (1975, p. 24–25) developed the nominal group technique at least in part to facilitate the involvement of diverse perspectives by limiting the influence of constraining normative group expectations. Earlier scholars noted the possibility of "group think," where the lack of diverse perspectives within a group produces consensus that is less useful than discussions reflecting diverse perspectives would be. Houle (1989, p. 8) notes that, "The central value of a board is that it provides an opportunity for shared wisdom."

Functional diversity is not without its costs and potential difficulties. While the introduction of any new members to existing boards may be problematic, Conrad & Glenn (1983, p. 171–181) discuss the conflicts experienced by "culturally diverse voluntary associations" as they introduced staff and board members whose demographics (gender, culture, socio-economic status) differed from those of traditional participants. Middleton (1987, p. 144–149) notes that when boards become more diverse in social group membership and specifically when consumer members are included, board conflicts tend to increase. Similarly, Mathiasen (1990) notes that as boards add new members, experienced members may be fearful of the new and different members. At the same time, new members may be frustrated by board veterans who are reluctant to share policy making power.

Odendahl cites O'Connell as calling for real diversity (probably diversity of characteristics, experiences and interests, although O'Connell does not specify). O'Connell notes that new members will bring, ". . . a different determination, and a lot of questions. (The new board members) are not going to blindly accept on faith the organization's existing directions, policies and programs" (1990, p. 243). Balgopal and Vassil (1983, p. 174–178) note the influence of allogenic factors, allegiances individuals have to groups based on their age, sex, ethnicity, religion and so on. Ties to these reference groups that are external to the NPO board can reflect tensions of society and contribute to board stress (see also Houle, 1989, p. 123–124, and Middleton, 1987, p. 149).

To funnel diverse perspectives into coherent policy requires more than mere mechanical compromise or the denial of real differences (Mabry & Barnes, 1980, p. 185–189). If differences are not to be swept under the rug, members need to be able to collaborate, to pool diversity in the pursuit of common interests and values.

In summary, many nonprofit board members and staff recognize the value of diversity within nonprofit boards. Yet many also recognize that as boards become more diverse in terms of ethnicity/culture, gender, age, socio-economic class, client/consumer status and so on, the potential for misunderstanding and conflict increases. As individuals with different characteristics, backgrounds and interests join NPO boards, different viewpoints and perspectives will be expressed and need to be incorporated into a policy development process resulting in coherent policies capable of guiding organizational decisions.

In an exploratory study of boards that have achieved a measure of demographic diversity, Daley and Angulo found that despite the diversity of characteristics and the private expressions of board members to the contrary,

> At the public behavior level (board and organization documents, and behaviors and statements during meetings) there appears little evidence of the "many voices." Documents and board discussions are remarkably free of the different perspectives, questions or disagreements one might expect based on the demographic diversity of these boards. When differing or

> dissenting views are expressed, usually they are acknowledged to vary from but not challenge the dominant viewpoint (1991, p. 15).

This is consistent with the research cited by Middleton (1987). Most boards appear to take great care to project a public image of good people, working cooperatively and effectively to benefit the community. Demographic diversity does not necessarily lead to functional diversity. This preliminary finding will be used throughout the following section to illustrate the potential use of the frameworks that will be discussed.

ELEMENTS OF A MAP: A SELECTIVE SET OF CONCEPTUAL FRAMEWORKS

Useful maps include elements that help the user to understand and navigate the terrain. For example, road maps typically identify population centers, tourist attractions, and physical components (rivers, mountains) in addition to the locations of various types of roads. Similarly, mapping the voices of diversity within nonprofit boards can be facilitated by identifying key elements. Our preliminary analysis of why demographic diversity does not lead to functional diversity within nonprofit boards suggests that a number of factors, in interaction and in differing mixtures, probably account for the discrepancy between demographic and functional diversity levels. The most promising of these factors are discussed below, including the use of language to further interests, the political context of boards as elements of a pyramid of civic participation, social exchanges, the socialization and acculturation of board members, and the composition and representativeness of boards.

Language and Interests

As we elaborate in detail elsewhere (Angulo & Daley, 1991) language can be used to further the interests of individual board members, groups within a board, and the board itself. How can many perspectives and, at times, competing interests be reconciled into a working group that produces coherent policies? Tannen (1990, p. 42–43) describes in detail the different communication patterns of men and women, calling male-female talk "cross-cultural." When a board is diverse in terms of age, gender, client status, ethnicity, and socio-economic status, to name a few of the possible variables, the complexity of communication is enormous. The selective use of language (for example, couching group decisions in language that allows members to save face after a contested policy debate) may offer options for negotiating within boards as members articulate and pursue their interests. Alternately, language may provide the rug under which differences are swept or language may be a barrier to the incorporation of some perspectives or interests in the policy development process. For example, the use of military, sports or business metaphors or the use of professional jargon may limit the participation of board members who are not comfortable with these terms and their associated ideologies. Language serves a dual purpose. It reflects a board's dominant themes, values or paradigms and it also influences or shapes thinking to conform to preferred themes, values or paradigms. For example, sports language is replete with value statements. Consider the use of the terms team player (internal cooperation valued) and winning team (competition among agencies valued).

The Political Context: A Pyramid of Civic Participation

Board composition and dynamics need to be studied contextually, that is with attention to the broader social and political context of the board. To do this it is helpful to understand the placement of a particular board with reference to other NPO boards and with reference to other opportunity structures for civic participation. The numerous voluntary associations and nonprofit organizations in a community can be viewed as forming a loose pyramid representing among other things a status differential among groups and organizations. Middleton (1987, p. 144–147), Houle (1989, p. 180) and Banfield and Wilson (1970, p. 115–116) refer to differential status among NPO boards or fields of activity, but do not describe in detail the characteristics of a civic status hierarchy within a community. Most voluntary associations and NPOs will remain at the same level, although Mathiasen (1990) suggests that some might move up the pyramid as they mature.

At the base of this status pyramid of civic participation, a broad array of voluntary associations (some formally structured, some not) and formally structured nonprofit organizations provide the most common and directly accessible means for civic involvement. These voluntary associations and NPOs include neighborhood associations, civic clubs and service clubs. If an individual manifests an interest in governance, board membership is relatively easy to secure. A willingness to invest oneself is the primary requirement for board membership.

Moving up the pyramid, each new level entails greater selectivity in offering invitations for board membership. At each level, the number of boards and board membership opportunities is reduced. Candidates are screened more rigorously in light of the board's need for diversity of member characteristics, the candidates' influence with community groups considered significant (Kramer, 1969, p. 289–292), candidates' expertise and the candidates' track record as a member of other boards (Bloomberg, 1969, p. 116–117).

Established service and advocacy agencies and prestigious voluntary associations constitute a second tier of civic participation opportunities. Larger, more influential service and advocacy agencies and smaller, less prestigious cultural and arts organizations form a third. Still higher within the pyramid would be found the large and prestigious cultural, educational, and medical institutions. At the apex of the pyramid might be found economic development, planning and resource allocating organizations. This description of organizations typical of the strata of the pyramid is intended to be illustrative, an attempt to describe in broad strokes the levels within a pyramid, and to provide a large scale map of the NPO board geography.

Language is perhaps the most inclusive dynamic within NPO boards. Language both shapes and is shaped by the other elements. Therefore as can be seen in Figure 1, language is represented by the large circle. The pyramid of civic participation is reflected by the tiered triangle. Note that the opportunities for civic involvement are less available in the higher tiers and the openings to these opportunities are less numerous.

If one group of boards provides entry level board positions for some board members in their civic careers, and if membership on other boards is for many persons the result of (or reward for) successful performance as a member of entry level boards, knowing where a particular board fits within this pyramid helps to understand the dynamics that occur within that board. If boards reflect existing intergroup power relationships within a community (Middleton, 1987, p. 147), what are the consequences of introducing nontraditional members? Are existing power relationships likely to be challenged? How do traditional influentials respond to new members who are not committed to current power arrangements?

Social Exchanges and Incentives

A rich literature is available that treats citizen participation or civic involvement as a form of social exchange (Blau, 1964; Widmer, 1985; Daley, Applewhite & Jorquez, 1989). Involvement as a board member can be viewed within this perspective. Board members participate at least in part because they expect that their involvement will produce valued results. These results may be associated with the purpose of the organization (purposive), with tangible benefits for a constituency they value (material), may be associated with the social relationships and

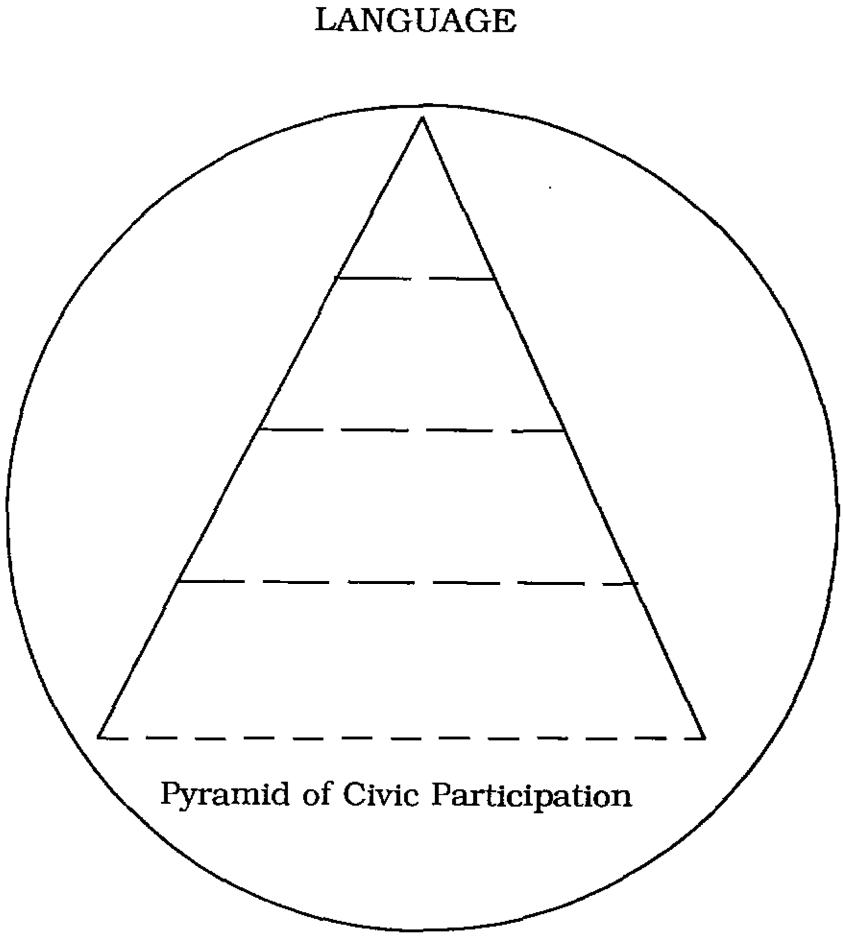

Figure 1. Language and the pyramid of civic participation.

interactions of their involvement (solidary), or may involve some aspect of self improvement (Clark & Wilson, 1961; Widmer, 1985). Individual board members may respond to multiple incentives. The mixture of expected benefits that is salient to an individual may change over time. Incentives may involve benefits to groups or organizations external to the NPO board. If the expected benefits do not result, the individual is likely to change his/her involvement pattern or may terminate participation. Within this social exchange framework individuals, groups and the board negotiate their needs and interests within a context of at least limited trust.

In trying to understand why demographic diversity does not lead to functional diversity, social exchange theory directs our attention to the benefits (incentives) and costs of participation. If incentives for board membership are multiple and interactive (Widmer, 1985, provides a good literature review; see also, Daley, Wong & Applewhite, 1992; and Middleton, 1987), what incentive mixtures are available to motivate a board member to raise perspectives or issues that challenge strongly held board themes? What costs might be incurred in doing so? Are some types of incentives or costs more significant to specific groups of members? For example, for young aspiring professionals and business persons who are board members, do career, civic leadership and social advantages of membership outweigh purposive benefits of a service agency, especially if the purposive/service benefits accrue to groups to which the board member does not belong? As individual board members balance the expected costs and benefits of public expressions of differences, do they conclude that more sharply drawn board discussions of differences carry liabilities for those who differ, or that differences can better be resolved in other arenas, or that raising these issues would likely be unproductive?

Socialization and Acculturation of Board Members

Conrad and Glenn (1983, p. 128–133) and Houle (1989, p. 24–70) provide a useful framework for exploring the manner in which board members learn their roles and learn proper behaviors and attitudes. Building on their framework, a member's career within a board can be viewed as entailing a number of activities: selection and recruitment; orientation and initial assignment(s); continuing education/development; recognition for achievements and rotation of assignments/leadership; and completion of service (perhaps entailing nominations to other boards).

This analytical framework provides a tool for mapping the activities of boards and the experiences of individual board members. The career framework can facilitate the mapping of boards' strategies and mechanisms to socialize or acculturate board members (Schein, 1991). Are these processes accomplished gradually during a civic career that spans many board memberships, largely during selection and recruitment for a specific board (before an individual "joins" a board), during orientation, or at many points during the member's involvement with a board?

Board dynamics reflect socially defined group norms. How, when and by whom are preferred or correct ways identified within boards, communicated to members and enforced? What rewards or sanctions are available (and are used) to deal with individuals who conform to or who violate group norms?

The influence of organizational culture may partially explain the lack of public differences within boards that include diverse groups and perspectives. Schein (1991, p. 9) sees organizational culture as coherent patterns of assumptions that prove useful in meeting organizational needs and that are taught to new members as correct ways to perceive, think, feel and act. Houle (1989, p. 55, 120–123, 161–171) describes group climate and subtle social norms of behavior as key influences on the behavior of board members.

Socialization and acculturation processes are effective when the individual identifies with the group, organization or culture. Coleman's (1957) notions about the dynamics of community conflict may provide insights into board dynamics. Coleman noted that traditional leaders who are highly identified with the community have limited strategic options during episodes of conflict. Individuals who feel apart, who do not identify with the community, are relatively free to pursue whatever strategies they deem effective. If most board members have been well socialized to their board roles and have a high degree of identification with the organization and the board, their culture(s) could be a powerful, pervasive force to limit public controversy or to channel differences into acceptable modes of reconciliation. The need of boards and nonprofit organizations to maintain a positive public image shapes members' views of potential strategies to address differences or conflict. Perhaps, for example, differences or controversial matters are expected to be "hammered out" in less public committee meetings or in private conversations among board members or between board members and CEOs prior to board meetings.

Perhaps the reluctance to raise controversial issues can be explained partially by the work of Davis and Watson (1982). Writing of the experiences of Blacks in business corporations, they explain that one could walk the halls of major businesses and conclude that no racial tensions exist (or that tensions are not significant) because no one talks about them. Davis and Watson assert that this is not a true picture. Blacks who enter these organizations learn the cultures of their corporations and learn from other Blacks to be aware that they are black and that discrimination is pervasive, but not to talk about either topic (Davis & Watson, 1982, p. 84, 173). The survival norm seems to be to avoid certain topics during social and business interactions in the workplace, especially in "mixed company." Similarly, NPO board members may find it necessary or convenient to restrict their discussions of certain topics during meetings, distinguishing between public and private behaviors.

Board Composition and Representation

If a NPO board is to achieve diversity by having individual board members "represent" key organizations, groups or perspectives, appreciating the composition of the board and the nature of the representative relationships and processes is significant to understanding board dynamics. Alexander and McCann (1956), writing from the perspective of community organization practice, note the importance of the concept representativeness. Further they suggest that this concept often is ignored or misunderstood when constituting committees. In a subsequent formulation Alexander (1976) identifies a number of distinct types of representatives. The following types are based on Alexander's work, but vary in some respects. Individuals who are authorized by the represented group to act on their behalf are *socio-political representatives. Modal representatives* are persons whose characteristics, perspectives, and behavior reflect the central tendencies of a group. *Statistical representatives* share only a central characteristic of a group. For example, a student representative may in fact be a student, but share few characteristics or perspectives with most other students. Statistical representation, corresponding to our concept of demographic diversity, may in fact be a desirable goal in itself. This line of reasoning would suggest that even if new voices and perspectives are not raised by new board members, the presence and involvement of a new or nontraditional group (women, persons with disabilities, ethnics) challenges stereotypic thinking of other board members, may introduce subtle changes in board attitudes and behaviors and might lead to more direct, functional diversity. *Technical experts or advocates* are persons who have specific technical knowledge or expertise about a perspective or group but are not statistical or modal representatives nor are they authorized to represent that group. Technical experts or advocates bring unique knowledge or skills to the board but not the sanction, legitimacy, or first person perspective of the group or viewpoint represented.

The representational patterns of boards will substantially influence their dynamics. Who (individuals, groups, organizations) and what (perspectives, interests, ideologies) are represented? What process, if any, sanctions a board member to represent a group or interest? Who or what do board members see themselves as representing? Who or what do others (board leadership, CEOs) see members as representing? For example, is an individual expected to speak as a Hispanic, or for Hispanics as a group? Are representatives socio-political, modal, statistical or technical experts? The answers to these questions will substantially influence the dynamics of nonprofit boards.

For example, if few NPO board members are personally impacted by the board decisions, during board discussions few board members think or speak in the first person when discussing the impacts of board decisions on the groups served. Under these conditions the needs and norms of the organization or board can become more central than are the (perhaps competing) needs of the clients to be served (Stanton, 1970; Widmer, 1987, p. 37).

Definitions of the dimensions of board diversity probably will be expanded as more interests and groups organize to become active in civic life. Boyte (1984) refers to the "backyard revolution" as citizens collaborate to pursue their common interests. Presently most boards probably are sensitive to their ethnic and gender composition. The next step toward diversity might extend participation to low and moderate income groups and to client or citizen groups to be served. Houle (1989) and Widmer (1987) describe ways in which new members who are different from earlier members (demographic diversity) can be integrated into board activities (functional diversity).

Including members representing new groups or interests may or may not lead to increasing the functional diversity of nonprofit boards. Scholars and practitioners must be more explicit and precise when considering the dynamics of representativeness if we are to understand and facilitate functional diversity within expanded and enriched nonprofit boards.

Figure 2 depicts the elements of a map of the many voices of diversity within NPO boards. The largest circle, language represents its dual function within the map: it is both a reflection of other factors and an influence on other factors. At the heart of the map is the triangle representing the pyramid of civic participation (the political context of boards). The final elements found in the smaller, interlocking circles represent socialization and acculturation, board composition and representation and social exchanges and incentives. Representing dynamics in a graphic format is a difficult if not impossible task. The attempt here is to suggest a few relationships among factors, for example their interrelatedness, the inclusiveness of language, and the placement of the political factor at the heart of the map.

Comments on Methodology

The study of board dynamics entails the use of multiple methods of data collection, sources of data and analysis. Data obtained from each strategy and method can provide a partial appreciation of the board process, if triangulated with other data (Schein, 1991, p. 135; Webb, Campbell, Schwartz, Sechrest & Grove, 1981). To understand the

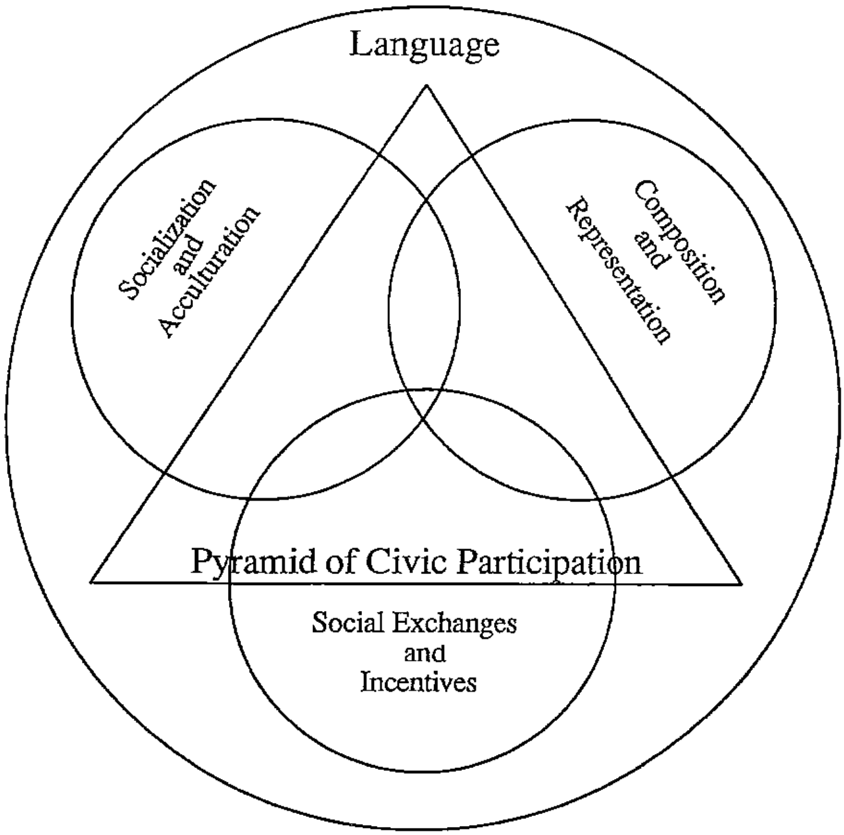

Figure 2. Key elements of a map of the diversity within NPO boards.

meaning of the language of board minutes, researchers might examine how observations of meetings correspond or do not correspond to this official written history. For example, is lively debate about ways in which the agency could meet the needs of low income female headed households reflected in the minutes, perhaps detailing hotly debated alternatives, or do the minutes state only that the board considered a new outreach program? Comparisons among data obtained using different methods can provide valuable insights into board dynamics, including the manner in which the board develops its own history consistent with its interests, values and self image.

Individuals and groups within boards experience the group process differently, based on their roles, histories, interests, characteristics, and expectations. The use of *ethnomethodological approaches* to understanding each individual's unique realities of board life is a necessary first step to understanding board dynamics. In the board minutes example above, if minutes reflect only decisions, but do not reflect board discussions, do some members (or groups of members) consider the minutes to be "business like" while others see the minutes as "a whitewash?" Ethnomethodological work requires that the focal experiences be understood in terms that have meaning to and reflect the meanings attached by the participants (Turner, 1974; Fetterman, 1989; Dexter, 1970; and Watts, 1981).

Finally, the study of board dynamics needs to be sensitive to contextual influences. Boards are shaped by and in turn seek to shape their environments. The organization's mission, history/traditions, aspirations, size, funding patterns, leadership and relationships with key constituent groups need to be considered. At the community level, factors of interest might include the community's history/traditions, aspirations, social, economic and political status, democratic composition and leadership.

The study of the many voices of diversity within nonprofit boards poses significant challenges and opportunities. The approach to mapping these board dynamics presented here can facilitate a more realistic approach to knowledge building. At the same time, careful study of nonprofit board dynamics can provide an empirical basis for facilitating the involvement of new voices within nonprofit boards.

PRACTICE IMPLICATIONS

The conceptual map of NPO boards described above can provide useful insights about board dynamics and guide practitioners' efforts to foster inclusive, functionally diverse boards. While developed in reference to NPO boards, the map has potential for generating insights about work with other study committees and task groups. Further, while the present configuration and composition (elements) of the NPO board map are exploratory in nature, a number of practice implications are suggested by the map.

The map can help practitioners in two ways. First, the features highlighted on the map direct attention to key elements of the board structure and process. One becomes more mindful (Langer, 1989) about significant features, enhancing an understanding of board dynamics. Second, the features of the map represent potential targets for change efforts. For example, understanding that language both reflects and shapes board dynamics can increase one's understanding of the manner in which a board uses language. Furthermore, the strategic use of language by the practitioner can encourage board diversity and might be used to make a board more effective. If professional jargon inhibits the participation of some board members, alternative language can be emphasized by the practitioner and by board leaders. Board successes can be reinforced by language that reflects board accomplishments and the contributions of members, thus providing incentives for future involvement.

If a board has developed a culture that does not value or nurture functional diversity, attention to the socialization and acculturation processes of board members may help to understand how things came to be this way. Further, understanding these processes may direct attention to ways in which other values and role expectations could be nurtured, using the socialization and acculturation processes to change norms and expectations. Alternately, understanding the social exchanges within boards may facilitate designing rewards (exchanges) for actions that encourage functional diversity.

It has been said that the best theory is the most practical theory. Similarly, we think that the map outlined here can prove useful to practitioners in understanding the dynamics of diversity and in directing our attention to ways in which we can facilitate the development of functional diversity within nonprofit boards.

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PUBLIC HOUSING, ECONOMIC OPPORTUNITY, AND COMMUNITY REVITALIZATION

By David A. Reingold

ABSTRACT

Public Housing Authorities (PHAs) around the country have recently expanded their role to include economic development by facilitating the creation of tenant owned and operated businesses. For many, these new efforts represent a paradox, given the perception that public housing has historically operated to confine poor minorities, mostly African-American, in decaying urban centers with declining economic opportunities. Using Chicago as a case study, this paper evaluates two Chicago Housing Authority economic development initiatives. Their outcomes are compared to evaluate the effectiveness of PHAs as economic development agencies. The results illustrate the obstacles inherent in fostering economic enterprise within a bureaucratic environment. While it may be possible to overcome these problems by integrating private interests with PHA resources, it is unlikely that such efforts will be able to address the current level of despair among residents of America's urban public housing.

INTRODUCTION

At a time when public housing has become firmly embedded in the spiraling deterioration of inner-cities around the country, local Public Housing Authorities (PHAs) have expanded their role to include efforts designed to re-build the social and economic structures of these communities. Involvement in the areas of community and economic development represents a distinct departure from the past where PHAs remained exclusively engaged in one activity: the provision and maintenance of housing. By redefining their mission, PHAs are attempting to address the powerful forces of ghetto culture, macroeconomics, and middle-class flight by sponsoring initiatives designed to enhance the economic opportunities of public housing residents.

This new focus has attempted to confront the fact that only 24 percent of all public housing households have a full-time wage earner

David A. Reingold is a Ph.D. candidate in the Department of Sociology at the University of Chicago and a National Science Foundation Research Fellow at the Center for the Study of Urban Inequality directed by William Julius Wilson. This research was supported by a grant from the MacArthur Foundation. The author gratefully acknowledges their support.

(NAHRO, 1990). Small business development represents a shift away from previous PHA economic development efforts, which largely relied on tenant management to create economic opportunities for public housing residents. Unfortunately, the implementation of tenant management resulted only in minimal job creation, benefiting those fortunate few who happened to be members of their Tenant Management Corporation (Hula, 1991). The shortcomings of these and other programs have caused PHAs to adopt more direct and aggressive steps to create jobs for tenants. These efforts suggest that PHAs have finally come to the conclusion that unless they expand their role to include economic development, they will have to face tenant populations whose incomes are tied solely to declining welfare benefits, which further limits their ability to adequately fulfill their management responsibilities.

To date, academics and policy makers have given relatively little attention to PHA economic development initiatives. Perhaps this is a byproduct of scandals over the past four decades which have plagued the Department of Housing and Urban Development (HUD), undermining this agency's ability to garner support for programs which increase its role in the provision of social services (Welfeld, 1992). However, this problem may diminish with more capable leadership and the recent tendency of PHAs to create separate departments designed to address economic development issues.

Whether or not the Federal government becomes more actively involved in assisting local housing authorities in economic development, the willingness of PHAs to address the economic plight of their tenants deserves attention. For many, these new efforts represent a paradox, given the perception that public housing historically operated to confine poor minorities, mostly African-American, in decaying urban centers with limited economic opportunities (Hirsch, 1983). This confinement is thought to have disenfranchised public housing residents by creating a spatial mismatch between the inner-city location of most public housing units and the relatively recent suburban job growth of the past two decades.

As a means to better assess the role of PHAs in economic development, this essay will first analyze the Chicago Housing Authority Kibbutz Initiative. A descriptive analysis of this program will be followed by a discussion of its principal assumptions. Explanations for the outcome of the Kibbutz Initiative will be derived through a comparison with a different public housing economic development program. This comparison will help illustrate the problem with implementing policies designed to promote economic opportunity in public housing and the difficulties PHAs may face in their new role as economic development agencies.

Given the Chicago Housing Authority's notorious reputation, it is unclear whether this Authority and its tenant population are representative of other PHAs. While Chicago's public housing population is among the poorest in the nation, the creation and evolution of the CHA and its administrative structure are not much different from other local housing authorities in large urban centers. Moreover, the urban location of the PHA and housing developments under analysis are not atypical of public housing nationwide, given that 68 percent of all public housing family units are located in central cities (Goering & Coulibably, 1989, p. 276).

THE CHICAGO HOUSING AUTHORITY KIBBUTZ INITIATIVE

In an effort to reverse the pervasive urban decay in public housing and to provide a framework for communities and residents to move "from dependency to independence," the Chicago Housing Authority (CHA), under the leadership of its Executive Director and Chairman, Vincent Lane, designed and is currently implementing the CHA Kibbutz Initiative. This model emphasizes cooperative strategies intended to eventually establish self-sufficient communities through the development of business and economic opportunities, as well as to provide supportive and healthy family and community structures.

The program began in May 1991 with periodic orientation and training sessions that focused on the history and theory of the kibbutz and on foundations of cooperation more generally. As part of this Initiative, during October 1991, nineteen CHA residents from two public housing developments and several CHA staff members traveled to Israel and visited Kibbutzim, mainly Kibbutz Gal-on, located in the south-central region of Israel, to learn about communal living strategies and the principles, values, organization, and operation of such an enterprise. Upon their return, participants used the kibbutz model and their experiences as they attempted to rebuild their communities.

Lowden Homes and Ogden Courts, the two developments that participated in this program, were selected because of their "leadership, community, and geographic/structural advantages" (CHA Kibbutz Initiative Concept Paper, 1991, p. 4). Lowden Homes consists of approximately 130 row houses, situated in a single family private housing market and in a vibrant commercial district and is, therefore, not characterized by social isolation and concentrated poverty. Its residents have access to economic opportunities, community resources, role models, and neighborhood institutions. In contrast, Ogden Courts is a mid-rise (seven stories) two building development located in an industrial area which includes long-standing major institutional and community resources. Ogden Courts is not located in a thriving residential neighborhood, but neither is it located in a dense population of other housing units. Thus, the selection of Lowden Homes and Ogden Courts seemed to be a result of the fact that neither presented the seemingly intractable problems associated with massive housing developments.

Upon arriving in Israel, the group spent the first three days at the Givat Haviva Institute, an educational foundation, engaged in simulated dispute-resolution and decision-making activities, while also studying the principles of kibbutz life. Discussions were held on how these concepts might apply to the residents' own lives and situations. For the next three weeks, the residents stayed on Kibbutz Gal-on, where they were involved in a variety of activities intended to emphasize "those elements of kibbutz life that may be directly applicable to the needs of CHA life" (CHA Kibbutz Initiative Concept Paper, 1991, p. 7). These included presentations by kibbutz members on issues such as health and community care, security arrangements, education, and care for the elderly and children. The residents also participated in daily work assignments that a typical kibbutz member would do. For instance, they worked in the kitchen, in the mechanic shop, and in the avocado groves. Since few participants were in the labor force and did not have the daily experience of getting up and going to work, it was hoped this provided some "shock value." Daily debriefing sessions were held with the facilitator, during which residents discussed things they may have learned and also tried to resolve problems inherent to group travel. In addition, each resident was "adopted" by a kibbutz family and shared shabbat dinner. It was hoped that the tenants would use these families to answer questions about the kibbutz in order to gain insight into its way of life. Finally, CHA residents went on day trips to other sites, such as an absorption center for Ethiopian and Russian immigrants, community renewal projects, other cooperative living arrangements not based on agricultural production, and a number of historical sites in Israel.

After the CHA residents returned to Chicago, it was the CHA's intent to begin implementing the primary goals of this Initiative. These included the mobilization of other community residents, the privatization of both housing developments, and the creation of economic opportunities for tenants through "the development of on-site businesses to make products or deliver services needed by the CHA . . . . Some initial ideas include operating an internal laundromat, day-care exchange, a resident owned/operated convenience store, neighborhood clean-up and beautification projects, and vegetable/flower gardens" (CHA Kibbutz Initiative Concept Paper, 1991, p. 11). To assist tenants in attaining these goals it was envisioned that a steering committee, comprised of leaders from all segments of the community, would help guide and support these public housing tenants. This group would help the residents formulate specific program elements and implementation strategies. These leaders would also assist with fund-raising by helping the tenants to "marshal resources from public sector providers who already supply a vast array of services, goods, and financial support to the CHA population, but who should combine these resources to maximize their impact for this initiative" (CHA Kibbutz Initiative Concept Paper, 1991, p. 11).

With these goals in mind, the tenants returned to Chicago in November of 1991, eager to revitalize their communities. In an effort to mobilize other community residents, the participants gave a presentation to residents of their respective developments. In these separate but similar meetings, they reported to the other residents (roughly forty at each meeting) about their perceptions and experiences of kibbutz life and its applicability to their housing developments. Their remarks were mostly positive, focusing on the need for fellow residents to come together and overcome personal grievances; however, several displayed their skepticism about converting their housing development into a kibbutz. They cited the rural–urban difference as one example of the visit's limitation. After the presentations, other residents were given a chance to ask questions. Many wondered why a trip to Israel was necessary to understand that "everyone must learn to come together;" others asked about specific reforms that evolved from their visit which would improve the quality of life in their development. The participants explained that consensus among residents must first be established before any specific action could be taken.

The next three or four meetings held over a two month period addressed the conversion of these housing developments into either a housing cooperative, a Tenant Management Corporation (TMC), or private condominiums. At the meetings, an average of seventeen residents at each development were presented with written material describing the details of such a conversion.[1] In addition, outside speakers, including a public housing tenant, conveyed their personal experienc-

[1] The tenants in attendance varied considerably from meeting to meeting. The most consistent participants included the tenants who had gone to Israel; however, several of these residents were unable to participate because their work schedule conflicted with the meeting time which was always on a weekday at either 5 or 6 p.m.

es with these alternative housing arrangements. Emphasis was given to conceptual explanations of these three arrangements so as to convey the implications of such a change. Tenants were also given the opportunity to ask questions and express their opinions. For the most part, almost no tenants expressed interest in home ownership, citing massive structural (physical) problems and a general distrust of the CHA as the principal reason. This skepticism was also present during the discussions on housing cooperatives. Most of the tenants felt that the CHA was lying when its representatives told them that under these conditions the rents would remain fixed and the eviction policy would not change. Moreover, tenants expressed concern that the CHA was trying to unload property to improve the efficiency of its own organization and not the lives of the tenants. However, many residents believed that the CHA was destined to get out of the housing business, and unless the tenants purchased their homes they would forever live in fear that the CHA would sell the property to private developers, evicting tenants who could not afford the new rates. These competing views meant that the only viable alternative would be tenant management.

Before any official action could be taken, the facilitator, who had been responsible for coordinating and conducting these sessions, became ill. His condition was serious enough to require surgery. Since he was incapacitated, stalling the progress of the program, the CHA decided that it was an appropriate time to transfer the responsibility for implementing the program from the Department of External Affairs to the Department of Research and Program Development. The primary reason for this action was the belief that Research and Program Development had more experience in serving residents' needs and facilitating resident initiatives. As a consequence, each development was assigned new personnel who would assume responsibility for facilitating the program.

This transfer not only brought about a change in personnel, it also redirected the focus of the Initiative. Instead of laying the groundwork for the conversion of these housing developments, the new facilitators thought it would be more effective to enhance tenant confidence by addressing needs of the housing development which could be attended to in a short time period at minimal expense. Consequently, over the next several months, an average of fourteen tenants from each development met weekly with the CHA representatives to discuss the development's needs. The various topics discussed included installing flood lights, exterminating pests in the apartments, removing graffiti, installing speed bumps and a stop sign in a nearby alley, and forming tenant patrols for security measures. However, most tenants at both developments expressed their concern that these issues/goals did not address the substantive problems of their development, such as drugs, crime, joblessness, and the physical deterioration of their buildings. Tenants displayed much more interest in pursuing these issues through the creation of tenant owned and operated businesses; however, the new facilitators felt that such efforts were too grandiose, requiring resources (financial and human) well beyond their capacity.[2] The effect of this dissension was unclear; however, the content of the meetings continued to focus on short-term goals.

As the planning continued, discussions between tenants and the facilitators were reduced to tenant demands directed at the facilitators; e.g., "The reason why we have so much crime is because at night it is dark in the courtyard .... What we need are new flood lights." As a result, the facilitator would attempt to formulate a plan to achieve the goal which would include the tenants in the implementation process; however, most of the time these demands required the assistance of other CHA personnel. Using the flood lights as an example, union contracts prevented anyone except union workers from installing these lights. As a result, requests such as this one were taken to the facilitator's superior, who would either instruct CHA maintenance personnel to perform the job or determine that the job was too costly, resulting in inaction. Clearly, the division of labor which evolved did not resemble the original intent of the Initiative. That is, tenants were not actually involved in fulfilling their development's needs. Nor did they feel it was their responsibility to address these issues, given their status as renters.

While this is only one example of many similar situations, it helps demonstrate some of the difficulties associated with managed social change. To date, the outcome of this program is not known; however, no meaningful measures have been taken to realize the privatization of either housing development or the creation of tenant owned and operated businesses. Even in the face of these unimpressive results, it would be a bit premature to conclude that the program itself has failed to achieve its stated goals. After all, collective action is a complex process, involving numerous components with no pre-set timeline. However, it is possible to reflect on the experiences that evolved from this program with the intent of identifying the effectiveness of the CHA as an economic development agency. We now turn to these issues.

SELF-SUFFICIENCY AND SELF-EMPLOYMENT

The most noticeable theme of the Kibbutz Initiative is its focus on self-sufficiency and self-employment. At one level, the commitment to

[2] Included in this category of goals too complex and costly was the conversion of each development into a cooperative, TMC, or condominiums.

self-help and self-employment can be linked with broader cultural beliefs. Americans have long cherished the concept of the "self-made man" as embodied in the Horatio Alger stories of the earlier part of this century. For the social system as a whole, attributing success or failure as a product of individual characteristics allows for the development of a cultural system which largely devalues the influence of social structural properties and relations. This tendency in American culture affects the decision making of the CHA in a number of ways. Most notably, the CHA does not want to position itself as an oppositional organization which denounces "mainstream" values. Past experiences in the area of racial integration have taught PHAs and other publicly funded organizations that endorsing policies which challenge mainstream views will only result in their isolation from other organizations and institutions on which they may depend for financial resources. Moreover, by embracing the self-help ideology, the CHA indirectly conveys the message that the prosperity or failure of public housing tenants is the result of their individual effort, therefore, deflecting any responsibility as an organization for the economic and social plight of its tenants.

On a more specific level, the adoption of self-employment and its self-help ideology reflects the growing importance of this form of economic activity world-wide. As the global economy becomes more integrated and post-industrial economies enter mature phases, self-employment and small firms have become important sources of economic activity (Piore & Sabel, 1984; Birch, 1987). In response to corporate downsizing, increasing productivity in manufacturing, and the greater propensity for large firms to subcontract specific tasks, small businesses have become more numerous and have provided a significant source of employment. In addition, small business growth and self-employment have been fueled by the growing importance of flexible specialization and adaptability, given their comparative advantage in identifying niche markets and altering their production process to accommodate changing tastes.

These economic trends have also been supplemented by the well-publicized and successful efforts of the Grameen Bank in Bangladesh which has been able to fuel rural economic development through rotating credit associations (Hossain, 1988). This program has re-shaped general strategies used by persons and organizations interested in economic development. For example, Balkin (1989) devotes an entire book to the subject of self-employment and rotating credit associations as strategies for employing low-income people. His belief that self-employment and small business development represent viable strategies for poverty alleviation is becoming wide spread, as evidenced by the

CHA Kibbutz Initiative. This shift represents a dramatic departure in the thinking of the economic development community which once viewed its role strictly as brokers between business and community leaders.

Therefore, the CHA's commitment to small business development and self-employment is rooted in the contemporary economic environment, as well as broader social values. However, the question still remains why the CHA never even attempted to fulfill the stated goals of this program. As a means of addressing this issue, the remainder of this text will (1) discuss the relationship between risk taking and bureaucratic management, and (2) recommend solutions to overcome this problem by evaluating a different CHA economic development program.

Risk-Taking And The CHA

If the shortcomings of the CHA Kibbutz Initiative can be reduced to one principal factor, it would have to be the reluctance of the CHA to take the necessary risks associated with creating economic opportunity through small business development. This reluctance is clearly illustrated in the description of the Initiative given above. When tenants wanted to address the underlying causes of their plight by creating tenant owned and operated businesses, the facilitators dismissed such proposals as grandiose. Moreover, the facilitators claimed that creating a business was beyond the CHA's resources and that they did not have the authority to undertake such an endeavor. Analyzing and explaining the origins of the facilitators' response is critical if we are to derive an adequate understanding of the CHA Kibbutz Initiative failure, as well as to assess the implication of PHAs as effective economic development agencies.

From their conception in the 1930s, PHAs were created to help build, design, and manage public housing. With the decline in funds for new construction, PHAs today are largely concerned with managing these units. This task entails selecting tenants, collecting rents, enforcing eviction policy, and maintaining the physical condition of the units. Given the extensive number of units under their control and the inability of any one person to perform all of these tasks, PHAs adopted a bureaucratic form of organization to ensure that these tasks would be completed. As an ideal type, bureaucracies create legitimate authority on a rational basis with impersonal obligation where official functions are bound by rules and regulations (Weber, 1964). These features of bureaucracy, while essential, have deleterious consequences for the implementation of economic development programs.

To illustrate these negative consequences, it is useful to interpret the response of the facilitators when faced with the tenants' suggestion of small business development as a by-product of bureaucratic organization and authority. The claim that creating a small business is too grandiose, beyond the CHA's resources, and outside of the facilitators' authority reflects an understanding of decision making bound by rules and regulations of the CHA bureaucracy. While the characteristic of impersonal obligation just described reflects relations between persons in a bureaucracy, it also applies to the facilitators' relationship and commitment to tenants. Facilitators were not bound to accept tenants' proposals and could reject them since the facilitators' work was evaluated and remunerated by the CHA and not the tenants.

The preoccupation with rules and regulations, and the absence of accountability to tenants created a situation in the CHA Kibbutz Initiative which restricted the facilitators from taking the necessary risks to undertake small business development. For economists and scholars who study entrepreneurial behavior, risk taking is a basic element in the art of economic enterprise. However, risk taking is not only a function of individual personality, but it is also a product of structural conditions. And in the case of the CHA Kibbutz Initiative, the organizational environment in which program facilitators operated hindered their ability to act independently, take risks, and "get things done."

The Satin Touch Laundry Initiative

Given the shortcomings of facilitating small business development through PHAs, is it possible for these organizations to encourage and develop economic enterprises which are owned and operated by tenants? The answer to this question lies in another CHA initiative which, unlike the CHA Kibbutz Initiative, successfully established a few small businesses in a different CHA housing development.

On November 23, 1993, residents of ABLA Homes and Ida B. Wells began operating Satin Touch Laundry, the result of a collaborative effort between the CHA and a private entrepreneur. In all, three full-service laundromats in these two developments are in operation, providing service for both public housing residents and members of the surrounding community. With public housing residents as employees and owners, it is said that Satin Touch will turn "soap into hope" and despair into prosperity. While the long term outcome of this project is unknown, the fact that it was able to get under way represents a considerable achievement and a stark contrast to the tentative outcome of the CHA Kibbutz Initiative. Therefore, why did the CHA Initiative fail and these laundry facilities succeed?

In simple terms, this latter program was conceived and implemented by non-CHA personnel. Melvin McReynolds, the brainchild of this dry cleaning venture, is a former CHA resident and currently owns close to a dozen cleaning stores in Chicago. He approached CHA Chairman Vincent Lane a year ago with the idea of setting up the cleaning shops. This prompted the CHA to conduct several small business seminars funded by a $200,000 grant from the federal government. During these seminars, residents were given preliminary training and introduced to the complexities of operating a business. "Over the next two years, McReynolds will train the staff members of both stores until they are able to run the stores without his help. At that point, the Local Advisory Council [the tenant government organization] will take over the stores and 'all profits will go to the LAC' .... In the meantime, McReynolds will earn a share of the profits and additional bonuses if the stores surpass their sales projections. He estimates that the stores could bring in as much as $200,000 a year if they get proper community support" (Carlozo, 1993). A component of this community support is expected to come from cleaning CHA security guards' uniforms. Under the terms of the current contract, each uniform cleaned by Satin Touch will be reimbursed by the CHA.

In contrast to the facilitators of the CHA Kibbutz Initiative, Melvin McReynolds was able to work quickly and effectively at implementing a small business development program. The absence of bureaucratic rules and regulations, and the mentality of refusing to take no for an answer, appear to have made the critical difference. Without this tenacity and willingness to take risks, small business development and self-employment strategies are likely to be unsuccessful. That is, the conservative tendencies of bureaucracies create an environment in most PHAs which is not conducive to risk taking, and therefore, to the creation of economic enterprises.

It is important to note that implementing this project did not come without considerable effort. According to McReynolds, one of the biggest challenges "was just getting people to understand that our objective was to promote economic development" (Carlozo, 1993). For McReynolds, private enterprise appears to represent an opportunity not only to make money, but to revitalize deteriorated urban communities. This conclusion is re-enforced by the statements from ABLA Homes' residents who had previously tried to get other businesses to move in, but were unsuccessful because most business owners refused to invest in communities with public housing. Overcoming this fear seems to be dependent on a moral commitment by the investor which is fostered through familiarity and direct experience with public housing.

Although the Satin Touch Laundry project has experienced relative success compared to the Kibbutz Initiative, it has not been free of problems. For example, there has only been minimal interest among CHA security guards in using Satin Touch to clean their uniforms. While the reason for this is unclear, given the service is free, the profits from these facilities have not met the CHA's expectations. A more serious problem occurred when McReynolds was recently forced to close two of the stores because of personal tax problems. According to the CHA, this is only a temporary set-back. Even if McReynolds' problems prevent him from continuing, a number of other investors have expressed interest in taking over these three facilities.

Given these obstacles and the limited number of Melvin McReynoldses in this world, the potential for PHAs as economic development agencies seems limited. When a private entrepreneur was not involved, we saw how bureaucratic authority and the organizational structure of the CHA inhibited the implementation of an economic enterprise designed to provide jobs to public housing residents. However, when private interests and PHA resources were combined, we saw only limited success. What can local housing managers and other public housing staff do to avoid unsuccessful economic development initiatives?

INGREDIENTS FOR SUCCESS

The experiences of these programs indicate that overcoming the problem of bureaucratic organization is critical if PHAs are to be effective economic development agencies. While there is no single strategy to accomplish this task, the experiences of the Satin Touch Laundry initiative illustrates the importance of combining private interests with PHA economic development initiatives. Involvement of a third party, such as a current or previous business owner(s), not only provides expertise in a particular business area, but also creates a person whose actions are not exclusively governed by bureaucratic rules and regulations, minimizing the conservative tendencies of PHA decision making.

PHAs can employ a number of strategies for luring a third party into an economic development initiative. For example, they can assume a majority of the risk in exchange for a share of the profits. However, it is unclear whether this type of incentive structure is sufficient to entice investors. In the case of Satin Touch, McReynolds was interested in making money, but he was also interested in revitalizing a public housing community. This moral commitment must not be overlooked as a factor in creating a successful public-private partnership.

When a third party of the sort described is not available, a PHA should seriously consider not undertaking an initiative whose primary goal is small business development. While it may be possible to reform the organizational structure of a PHA to discourage its conservative tendencies, such action may have deleterious consequences on the organization's ability to execute its primary mission: the management and maintenance of public housing. Even if a third party is available, there is no guarantee that the project will succeed. After all, the experience of Satin Touch illustrates the potential problems when an investor is confronted with financial problems.

These recommendations suggest PHAs do have a role in economic development, and that such activity should be encouraged. Nevertheless, the obstacles PHAs face when undertaking these projects, and the conditions required for their success, suggest these strategies will not be enough to overcome the current level of despair in America's urban public housing.

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IMPACTS OF A UNIVERSITY'S INSTRUCTIONAL PROGRAMS ON THE LOCAL AND STATE ECONOMIES

By Stefan M. Brown and Kevin T. McNamara

ABSTRACT

This paper examines the impact of Purdue University instructional programs on the local and state economies. The analysis considers impacts associated with a university's provision of instructional programs as well as impacts associated with the household spending of students in residence at the university. Input-output analysis is used to measure income and output (gross receipts) growth stimulated by the instructional programs. Impacts associated with in-state and out-of-state students are examined separately. The analysis indicates that Purdue instructional programs stimulate income and output growth of \$355,895,117 and \$670,141,442 for the local economy, and income and output growth of \$426,677,205 and \$744,820,071 for the state economy. This analysis suggests the economic importance of colleges to an economy and demonstrates a method that can be used to examine the economic impact of a variety of public institutions in the economies in which they are located.

INTRODUCTION

The economic development impacts of university instructional programs on a community's and the state's economy, like those of many public and private institutions such as hospitals and prisons, are often overlooked when evaluating state and local fiscal policy. Growth in the local and state economies is stimulated by the expenditures made by a university and the students who attend the university. In the absence of the institution the economic impact would be lost to the local economy and may be lost to the state economy as well. The analysis reported in this study was completed to provide policy makers with information on how funding decisions regarding higher education can affect local

Stefan M. Brown is Research Assistant and Kevin T. McNamara is Associate Professor, Department of Agricultural Economics, Purdue University, West Lafayette, Indiana.

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and state economies. An input-output model was created to estimate the economic impact of a university's instructional programs, Purdue University, on the local and state economies.

The university instructional programs cause two types of economic activity: growth associated with the university's provisions (production) of instructional programs, and growth associated with the household expenditures of students enrolled in the university who take up local residence to receive (consume) their education. Total output (or gross receipts) and total income impacts associated with both types of growth are examined and discussed in this report.

The analysis of the impacts of the university instructional programs is based on input-output models developed for the Tippecanoe County and Indiana economies. Input-output analysis is based on an economic model which traces transactions made in one sector through all sectors of the economy. The model measures the total impact of the initial transaction on the economy. Multipliers, single numbers which measure the total effect of an initial action on the economy, are derived from the input-output models. These multipliers estimate the total output (gross receipts) impacts and total income impacts associated with a change in any specific sector's level of activity.

The input-output model is based on a transactions table that is described by two equations of relationships. The first relationship shows the disposition of a region's industrial output for all industries. That is, it shows the value of the goods and/or services each sector in the regional economy sold to other sectors (or industries) in the region, sold to consumption (or final demand) in the region, or exported from the region. The second relationship defines industry purchases as the sum of purchases from other sectors of the regional economy, imports of products that compete with regional output, and the value added by the final payment (consumption) sectors (Schaffer, 1983, p. 131).

An input-output model provides a static view, a view at one point in time, of the interactions that take place in an economy. By showing how money is spent in each sector of the economy, the effect of an additional dollar spent in one sector can be traced through each sector of the economy. Input-output analysis is thus well suited to comparative static analysis of an economy. The advantage of input-output analysis is that it provides very good estimates of multipliers which can be used to calculate the economic impact of alternative policies.

Input-output analysis assumes that technology is fixed and additive, and that consumption patterns are stable for all sectors. In other words, production technology and consumers' tastes do not change. This implies constant returns to scale, aggregation errors do not exist, firms in each industrial sector are homogeneous, input substitution does not occur, relative prices are constant, and production coefficients are constant for the entire analysis period. These assumptions limit the use of input-output analysis to relatively short time horizons.[1]

Input-output models were constructed for both the Tippecanoe County and Indiana economies. The Tippecanoe County model was constructed to isolate the impacts of the university on the greater Lafayette area. The Indiana model includes Tippecanoe County. Naturally, the impacts reported for Indiana include the impacts captured by the Tippecanoe County economy. The multipliers generated by these models were used to calculate total output and total income impacts associated with Purdue University instructional programs and with related student household expenditures.[2]

IMPACT OF UNIVERSITY INSTRUCTIONAL PROGRAMS

Purdue University instructional programs affect the economy through the expenditures made by the university to carry out instructional programs. The expenditures include facility construction, faculty and staff salaries, and supplies. These expenditures are called direct impacts. University spending within the local and state economy to support its programs stimulates more economic activity as local businesses increase their economic activity as the result of University spending. These additional expenditures are termed indirect impacts. These secondary or indirect effects add to total economic output and increase total payroll, increasing community income.

The direct impacts of Purdue instructional programs are the actual dollars students spend on education, their tuition (Table 1). Indiana residents pay $2,324 tuition for an academic year (two semesters, 1991–1992). Out-of-state students pay tuition of $7,440.[3] Purdue's 23,790 in-state students paid $55,287,960 in tuition for the 1991–1992 academic year. The 12,373 out-of-state students paid a total of $92,055,120 in tuition. The $147,343,080 students paid in tuition are direct impacts of Purdue instructional programs.

[1] For a thorough applied discussion of input-output analysis see Schaffer, 1976.

[2] The micro-computer program IMPLAN was used. IMPLAN was developed for the U.S. Forest Service. *Micro IMPLAN User's Guide.* St. Paul, Minnesota: Minnesota IMPLAN Group, 1993.

[3] The Indiana model assumes that Indiana students would have purchased educational services at a university in another state had they not consumed educational services from Purdue.

Table 1. Student Tuition Payments, Education Costs, 1991–1992 Academic Year

Tuition Payments		*Enrollment*[1]	*Tuition Per Student*	*Tuition Total*
In-state	Undergraduate	21,338	$2,324.00	$ 49,589,512
	Master's[2]	1,437	$2,324.00	$ 3,339,588
	Ph.D[3]	1,015	$2,324.00	$ 2,358,860
	Subtotal	23,790		$ 55,287,960
Out-of-state	Undergraduate	8,325	$7,440.00	$ 61,938,000
	Master's	1,836	$7,440.00	$ 13,659,840
	Ph.D.	2,212	$7,440.00	$ 16,457,280
	Subtotal	12,373		$ 92,055,120
Total		36,163		$147,343,080

Education costs	*Enrollment*	*Cost*[4] *Per Student*	*Total Cost*
Undergraduate	29,663	$ 7,309	$216,803,990
Master's student	3,273	$11,671	$ 38,198,095
Doctoral student	3,227	$11,081	$ 35,759,162
Total	36,163		$290,761,247

[1] Average of fall 1991 and spring 1992 enrollment. Source—Barb Stahura, Registrar.
[2] Includes Master's, nondegree, and post-baccalaureate students.
[3] Includes Ph.D. and professional degrees.
[4] Source—Purdue University State Cost Study for the Indiana Commission for Higher Education 1988–1989, as reported by Brent Bowditch, Assistant Director, Fiscal Planning. Calculated as average cost inflated using HEPI inflator. Costs were rounded to nearest dollar.

The cost of a student year of education is $7,309 for undergraduate students, $11,671 for master's students, and $11,081 for Ph.D. students. These costs are averages based on the actual per pupil costs to the University for its degree programs (Purdue University, 1990). The total cost of operating University instructional programs for 36,163 students in 1991–1992 was $290,761,247 (Table 1).

The University uses the $147,343,080 paid by students in tuition to purchase goods and services in the Tippecanoe and Indiana economies to support its instructional programs. These expenditures stimulate additional economic activity as firms throughout the economy increase operations in response to University spending. An input-output model measures these impacts in terms of multipliers. Type III multipliers, which were used throughout this paper, include the direct, indirect and induced impacts of an activity. Direct impacts result from the increased activity needed. Indirect effects trace an increase in final good sales to the inputs necessary to produce the final goods. Induced effects include the increases in purchases by households due to their increase in income because of an increase in sales of final goods. Indirect effects are the employment, income, and gross receipts growth resulting from an increase in direct production. Likewise induced effects are the employment, income and gross receipts increases resulting from household spending increases associated with income paid by the direct and indirect impacts.

The input-output models constructed for the Tippecanoe and Indiana economies with IMPLAN produced total output multipliers of 1.6462 and 1.9560 for the College/University sector of the Tippecanoe and Indiana economies, respectively. This indicates that for every dollar of tuition money the University receives, on average an additional 64 cents is spent in the Tippecanoe economy and an additional 95 cents is spent in the Indiana economy. Multiplying the output multipliers by the amount students pay in tuition provides an estimate of the total output impacts associated with Purdue University instructional programs. For the 1991–1992 academic year, University instructional programs stimulated $242,556,178 total output in the Tippecanoe economy and $288,203,064 total output in the Indiana economy (Table 2). In-state student tuition payments had output impacts of $91,015,040 and $108,143,250 on the Tippecanoe County and Indiana economies, respectively. Out-of-state students' tuition payments stimulated total output impacts of $151,541,239 and $180,059,815 on the Tippecanoe County and Indiana economies, respectively.

The output growth stimulated by University instructional programs generates added income for the Tippecanoe County and Indiana economies. Income multipliers from the input-output models indicate income growth of $0.9308 per dollar of instructional output growth in the Tippecanoe County, and income growth of $1.1029 for the Indiana economy. These multipliers indicate that the instructional programs stimulated $137,146,939 in total income in the Tippecanoe County economy and total income of $162,504,683 in the Indiana economy.

Provision of education services to in-state students has an estimated total income impact of $51,462,033 and $60,977,091 on the Tippecanoe County and Indiana economies, respectively. Providing instructional services to out-of-state students, who pay the full cost of education, stimulates income growth of $85,684,906 on the Tippecanoe County economy and $101,527,592 on the Indiana economy.

Comparison of tuition payments in Table 1 and instruction costs in Table 2 indicates that in-state students' tuition payments do not cover the full cost of their instructional programs. Based on an average cost of $7,309 for a student year of undergraduate instruction, the $2,324 in-state tuition pays about 32% of instructional costs. Out-of-state undergraduate students' tuition of $7,440 per year covers 102 percent of

Table 2. Impact of Instructional Programs on Local and State Economies, 1991–1992 Academic Year

		Income Effect[1]		*Output Effect*[1]	
		Local Income Effect	*State Income Effect*	*Local Output Effect*	*State Output Effect*
In-state	Undergraduate	\$ 46,157,918	\$ 54,692,273	\$ 81,634,255	\$ 96,997,085
	Master's student	\$ 3,108,489	\$ 3,683,232	\$ 5,497,630	\$ 6,532,234
	Doctoral student	\$ 2,195,627	\$ 2,601,587	\$ 3,883,155	\$ 4,613,930
	Subtotal	\$ 51,462,033	\$ 60,977,091	\$ 91,015,040	\$108,143,250
Out-of-state	Undergraduate	\$ 57,651,890	\$ 68,311,420	\$101,962,336	\$121,150,728
	Master's student	\$ 12,714,579	\$ 15,065,438	\$ 22,486,829	\$ 26,718,647
	Doctoral student	\$ 15,318,436	\$ 18,150,734	\$ 27,091,974	\$ 32,190,440
	Subtotal	\$ 85,684,906	\$101,527,592	\$151,541,239	\$180,059,815
	Total	\$137,146,939	\$162,504,683	\$242,556,178	\$288,203,064

[1] The multipliers used are IMPLAN multipliers for the College sector. The income multipliers are 0.9308 and 1.1029 for the Tippecanoe County and Indiana economies, respectively. The output multipliers are 1.6462 and 1.956 for the Tippecanoe County and Indiana economies, respectively.

their instructional costs. So while the University subsidizes in-state students' cost of education, out-of-state students pay the full cost of their education through tuition payments. The subsidized portion of in-state students' cost of education is not included in the impacts because these funds do not reflect new monies to the state's economy. To the extent that these subsidized costs represent new spending in the Tippecanoe County economy, they would create additional impacts on its economy.

IMPACT OF STUDENT HOUSEHOLD EXPENDITURES

Education is unique compared to other products in that people who purchase education (students) must live in a specific locality for a period of time to consume the education services. While the students live in the university community they must purchase a variety of services to support their households. For instance, they purchase housing, food, recreation, and other goods and services. These expenditures stimulate added economic impacts, or multiplier effects, for the local and state economies. These added expenditures and the resulting economic activity are impacts of University instructional programs because the household expenditures would not occur if the students did not need to reside in the Lafayette area to purchase University instructional services.

Student households purchase a variety of goods and services in the local economy. Data on student household expenditures were obtained from a study conducted by Purdue's Division of Financial Aid to Students to estimate students' expenses for use in administration of financial aid loan programs. The study, conducted in 1991, surveyed a random sample of 3,761 students to "determine the average costs by categories that students incur while attending Purdue University" (Student Expense Survey, 1992, p. 3). The data are based on 1,516 usable student survey responses.

Students are separated by characteristics which reflect differences in household spending patterns, such as marital status, on-campus or off-campus housing, presence of dependents, and place of permanent residence. Each student's household spending is in addition to University tuition payments. Half of renter's insurance, car insurance, and car payment expenditures were allocated to Tippecanoe County and half to the student's home state, recognizing that a share of these expenditures would be made in the student's home community.

Students are assumed to be on campus for a nine month academic term for this analysis. This may understate the total annual impacts of both University instruction and student household spending because some students, especially foreign and graduate students, are enrolled

Table 3. Student Household Expenditures in the Local and State Economies, 1991–1992 Academic Year

		Enrollment[1]	*Expenditures per Student*[2]	*Expenditure Total*
In-state	Undergraduate	21,338	$8,096.54	$172,763,914
	Master's[3]	1,437	$8,096.54	$ 11,634,724
	Ph.D.[4]	1,015	$8,096.54	$ 8,217,985
	Subtotal	23,790		$192,616,624
Out-of-state	Undergraduate	8,325	$8,591.09	$ 71,520,823
	Master's	1,836	$8,591.09	$ 15,773,241
	Ph.D.	2,212	$8,591.09	$ 19,003,491
	Subtotal	12,373		$106,297,555
	Total	36,163		$298,914,179

[1] Fall 1991 Enrollment. Source—Barb Stahura, Registrar.
[2] Expenditures are rounded.
[3] Includes Master's, nondegree, and post-baccalaureate students.
[4] Includes Ph.D. and professional degrees.

in school on a twelve month basis. Single students are assumed to have no dependents and hence no child care expenses. Child care expenses for married students with dependents are calculated as the weighted average cost associated with the number of children for each survey respondent. All commuter students are assumed to be residents of Indiana. Assuming a simple average of household types for student expenditures, total student household spending in Tippecanoe County and Indiana economies is $298,914,179 (Table 3). This is in addition to students' tuition payments.

Student household expenditures are direct economic impacts. The increased level of businesses involved in transactions with students stimulates additional, or indirect, total income and total output impacts. Income and output multipliers generated for the Tippecanoe County and Indiana economies with the input-output model were used to estimate the relevant income and output impacts (McNamara & Brown, 1992, Table 6). These multipliers are applied to the appropriate monthly expenditure amounts to estimate monthly total output and total income impacts of student household expenditures. Adjusting the individual student expenditure types' monthly impacts to an academic year impact (9 months) indicates that the annual output (total business receipts) impact of an average (simple average of student household types) student's household spending on the Tippecanoe economy is $11,823. The average annual effect on the Indiana economy is $13,456. The annual income impact of an average (simple average of student household types) student's household spending is $6,048 for the Tip-

Table 4. Output and Income Impacts[1] of Student Household Expenditures on Local and State Economies, 1991–1992

		Local Impact	
	Enrollment	*Income*	*Output*
In-state	23,790	$143,904,520	$281,288,915
Out-of-state	12,373	$ 74,843,658	$146,296,248
Totals		$218,748,178	$427,585,164
		State Impact	
	Enrollment	*Income*	*Output*
In-state	23,790	$173,787,139	$320,123,949
Out-of-state	12,373	$ 90,385,383	$166,494,057
Totals		$264,172,523	$486,618,007

[1] Income and output impact estimates use a simple average of impacts computed for each student household type.

pecanoe county economy and $7,305 for the Indiana economy (McNamara & Brown, 1992, Tables 7, 8, 9 and 10).

The per student income impacts on the Tippecanoe County economy ranged from about $6,600 to $11,300 for in-state students, and from $11,400 to $16,100 for out-of-state students. The income impacts on the Indiana economy ranged from about $7,900 to $13,600 for in-state students, and from $13,700 to $19,200 for out-of-state students. Total output impacts on the Tippecanoe County economy ranged from $12,600 to $21,500 for in-state students, and from $21,000 to $29,900 for out-of-state students. Total output impacts on the Indiana economy ranged from about $14,500 to $24,900 for in-state students, and $24,500 to $34,900 for out-of-state students (McNamara & Brown, 1992, Table 11).

Total income and output impacts of student spending were estimated by multiplying the average student household income and output impacts times enrollment. This indicates that student household spending resulted in output growth of $427,585,164 and $486,618,007 for the Tippecanoe County and Indiana economies, respectively (Table 4). In-state student household spending stimulated total output growth of $281,288,915 and $320,123,949 in the Tippecanoe County and Indiana economies, respectively. Out-of-state student household spending resulted in output growth of $146,296,248 and $166,494,057 on the Tippecanoe County and Indiana economies, respectively.

Student household spending stimulated income growth of $218,748,178 and $264,172,523 in the Tippecanoe County and Indiana economies, respectively. Income growth associated with in-state student

Table 5. Combined Output and Income Impacts[1] of Instructional Programs and Student Household Spending on Local and State Economies, 1991–1992

		Local Impact	
	Enrollment	*Income*	*Output*
In-state	23,790	$195,366,553	$372,303,955
Out-of-state	12,373	$160,528,564	$297,837,487
Totals		$355,895,117	$670,141,442
		State Impact	
	Enrollment	*Income*	*Output*
In-state	23,790	$234,764,230	$428,267,199
Out-of-state	12,373	$191,912,975	$346,552,872
Totals		$426,677,205	$774,820,071

[1] For estimate details see Tables 2 and 4.

household expenditures were $143,904,520 and $173,787,139 for the Tippecanoe County and Indiana economies (Table 4). Out-of-state student household spending stimulated an estimated income growth of $74,843,658 and $90,385,383 on the Tippecanoe County and Indiana economies.

SUMMARY AND CONCLUSIONS

Public and private institutions such as education and/or service institutions are an important part of the economic base of many communities, as the Purdue example demonstrates. Purdue University instructional programs have significant impacts on both the Tippecanoe County and Indiana economies. In the 1991–1992 academic year, Purdue's 36,163 students spent an estimated $147,343,080 in tuition (Table 1) and $298,914,179 in household expenditures (Table 3) in the Indiana economy.

The estimated combined income impacts of the Purdue instructional programs and student household spending for the 1991–1992 academic year was $355,895,117 for the Tippecanoe County economy and $426,677,205 for the Indiana economy (Table 5).

Total output (gross receipts) effects associated with instructional programs and student household spending was an estimated $670,141,442 for the Tippecanoe County economy and $774,820,071 for the Indiana economy.

Out-of-state students accounted for income impacts of $160,528,564 and $191,912,975 on the Tippecanoe County and Indiana economies, respectively (Table 5). Spending by out-of-state students stimulated an estimated $297,837,487 in output growth in the Tippecanoe County economy and $346,552,872 in the Indiana economy.

Political decisions regarding the size, location and mission of public institutions, like colleges and universities, can have significant consequences on the local and state economies. Economic impact analysis provides policy makers with information that can be useful to evaluate potential implications of fiscal decisions. It also can provide information about the influence of public institutions on local and state economic growth.

The analysis presented in this paper demonstrates the use of input-output multipliers to measure the economic impacts of a university on a local and state economy. The same method can be applied to the analysis of economic impacts associated with a variety of private or public institutions such as schools, research centers, prisons, or hospitals. Given the current budget crises faced by state and local governments, and the commensurate cost-cutting fervor, policy makers should be aware of the economic consequences that spending decisions have on local economies. As demonstrated, the impacts of spending cuts are greater than the face value of the change in spending. Input-output analysis provides a method with which the full economic impacts of government spending cuts can be measured.

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CREATING A VITALITY INDEX AS AN EFFECTIVE CITIZEN PARTICIPATION TOOL

By L. Allan Jenkins and Ronald T. Konecny

ABSTRACT

One of the fundamental requirements of government-funded economic development activities is a provision guaranteeing citizen participation. An effective citizen participation tool must be understandable to a general audience yet must not obscure the inherent system characteristics of the local development process. To meet these two criteria, our vitality index uses a visual profile of twenty-four demographic, economic, quality of life, geographic, and environmental measures. The index is constructed by transforming the raw data for each category into standard deviations from the state average. This visual profile can encourage the participation of citizens with varying degrees of previous involvement in economic development planning. An example of the vitality index is given using four Nebraska counties.

INTRODUCTION

The search for a productive economic development strategy is currently a central concern of government at all levels. One of the fundamental requirements of public sponsored economic development activities is a provision guaranteeing citizen participation. For example, the HUD-funded Community Development Block Grant Program specifically requires a citizen participation plan as part of the initial application process. Through this activity, local residents are given the opportunity to play an active role in the assessment of community needs and the establishment of spending priorities. As part of the CDBG Citizen Participation Plan, the local government is required to provide technical assistance to those residents who participate in the planning process. Other government sponsored economic development programs include similar provisions.

Providing the required technical assistance in an effective manner proves to be a difficult task. The formulation of an economic devel-

L. Allan Jenkins is Associate Professor of Economics, University of Nebraska at Kearney, Kearney, Nebraska.

Ronald T. Konecny is Associate Professor of Management, University of Nebraska at Kearney, Kearney, Nebraska.

opment strategy is, to use William Dunn's classification, an "ill-structured problem" (Dunn, 1981). There are numerous decision makers; there are many possible policy alternatives; conflict is more likely than consensus in the goals of the participants, and the eventual outcomes cannot be predicted. This complexity makes it difficult for local elected officials or economic development professionals to identify appropriate tactics. Asking local citizens to be active participants in the development process further complicates the policy process.

In addition to the complexity problem, the second major obstacle in providing useful technical assistance is the diversity of the citizen participation audience. Participating citizens are asked to make difficult decisions concerning the allocation of scarce development resources. The time constraints facing this audience, as well as the level of intellectual investment required to gain the necessary expertise, must be recognized. Attendees have widely varying levels of previous experience in development related decision making. In addition, the variation in educational characteristics of these part-time participants in economic development must be considered.

A handful of economic development strategies have an immediate intuitive *appeal*—printing a brochure, hiring an industrial recruitment coordinator, reducing local taxes, or building an industrial park. However, there is considerable evidence that these popular tactics have very little impact on local economic growth (Ambrosius, 1989; Mofidi & Stone, 1990). A wide body of literature describes the economic and geographic factors found to influence regional economic growth. Throughout this literature one sees evidence of the importance of well developed transportation facilities, a non-unionized labor force possessing the required skills, an adequate infrastructure, access to capital, amenities, a reasonable climate, and the economies of agglomeration. Also recognized are the geographical factors of access to markets, raw materials, and low-cost power.

The identification of these individual influences is not necessarily sufficient to generate appropriate development policies. Many of these factors are outside the control of local decision makers. Others can only be changed slowly through massive expenditures. One of the common characteristics of complex systems is that strategies which were successful at one specific time in one particular place may not succeed in different circumstances (Nicolis & Prigogine, 1989, p. 242).

No general theory of development adequately explains the observed variation in regional economic conditions. The approach to date—the identification of some set of factors through regression analysis—has led to a mechanistic view of local development. The experts identify a laundry list of influences which policy makers then seek to manipulate in order to gain some advantage over their neighbors. As a result, state governments engage in an escalating "enticement" war, each offering a wide menu of tax breaks, job training funds, site improvements, below-market financing, and outright grants to draw business expansion.

Bringing additional citizen participation into this process is difficult. The "quick-fix" strategies with a widespread intuitive appeal have been found to be generally ineffective. The failure of these activities makes citizens hesitant to bear the cost of future economic development initiatives (Schneider, 1992). Most current economic modeling techniques do not lend themselves to a short discussion with a diverse audience. The concept of a "local multiplier" is widely understood, but the input-output matrix used in its computation is difficult to bring to a level appropriate for a general audience. An econometric model faces similar difficulty.

The inherent complexity of local economic development, combined with the sophistication of the modeling techniques used by the development professionals, puts the citizen participation audience in a difficult position. By itself, the human mind is incapable of analyzing the dynamic behavior of a complex system. Jay Forrester, one of the pioneers in computer simulation, has found that the number of variables that people can, in fact, properly relate to one another is very limited. According to Forrester:

> The intuitive judgment of even a skilled investigator is quite unreliable in anticipating the dynamic behavior of a simple information-feedback system of perhaps five or six variables. This is true even when the complete structure and all the parameters of the system are fully known to him. The verbal model and the mental model that we carry around with us to explain the dynamics of industrial and economic system behavior probably do not rank in effective dynamic complexity beyond a fourth-or fifth-order differential equation. We think that we give consideration to a much larger number of variables, but I doubt that these are properly related to one another in groups larger than five or six at a time (Forrester, 1961, p. 99).

The purpose of this paper is to describe a policy tool designed to assist local citizens and elected officials in evaluating the economic, demographic, quality of life, geographic, and environmental characteristics of a particular county. There is a tremendous amount of information available through the Bureau of the Census and other agencies. While raw data are available, they are not easily accessed or understood by the diverse members of the target audience. Our goal is to transform these data into a visual profile which can serve as the foundation for a public meeting involving citizens with diverse backgrounds and varying degrees of previous involvement in economic development planning.

THE SEARCH FOR A FUNCTIONAL REGIONAL INDEX

Other researchers have recognized the need for a methodology which would allow the relative ranking of one geographic area in comparison to other regions. The typical approach has been to combine a variety of characteristics into one index number which can then be used to rank individual territorial units. Angoff and Mencken pioneered this method when they combined 106 indicators into five indices to identify Mississippi as "The Worst American State" in 1931. The social indicators movement, which began with the publication of *Recent Social Trends in the United States* (Ogburn, 1933), included the notion of territorial comparison based upon quality of life criteria such as education, health, and crime. Thorndike (1939) used thirty-seven variables to rate all U.S. cities with populations greater than 30,000 in 1930. His analysis generally identified the suburbs of major metropolitan areas like San Francisco, Los Angeles, and New York as the "best" cities. The "worst" cities were grouped together in Texas and the Deep South.

Smith (1973) used three different geographical levels for his analysis—interstate, intercity, and intracity. He argued that state level analysis is questionable because one or two large cities may distort the numbers, thus giving a misleading view of the overall state. Smith calculated Z-scores for eighteen large U.S. cities on ten quality of life indicators, ranking Minneapolis as the best and Los Angeles as the worst metropolitan area. Marlin and Avery (1983) sought to avoid the weighting problem inevitably created by a study like Smith's. They compiled information on America's 100 largest cities, creating a 237 table database which readers could use to construct their own index. Boyer and Savageau (1981, 1988, 1989) emphasized intercity comparisons in their very popular *Places Rated Almanac.* Using nine categories, they identified Pittsburgh as the "best" metropolitan area in the 1988 almanac. Responding to the criticism of their particular weighting scheme which had named Pittsburgh number one, their 1989 edition included a self administered weighting exercise designed to help readers develop individualized scales.

Business climate rankings have been produced by private companies like Grant Thornton, the Corporation for Enterprise Development, and Inc. Magazine. Because each of these firms use different criteria in their evaluations, there are considerable differences in state rankings.

While a single index number has an initial intuitive appeal, it is not an effective citizen participation tool. Angoff and Mencken recognized that the basic criticism aimed at this approach would be its necessarily subjective nature. They noted that: "It is when concrete criteria are set up that dispute begins, for every man tries to measure the level of a given culture by his own yardstick . . ." (1931, p. 1). Obviously, not all citizens attending an economic development meeting would attach identical weights to each criteria. The single index number would prove divisive rather than helpful because it would generate debate on the "proper" weighting rather than the process of local economic development. Small changes in relative weighting give rise to different rankings and different policy prescriptions. Michael Carley (1981) describes the potential for controversy on this issue:

> In research examining various systems of indicators for measuring urban quality of life, which is often attempted in the USA, Gehrmann (1978) notes that the result of the choice of a particular social indicator system can be wildly differing rankings of cities—as much as forty-five ranks out of sixty! This not only points up the necessity of being aware of how important indicator selection may be to the resultant policy analysis, but also suggests the futility of aggregation at the overall quality of life level. (p. 92)

A few single index number studies have been aimed at intrastate comparisons. For example, the Spring 1990 Community Development Newsletter published by the Cooperative Extension Service at Kansas State University included an economic "strength" index which was described as being a "quantitative measure of the overall economic strength of each county in the state (Kansas)." Using the Kansas strength index as an example, one can identify the limitations of this approach. First, it is difficult to explain exactly what the strength index number actually represents. Each county score is based upon the combination of three factors: county sales tax per capita in relation to statewide sales tax per capita; county per capita income in relation to statewide income per capita; and county jobs per capita in relation to statewide jobs per capita. This aggregation makes it possible for counties with very different characteristics to end up with similar scores. If dissimilar counties can receive identical scores, what policy use does the strength index have?

To illustrate this problem, we examined three counties which received similar strength index scores: Ellis (3.068); Grant (3.034); and Pottawatomie (3.004). According to information from the 1990 Census and the 1988 City County Data Book, these three counties differ significantly on a number of fundamental demographic and economic characteristics. Ellis County, in the central part of the state, has a median age of 31.1 years, a population density of 28.9 persons per square mile, a median housing value of $49,600, and a per capita income of $9,525. Grant County, in the southwestern corner of the state, has a younger population (median age of 29.2 years), has only 12.5 persons per square mile, has a median housing value of $53,200, and has a per capita income of $9,853. Pottawatomie County, in the northeastern part of Kansas, is older and poorer than Ellis or Grant. In Pottawatomie County, median age is 32.8 years, population density is 19.1 persons per square mile, median housing value is $46,400, and per capita income is only $8,524. The single index number hides this diversity. The report states that there are thirteen counties with a strength index number greater than three and twenty-two counties scoring less than two. The authors imply that there is great significance in these numbers but, as the above example illustrates, the index number does not adequately describe each county's economic circumstances.

A second criticism of the Kansas strength index and other single number rating systems is that they are not dynamic. A single number says nothing about the trend, potential, or recent economic experience of each county. A third major criticism is that each of the "factors" in the calculation of this particular strength index are given the same level of importance without any justification for this implicit weighting. A final criticism is the "spurious" accuracy of the strength index, which is carried out to three decimal places. The factors used to construct the index are not precise enough to allow this fine distinction. For example, Comanche County is given a rating of 2.273 and Kiowa County is 2.271. The calculated index, which includes estimated values for both population and income, is not sufficiently rigorous to permit any statistical comparison, let alone making a distinction at the third decimal point.

The Need to Go Beyond a Single Index Number

A more fundamental criticism of the single index number approach is that the methodology obscures the inherent complexity of local economic development as a policy issue. A considerable body of literature describes the inadequacy of our current understanding of complex systems. Examples include Forrester (1961), Capra (1982), Hayden (1982), Gleick (1987), Routh (1989), Nicolis (1989) and Radzicki (1988, 1990). Throughout this literature the difficulties presented by complexity are identified. Complicated systems, such as local economies, embody the idea of "cumulative causality" because a variety of influences impact upon one another through a web of connecting feedback loops. This complexity makes it difficult to understand local economic systems well enough to manipulate them to achieve desired goals. Thus, we are continually disappointed when a policy change fails to achieve the desired goal, or even worse, when it sets off an unintended side effect.

The current interest in systems theory was sparked by the work of Ludwig von Bertalanffy, who attempted to formulate a "General Systems Theory" in biology in the 1930s. Von Bertalanffy sought the unification of science through the identification of some set of general characteristics which would apply to all systems, irrespective of their nature or complexity. The identification of these common principles would allow the transfer of knowledge gained from simple systems to those with greater complexity. Thus, for example, the law of exponential growth applies to a variety of different situations—bacteria growth, the spread of a communicable disease, animal and human population change, and technological combinations—even though the causal mechanisms are different.

While researchers have not found the unifying ideas von Bertalanffy had hoped to discover, six useful characteristics about the behavior of systems have been identified. (1) *Counterintuitive behavior:* Intuition may work in understanding simple systems, where cause and effect are closely related, but intuitive solutions to problems embedded in complex systems are wrong most of the time. (2) *Insensitivity to changes in system 12 parameters:* Large changes in the constants in a system have little influence on actual outcomes because of compensating system behavior. (3) *Resistance to policy change:* Intuitive based policy typically has little effect because it does nothing to change the underlying structure of the system. (4) *Influential pressure points occurring in unexpected places:* The system is sensitive to changes in some parameters, but their location is not immediately evident. Hence, seemingly minor policy changes may result in major unanticipated side effects. (5) *Reactions to policy changes are different in the long-run than in the short-run:* Policies which generate beneficial long-run results are likely to have an adverse effect in the short-run. Conversely, actions which result in short-run benefits are apt to lead to long-run deterioration. (6) *Drift to low performance:* Counterintuitive behavior and short-term expediency lead to detrimental policy actions. If a short-run solution has some positive effect, more of the same is applied, which proves to be detrimental in the long-run. Over time, the system tends to move toward a minimal level of performance (DeGreene, 1973).

Incorporating Systems Concepts Into a Citizen Participation Tool

An effective citizen participation tool must simultaneously be understandable by a general audience yet not obscure the systemic nature of local economic development. The criteria included in an index should reflect the concerns pertinent to a particular audience and location. In this example we develop an index relevant to rural counties in Nebraska. Based upon our knowledge of this particular region, we constructed an index with twenty-four characteristics. These demographic, economic, quality of life, geographic, and environmental characteristics are generally accepted measures of each county's current circumstances. Other researchers constructing an index for different locations should consider those criteria most appropriate for that particular audience. It is important that preliminary contacts with citizen groups be made so the index will promote debate rather than unduly narrow it.

The index is constructed by transforming the raw data for each category into standard deviations from the average of all counties under study. For some categories with highly skewed distributions, such as population density, the log of the data was used in calculating the standard deviation. Other information may accompany the index that is best illustrated in a different manner. For example, the *presence* of a university, fiber optic communication, or some other form of infrastructure is binomial information. Therefore, the index lists the percent of all counties under investigation that have a specific infrastructure.

Criteria are defined so a positive value always represents a desirable result. For example, we use the employment rate rather than the unemployment rate because a higher unemployment rate would not be advantageous. Similarly, the index includes the safety rate, defined as the opposite of the crime rate, rather than crime rate. Obviously, whether or not a specific criteria is positive or negative depends upon the local circumstances. For example, a community which desires to become a retirement haven would view a high percentage of elderly as advantageous. On the other hand, a community desiring to attract manufacturing would view a high percent of elderly as detrimental.

To encourage the audience to think in terms of cumulative causality, we include several variables which are clearly influenced by other variables. The visual nature of the vitality index encourages participants to recognize and discuss these relationships, thus helping the audience consider their circumstances from a systems perspective. The vitality index is intended to help the audience see how a change in one variable may have a positive or negative impact on other variables. For example, an increase in the population density will most likely decrease the safety rate (increase the crime rate). An increase in manufacturing employment will generally raise housing values, but may also have a negative effect on the environmental factors. The vitality index will also illustrate the counterintuitive behavior of policy actions affecting the local economy. Lower per capita property taxes may initially appear advantageous, yet may prove to be detrimental in the long run. Higher taxes allow increased governmental expenditures on infrastructure, education, and health. The benefits of these improvements, by making the area more attractive to business, may prove to outweigh the cost of the higher taxes (Vaughan, 1979; Kieschnick, 1981).

The vitality index includes both point-in-time and rate-of-change measurements to help the audience think of the local economy as a dynamic process. Some of the included variables can be directly influenced by local government while others are outside the control of local decision makers. The twenty-four individual criteria are purposely not collapsed into a final single number ranking. By not assigning weights to individual variables, citizen participation committees are free to debate the significance and applicability of each factor to their county.

The twenty-four criteria listed in this article are intended as a guide for other regions. Depending upon the region, other criteria can be inserted or deleted from the vitality index. Selection of criteria for the vitality index should take into account citizen concern. In one region water quality may be an issue, whereas in another region educational quality may be a concern. Measurable quantitative information on each county in the comparison must be collected for each criterion. With proper criteria specified and interdependencies listed in the index, hopefully, there will be consensus rather than conflict in the goals of the participants.

It is important to recognize the limitations of the vitality index. It contains no mechanism for measuring or considering the intangibles such as community spirit, effectiveness of existing leadership, and volunteerism. Although the index is designed to encourage the audience to think about feedback as one variable changes, it cannot measure the magnitude or duration of the resulting system-wide adjustment.

AN EXAMPLE OF THE VITALITY INDEX—NEBRASKA

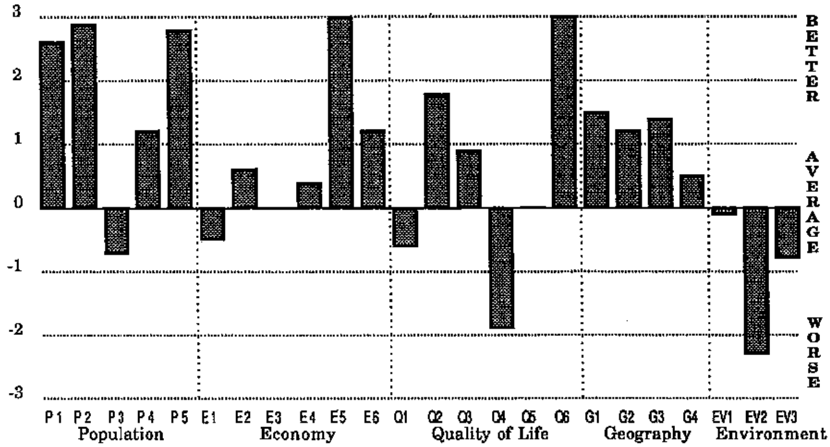
In the fall of 1990, Nebraska voters approved a constitutional amendment allowing local government to spend tax funds to encourage economic development. The enabling legislation was passed by the unicameral (state legislature) in the spring of 1991. With the passage of The Municipal Economic Development Act (LB840), local governments now have the power to recruit new business or assist expansion by providing incentives, subsidies, or other financial help. With voter approval, communities can create a low-interest revolving loan fund, provide job training, improve streets and sewers, or engage in other economic development activities. The bill went into effect on September 6, 1991, so it is too early to gauge its long-term impact. However, it is clear that several communities are interested in using The Municipal Economic Development Act to help their local economies. The search for an appropriate economic development strategy has become an increasingly important local political issue. Given this situation, it is suitable to use Nebraska as an illustration of the vitality index.

The index begins with the identification of twenty-four characteristics which influence local development for 90 of Nebraska's 93 counties. Demographic criteria include: median age, percent of population between 19 and 64 years of age, percent of population 18 and under, percentage change in population from 1970 to 1980 and from 1980 to 1990. Economic measures are: per capita income, employment rate, percent of the population above the official poverty level, percent change in retail sales from 1977–1987, manufacturing employment, and per capita property tax. Quality of life indicators include: per capita government expenditures, median housing value, medical doctors per 100,000 persons, safety rate (opposite of the crime rate), percent of county population with a high school degree, and the percent of county population with a college degree. Geographic variables are: population density, distance to either Interstate I-80 or I-29, distance to the nearest airport with commercial service, and distance to Memorial Stadium at the University of Nebraska–Lincoln (participants find this measure more interesting than simply stating the distance to the state capital). Distances are calculated from the county seat. The environmental indicators focus on water, a critical issue in this state. The index includes average annual rainfall and two measures of water quality: wells contaminated by the pesticides atrazine or alachlor and wells containing nitrate concentrations above 7.5 parts per million (Exner & Spalding, 1990).

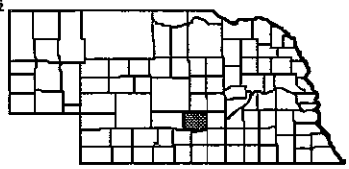
Each county evaluation sheet also includes five infrastructure criteria. Infrastructure is treated differently than the other criteria because of its binomial nature. For example, a fiber optics line is or is not present in the county. Categories here include digital switching, fiber optic line, cable television, local daily newspaper, and local institution of higher education. To give the audience the ability to compare their county with others, we include the percentage of counties in which each of these infrastructure components are present.

A Four-County Comparison

To illustrate the information conveyed by the vitality index, we will briefly examine four counties in the south central part of Nebraska—Buffalo, Hall, Howard, and Sherman. These counties are contiguous, yet they currently exhibit very different economic characteristics. Buf-



Category	Description	County Values
P1	Median Age (1990)	28.6 years
P2	Population 18 to 64 years (1990)	62.2 %
P3	Population 17 years old and under (1990)	25.7 %
P4	Population Growth (1970-1980)	11.2 %
P5	Population Growth (1980-1990)	7.6 %
E1	Income per capita (1988)	$13,128
E2	Employment Rate (10/90)	98.9 %
E3	Percent Above Poverty (1989)	86 %
E4	Annual Retail Growth (1977-1987)	5.4 %
E5	Manufacturing Employment (1989)	13,805 jobs
E6	Property Tax Levied per capita (1988)	$568
Q1	Government Expenditure per capita (1988)	$1,597
Q2	Median Housing Value (1990)	$49,500
Q3	Doctors per 100,000 residents (1990)	142
Q4	Safety Rate , opposite of crime rate (1990)	958.7
Q5	Percent with High School Degree (1990)	72.9 %
Q6	Percent with Bachelor or Higher Degree	19.5 %
G1	Population Density (1990)	39.63
G2	Distance to Interstate I-80 or I-29	2 miles
G3	Distance to Commercial Airport	1 miles
G4	Distance to Memorial Stadium - Lincoln	129 miles
EV1	Annual Rainfall	23 inches
EV2	Pesticide Effected Wells per 500 sq. miles	14
EV3	Nitrate Effected Wells per 500 sq. miles	29.1



Infrastructure	Digital Switching	Fiber Optic Line	Cable Television	Local Newspaper	College
Yes/No	Yes	Yes	Yes	Yes	Yes
Percent of Counties with Yes	91%	96%	78%	19%	25%

Sources:

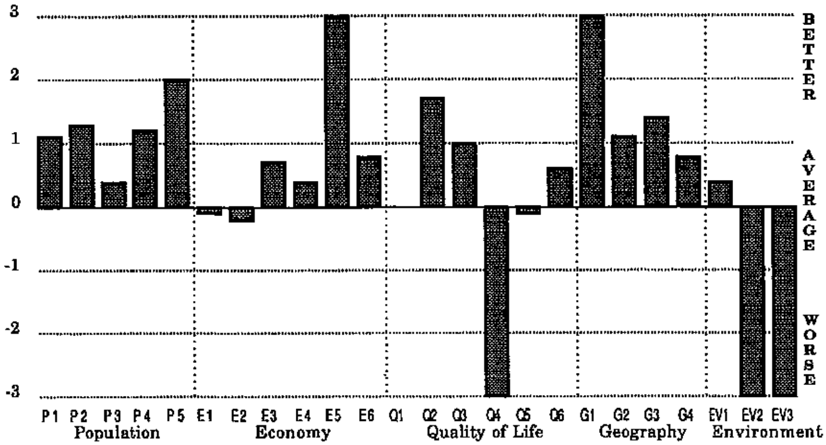
U.S. Census, 1970, 1980, 1990
County Business Patterns, 1989
City County Data Book, 1988
Nebraska Statistical Handbook, 1990-91

Project Funded by the University of Nebraska at Kearney Research Services Council

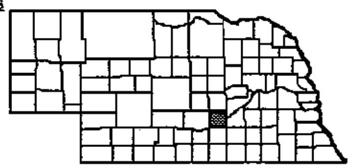
Figure 1. Buffalo County vitality index.

falo and Hall have relatively strong local economies, Howard is "average" on nearly every criterion, and Sherman is showing signs of distress.

Visually, the interdependence of demographic, economic, quality of life, and geographic factors becomes obvious. The vitality index also helps illuminate the limitations on possible economic development



Category	Description	County Values
P1	Median Age (1990)	33.2 years
P2	Population 18 to 64 years (1990)	57.4 %
P3	Population 17 years old and under (1990)	28.4 %
P4	Population Growth (1970-1980)	11.4 %
P5	Population Growth (1980-1990)	2.6 %
E1	Income per capita (1988)	$14,074
E2	Employment Rate (10/90)	97.7 %
E3	Percent Above Poverty (1989)	89.3 %
E4	Annual Retail Growth (1977-1987)	5.6 %
E5	Manufacturing Employment (1989)	20,930 jobs
E6	Property Tax Levied per capita (1988)	$696
Q1	Government Expenditure per capita (1988)	$2,808
Q2	Median Housing Value (1990)	$48,200
Q3	Doctors per 100,000 residents (1990)	147
Q4	Safety Rate , opposite of crime rate (1990)	939.7
Q5	Percent with High School Degree (1990)	72.6 %
Q6	Percent with Bachelor or Higher Degree	13.5 %
G1	Population Density (1990)	91.11
G2	Distance to Interstate I-80 or I-29	7 miles
G3	Distance to Commercial Airport	1 miles
G4	Distance to Memorial Stadium - Lincoln	92 miles
EV1	Annual Rainfall	25 inches
EV2	Pesticide Effected Wells per 500 sq. miles	29
EV3	Nitrate Effected Wells per 500 sq. miles	85.7



Infrastructure	Digital Switching	Fiber Optic Line	Cable Television	Local Newspaper	College
Yes/No	Yes	Yes	Yes	Yes	Yes
Percent of Counties with Yes	91%	96%	78%	19%	25%

Sources:

U.S. Census, 1970, 1980, 1990
County Business Patterns, 1989
City County Data Book, 1988
Nebraska Statistical
Handbook, 1990-91

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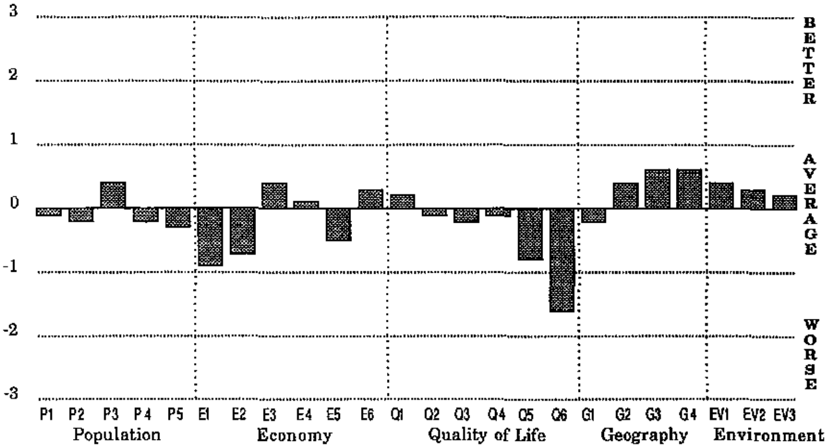
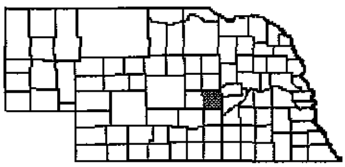
Figure 2. Hall County vitality index.

strategies. For example, Howard County, with a relatively small number of college graduates, would not be a likely site for a high-tech manufacturing facility. Buffalo County, with an employment rate of nearly 99 percent and a large number of college graduates, should not use scarce economic development resources to fund the attraction or expansion of low skill, low wage industry. Both Buffalo and Hall Counties



Category	Description	County Values
P1	Median Age (1990)	37.2 years
P2	Population 18 to 64 years (1990)	52.6 %
P3	Population 17 years old and under (1990)	28.5 %
P4	Population Growth (1970-1980)	-1.8 %
P5	Population Growth (1980-1990)	-10.6 %
E1	Income per capita (1988)	$12,109
E2	Employment Rate (10/90)	97 %
E3	Percent Above Poverty (1989)	87.7 %
E4	Annual Retail Growth (1977-1987)	1.7 %
E5	Manufacturing Employment (1989)	559 jobs
E6	Property Tax Levied per capita (1988)	$808
Q1	Government Expenditure per capita (1988)	$3,348
Q2	Median Housing Value (1990)	$31,600
Q3	Doctors per 100,000 residents (1990)	83
Q4	Safety Rate , opposite of crime rate (1990)	981
Q5	Percent with High School Degree (1990)	69 %
Q6	Percent with Bachelor or Higher Degree	8.2 %
G1	Population Density (1990)	10.74
G2	Distance to Interstate I-80 or I-29	32 miles
G3	Distance to Commercial Airport	26 miles
G4	Distance to Memorial Stadium - Lincoln	113 miles
EV1	Annual Rainfall	25 inches
EV2	Pesticide Effected Wells per 500 sq. miles	1
EV3	Nitrate Effected Wells per 500 sq. miles	8



Sources:

U.S. Census, 1970, 1980, 1990
County Business Patterns, 1989
City County Data Book, 1988
Nebraska Statistical Handbook, 1990-91

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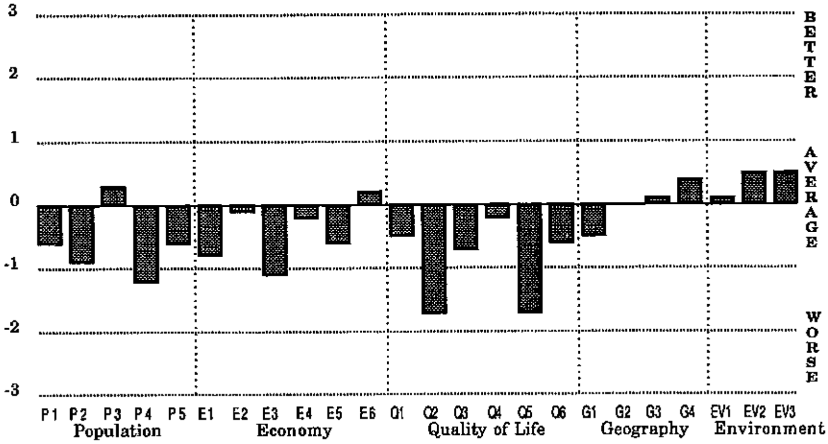
Infrastructure	Digital Switching	Fiber Optic Line	Cable Television	Local Newspaper	College
Yes/No	Yes	Yes	Yes	No	No
Percent of Counties with Yes	91%	96%	78%	19%	25%

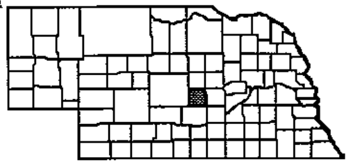
Figure 3. Howard County vitality index.

should begin to explore strategies to improve the quality of water. Failure to do this now will stunt economic growth in the two areas in the future.

The vitality index also illustrates the difficulty of devising an appropriate economic development strategy for Sherman County, which is now in a downward spiral. Population loss and a sluggish local econ-



Category	Description	County Values
P1	Median Age (1990)	38.6 years
P2	Population 18 to 64 years (1990)	50.5 %
P3	Population 17 years old and under (1990)	28.2 %
P4	Population Growth (1970-1980)	-10.1 %
P5	Population Growth (1980-1990)	-12 %
E1	Income per capita (1988)	$12,387
E2	Employment Rate (10/90)	97.9 %
E3	Percent Above Poverty (1989)	80.7 %
E4	Annual Retail Growth (1977-1987)	-.7 %
E5	Manufacturing Employment (1989)	403 jobs
E6	Property Tax Levied per capita (1988)	$846
Q1	Government Expenditure per capita (1988)	$1,804
Q2	Median Housing Value (1990)	$16,400
Q3	Doctors per 100,000 residents (1990)	54
Q4	Safety Rate, opposite of crime rate (1990)	980.9
Q5	Percent with High School Degree (1990)	64.5 %
Q6	Percent with Bachelor or Higher Degree	10.6 %
G1	Population Density (1990)	6.59
G2	Distance to Interstate I-80 or I-29	50 miles
G3	Distance to Commercial Airport	45 miles
G4	Distance to Memorial Stadium - Lincoln	141 miles
EV1	Annual Rainfall	24 inches
EV2	Pesticide Effected Wells per 500 sq. miles	0
EV3	Nitrate Effected Wells per 500 sq. miles	2.7



Infrastructure	Digital Switching	Fiber Optic Line	Cable Television	Local Newspaper	College
Yes/No	No	Yes	No	No	No
Percent of Counties with Yes	91%	96%	78%	19%	25%

Sources:

U.S. Census, 1970, 1980, 1990
County Business Patterns, 1989
City County Data Book, 1988
Nebraska Statistical Handbook, 1990-91

Project Funded by the University of Nebraska at Kearney Research Services Council

Figure 4. Sherman County vitality index.

omy have led to a decline in the quality of life, as indicated by low housing values and relatively small numbers of doctors and other highly educated individuals. The decline in quality of life makes it difficult to attract the type of high wage manufacturing facility which could turn the local economy around. Given the limited resources available at the local level, it would prove very difficult for Sherman County to fund an internal economic development program comprehensive enough and large enough in scale to have a noticeable impact. Sherman County should be very cautious in the use of public funds for limited industrial recruitment efforts. These are not likely to prove successful.

CONCLUSION

The passage of The Municipal Economic Development Act (LB840) has given local governments in Nebraska an expanded menu of development options. The County Vitality Index should be a useful tool in the public participation phase required by LB840 and other government sponsored economic development activities. Hopefully, the County Vitality Index will bring the necessary systems viewpoint to the local development process. Further comparison may be made with this technique using other economic and spatial constraints. For example, a comparison which includes the nonmetropolitan counties of the neighboring states may prove to be more insightful in the identification of the relative areas of strength and weakness of each individual county.

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COMMUNITY REINVESTMENT AND LOCAL ECONOMIC DEVELOPMENT IN RURAL AREAS

By Gary P. Green and Deborah Klinko Cowell

ABSTRACT

The Community Reinvestment Act (CRA) provides community development organizations and practitioners with a legal basis for requiring lending institutions to meet the credit needs of their community. Data on the performance of lending institutions, however, are limited or frequently in a form inaccessible to community development organizations and practitioners, particularly for those in rural areas. Lending institutions are uncertain as to what evidence they can provide regulators and community organizations to demonstrate they are satisfying community reinvestment guidelines. In this paper we discuss several ways of evaluating local capital markets in rural areas, and provide an example of how this information can be obtained through a community survey.

INTRODUCTION

The relationship between the banking system and local economic development has received increased attention among community development practitioners and researchers in recent years (Barkley & Helander, 1985; Gustafson & Beauclair, 1991; Lenzi, 1992; Markley, 1992; Pulver & Hustedde, 1988; Rogers, Shaffer, & Pulver, 1990). Interest in the functioning of local capital markets has been sparked by deregulation of the commercial banking industry. Since 1980, Congress has eliminated many of the regulations on interest rates, geographic restrictions and on the range of permissible activities for financial institutions. There has been considerable debate over the merits of deregulation, particularly for rural communities (cf. Drabenstott & Morris, 1991; Green, 1991). Proponents of banking deregulation argue these policy changes have improved the level of services available in communities and have made financial institutions more competitive. Critics charge that deregulation has led to higher costs for credit and services

Gary P. Green is Associate Professor, Department of Rural Sociology, University of Wisconsin–Madison/Extension, Madison, Wisconsin. Deborah Klinko Cowell was Research Associate, Small Business Development Center, University of Georgia, Athens, Georgia.

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and has drained capital from small towns and communities and lagging regions.

Although debate continues over the effects of banking deregulation, there is a consensus that these policy changes have contributed to an unprecedented number of bank mergers. Many community organizations have challenged these mergers using the Community Reinvestment Act (CRA) to obtain funds for community development projects. Since the CRA was enacted, lending institutions have committed approximately $30–35 billion for loans and investments in low income and minority communities in response to CRA challenges.

The Community Reinvestment Act requires that financial institutions assess and meet the credit needs of the community in which they operate. Until recently, the CRA was not rigorously enforced. Fishbein (1988) estimated that in 1986, 99 percent of the banks evaluated received a favorable rating by regulators. Several recent applications for mergers or acquisitions, however, have been rejected or postponed by regulators because local organizations challenged the merger on the basis of the lender's community development activities. The irony of course is that while banking deregulation has increased dramatically the number of bank mergers it also has fostered greater scrutiny of the performance of lending institutions and has provided community development organizations with leverage to negotiate with lenders.

These two developments, banking deregulation and increased enforcement of the CRA, have generated keen interest by financial institutions and community development practitioners in identifying the credit needs of communities. Bankers are asking: How do we demonstrate to regulators and to communities that we are serving the local market area? This issue is particularly relevant for bankers in small, rural communities where they are not required to provide data on lending patterns across different areas in their community. Community organizations are raising the question: How do we convince regulators that lending institutions have not done enough to promote community development? They too are faced with the problem of lack of data, particularly in rural areas. This paper discusses one approach to evaluating financial services and credit needs in rural communities.

THE COMMUNITY REINVESTMENT ACT

Responding to charges of discrimination and redlining within credit markets, the Community Reinvestment Act (CRA) of 1977 was passed into law. In its most basic form, CRA's provisions require financial institutions covered by the act to meet the credit needs of their entire communities, including low- and moderate-income neighborhoods.

Regulators ask that financial institutions maintain financial solvency, while avoiding discrimination against individuals or properties based on racial characteristics or income level in the communities which the bank serves. One of the CRA's primary goals is to prevent banks from channeling deposits away from one community to more profitable areas, thus draining communities of necessary capital for economic development.

The legislation requires examination by four federal agencies: the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and the Office of Thrift Supervision (Office of Thrift Supervision, 1990). Under CRA, regulators rate each bank on how well requirements are met. Financial institutions covered by CRA are narrowly defined as banks—institutions that take deposits *and* make loans. If an institution performs only one of these services, it is not legally considered a bank. Other types of institutions, such as mortgage companies and insurance companies, which often function in quasi-bank roles, are exempt from CRA.

CRA Evaluations

Currently, a bank's evaluation is based on twelve factors: 1) efforts to identify community credit needs; (2) the extent to which the bank markets its credit services; (3) participation by the board of directors in developing credit policy; (4) practices intended to discourage applications; (5) geographic distribution of the institution's credit extensions, applications, and denials; (6) evidence of discriminatory or other illegal credit practices; (7) the bank's record of opening and closing offices; (8) participation in local community development programs; (9) origination of residential mortgage loans, home improvement loans, and small business or small farm loans; (10) participation in governmental insured, guaranteed, or subsidized loan programs; (11) ability to meet community credit needs; and (12) other factors bearing on the ability of the institution to meet the community's credit needs (see Hogwood & Shabecoff, 1992, for a fuller discussion of these criteria). Although the most recent explanations of the CRA evaluation criteria are more explicit than previous statements, some ambiguity remains. One criticism of these criteria is that they give more weight to bureaucratic evidence than to the actual performance.

A key element of the evaluation is a bank's demonstrated effort to evaluate the local credit market. The bank must attempt to determine the credit and financial needs of the communities it serves by collecting and analyzing widespread information on needs and perceived need in order to develop strategies to meet local credit needs. The information also can be collected by community groups in reaching reinvestment goals.

Another important factor is the bank's success at raising community awareness of the services and financial products that it is prepared to offer. It is not sufficient to make available a wide variety of types of credit while only marketing them to a small group of customers. The bank also should target low- and moderate-income areas in its marketing strategies. A CRA rating also is directly tied to the range of credit and services it offers. Particularly important is whether a bank offers governmental-backed or subsidized loans. The examiner also considers the extent to which the bank makes non-local loans by considering its loan-to-deposit ratio.

Regulators are instructed to consider the appropriateness of the banks' self-determined market, and to assess the bank's history in opening and closing branches. In order for the bank to justify closing a branch while maintaining a favorable CRA rating, it must demonstrate that it has evaluated the effect on the neighborhood or community the branch serves, showing an effort to minimize the negative effects of the branch closing within its service neighborhood(s).

A bank's rating depends on community development commitments and follow through. Appropriate activities might include serving on a local development board, earmarking funds for community development projects, or establishing a Bank Community Development Corporation (CDC). Banks must demonstrate that they are taking an active role in supporting the local community.

Examiners also have been concerned with discriminatory practices in credit markets. Regulators look for discrimination against potential borrowers as defined under the Equal Credit Opportunity Act, the Fair Housing Act, and the Home Mortgage Disclosure Act.

CRA in a Rural Context

Evaluating a bank's community reinvestment activities in rural areas is more difficult than in urban areas. An original CRA goal was to eliminate the practice of redlining, a more prominent problem issue in urban areas. Financial institutions in rural areas probably reject applicants less frequently on the basis on property location than do banks in urban areas. Thus, it is more difficult in rural than in urban areas to detect redlining by examining lending patterns across neighborhoods (see Shlay, 1989, for an excellent review of how to conduct these analyses). Analyses of urban areas are usually conducted at the census-tract level, and bank lending patterns by census block are available under the Home Mortgage and Disclosure Act (HMDA). However, these data are not required of financial institutions in nonmetropolitan areas.

This data problem raises the question of what regulators, lending institutions, community organizations and practitioners can use to evaluate community reinvestment practices in rural areas. There are several options. First, banks could analyze and make available their own information on loan applicants and resulting acceptance/rejection rates. Banks maintain records on loan applications and lending activities, such as the applicant's borrowing history and acceptance rates by gender, race and income by loan type (e.g., commercial, home mortgages, and farm loans). Few banks are willing to make these data available and they are not required to provide these data in a format usable to community development practitioners and community organizations. Even if such data were available, it is difficult to control for the borrower's default risk when examining rejection rates. Analyzing loan rejection rates also ignores the fact that many borrowers are informally discouraged from filing a loan application. Thus, the formal rejection rate does not truly reflect biases in accessing credit sources. However, access to this type of information from all lending institutions in a particular community would provide comparative information on lending patterns.

An alternative to analyzing bank records is to use secondary data sources. One excellent data source is the Uniform Bank Performance Reports. It provides information for individual banks, a state average report and a peer group report. These data are provided for all commercial banks, and include information on loans, deposits, and bank profitability. The Sheshufnoff reports also are useful for loan-to-deposit ratio and commercial loan documents. There are several limitations with using secondary data sources for evaluating community reinvestment issues, however. These data are not available for all local lending institutions (e.g., credit unions). Secondary data sources also do not provide information on the performance of individual branches within a bank. Thus, for many rural communities it is difficult to assess reinvestment because data only exist for independent banks in those localities. These data are most useful for evaluating the general performance of lending institutions and comparing lending institutions in one community with those in similar markets.

A third strategy for evaluating rural community reinvestment issues is to conduct a survey of financial needs and services in the local credit market. A survey can be used to evaluate awareness and use of financial products and services and to analyze whether any groups are more likely than others to be rejected for various types of loans. The chief advantage of this strategy is that it provides information on how well institutions are making residents aware of their services and provides a potentially important comparative basis for evaluating lending institutions in a credit market, thereby directly addressing CRA requirements. In many cases a local survey of credit needs may be the best way to obtain relevant information on lending institutions in rural areas. In the following we describe how the third strategy of analyzing a local credit market can be conducted and how this information can be used by lenders and community organizations.

METHODOLOGY

In response to a request by a locally owned bank in southwest Georgia, we surveyed area residents to evaluate how familiar they are with available products and services and to determine rejection rates for loans by age, race, and income level. Residents were asked to identify the bank they most use so the comparison could be made across institutions. Data for this study were drawn from a mail survey of 1,000 residents in a two-county area in southwest Georgia.

Although there is some debate over how to define a local capital market (see Rogers, Shaffer & Pulver, 1988), lenders in the two areas were in agreement that the two counties represent the vast majority of their market. Counties are relatively small in Georgia (there are 159 of them) and they are the basic social and political unit in most instances. Community researchers need to identify the appropriate market areas for the lending institutions being investigated. The market area defined in the CRA notice frequently provides a good beginning point.

Respondents were randomly selected from voter registration lists. Although voter registration lists underrepresent younger and lower income residents, they were the best available source for sampling the population. In other areas it may be possible to obtain lists of residents through power companies, telephone books or commercial marketing companies, although each of these sources also has limitations. Face-to-face or telephone interviews would be preferable to mailed questionnaires, but the cost will be prohibitive in most cases. Cost is a consideration in these surveys because a sufficiently large sample size is required to make any comparisons across lending institutions in a credit market area. The more lending institutions in an area, the more likely it is that a researcher will need a large sample to ensure enough responses for each bank. We settled on a sample size of 1,000, assuming a response rate of approximately 50–60 percent. This decision was partially influenced by the available funding for the project. A larger sample would have been preferable to conduct a more rigorous analysis of lending decisions. For most communities the sample size will not be influenced by issues of sampling error, but by the number of cases needed for the analysis.

Respondents were mailed a survey requesting information on their experience with various financial services and products within the last five years. Respondents also were queried as to customer satisfaction level and changes they desired in the primary bank.

Households were initially mailed a copy of the questionnaire, with a reminder postcard following in one week. Two weeks after the postcards were mailed, households that had not responded then received another copy of the questionnaire. A final mailing of the questionnaire then followed two weeks later, for a total of four mailings including the postcard. In addition, an article in the local weekly newspapers prior to the initial mailing gave some local visibility and credibility to the study. The final response rate was 45 percent, quite good for a mailed questionnaire with relatively sensitive questions. As is often the case, white households responded to the survey at a higher rate than did minority households. According to the 1990 Census, just over 60 percent of the residents in these two counties are white; in our sample approximately 76 percent of the respondents were white. Survey respondents were more affluent overall than the general population of the two counties. Just over 38 percent of the sample had an annual household income below $20,000; the 1990 Census found more than 55 percent in the two counties have household income below $20,000. If at all possible, it is useful to stratify the sample by relevant borrower characteristics, such as income or race.

Because we modeled the factors influencing the likelihood of obtaining credit, we used logistic regression analyses. Our dependent variables were dichotomous: whether the respondent successfully secured a loan for the amount requested for the following types of credit: credit cards, home mortgages, home equity, automobile loans, and consumer loans. Respondents were asked if someone in their household had ever applied and either been accepted or denied for various types of loans within the last five years. They were given four possible responses: (1) accepted for the amount requested; (2) accepted for less than the amount requested; (3) denied for the loan/credit; and (4) have not applied for this type of loan/credit. Only respondents who had applied for a particular type of loan were included in this analysis. It should be pointed out that many individuals may have been discouraged from formally applying for loans or may have believed they had no chance of obtaining a loan. We collapsed responses from those who had a loan accepted for less than the amount requested and those denied for a loan or credit. Due to an insufficient number of responses for other types of credit, such as business and student loans, we did not estimate these models.

The independent variables included several factors that may be considered to influence the decision to make a loan: income, race and age. Discrimination by income and by race are the two primary targets of CRA. Income is measured in 14 categories: (1) <$5,000, (2) $5,000–$9,999, (3) $10,000–$19,999, (4) $20,000–$29,999, (5) $30,000–$34,999, (6) $35,000–$39,999, (7) $40,000–$44,999, (8) $45,000–$49,999, (9) $50,000–$54,999, (10) $55,000–$55,999, (11) $60,000–$64,999, (12) $65,000–$69,999, (13) $70,000–$74,999, (14) >75,000. Race was coded as a dichotomous variable: white = 0; nonwhite = 1. Respondent age was included. In addition, because this study was designed to determine the community reinvestment performance of a particular bank, the respondent's primary bank was included as independent variable in the model. This coding allowed us to examine whether there were differences between the bank in question and others in the two counties in terms of acceptance rates for various types of loans, and in how important race, income and age were in influencing loan rejection by banks.

It would have been preferable to include items on the questionnaire that would measure the creditworthiness of the applicant and the loan requested. Data on the loans would have required separate information on every loan application that the respondent had made, which may have been an extensive amount of information. Due to the sensitivity of many questions regarding credit history, we decided against adding these measures. Obviously banks make decisions regarding these issues, but these data would be difficult to obtain from a survey such as this one. It would be possible, however, to obtain these data from bank records.

We worked very closely with the bank in developing the questionnaire. If practitioners are working with community groups interested in lending patterns in their area, it is important to get them involved in identifying the specific issues to be addressed in the survey. Similarly, this input may be essential to assessing whether the bank is identifying the local credit market in a reasonable manner.

RESULTS

The average respondent was 52.9 years old. Three-quarters of the respondents were white, and one-quarter were nonwhite. Over 38 percent of the households had gross annual incomes of less than $20,000, and about 22 percent had incomes greater than $50,000. Eighteen percent of the respondents indicated their primary bank was the bank which requested the study.

Looking at the interrelationships among the dependent variables, there was a strong relationship between approval for credit cards and approval for first mortgages (Table 1). Also, strong relationships existed between approval for automobile loans and first mortgage loans, and between approval for consumer loans and automobile loans. In fact, relationships were strong among all variables measuring acceptances for credit. This finding simply suggested that a good credit history did influence the probability of obtaining credit in this community. There are not particularly strong relationships among the independent variables; however, the strongest was between income and race.

In terms of the bivariate relationships between the independent and dependent variables, there were several statistically significant relationships. Income, age and race were correlated with acceptance of credit card applications. High income, older and white respondents were more likely to have credit card applications accepted than were low income, younger and nonwhites. The only variable statistically related to acceptance of home equity or mortgage loan applications was race—nonwhites were less likely to be accepted than whites. Race also was strongly correlated with acceptance of automobile and consumer loan applications. There were few differences between the bank in question and the other banks in the area with respect to acceptance rates for various types of loans. Overall, it appeared that race was consistently important in relation to loan application acceptance.

Logistical Regression Analysis

We conducted logistic regression to consider the independent effects of several factors (e.g., age, race, and income) at once on the likelihood of being accepted for various types of loans. In our first model, we examined the independent variables' effects on the likelihood of a respondent being approved for a credit card (Table 2). Two variables achieved statistical significance. Age and income were positively related to the likelihood of being accepted for a credit card. As one might expect, older and higher income respondents were more likely than younger and lower income residents to have credit card applications approved. None of the other variables were statistically related to credit card approval.

Our second model estimated the likelihood of receiving a first mortgage. Race and bank were significantly related to the likelihood of acceptance. The sign on race was negative and significant, indicating

Table 1. Descriptive Analysis of Dependent and Independent Variables: Credit Experience in Two Georgia Counties

	Credit Card	*Mortgage Loan*	*Home Equity Loan*	*Farm Loan*	*Auto Loan*	*Consumer Loan*	*Income*	*Age*	*Race*	*Bank*
Credit card	1.000									
Mortgage	.693*	1.000								
Home equity loan	.214	.479*	1.000							
Farm loan	.388	.000	.000	1.000						
Automobile loan	.428*	.811*	.231	.000	1.000					
Consumer loan	.395*	.354	.685*	.000*	.695*	1.000				
Income	.195*	.111	.205	.172	.082	.091	1.000			
Age	.149*	.005	.097	.255	.059	.219	−.182	1.000		
Race	−.241*	−.237*	−.280*	−.217	−.284*	−.438*	−.280*	−.114*	1.000	
Bank	.055	.120	−.126	−.064	.048	.119	−.003	−.067*	.024*	1.000
Mean	.893	.949	.855	.868	.943	.893	5.709	52.923	.240	.823
Standard deviation	.310	.222	.355	.343	.232	.311	3.822	17.154	.428	.376

* $p < .05$.

Source of data: *Study of Financial Services and Credit Needs in Early and Seminole Counties, Georgia [1992]*. Data available from Small Business Development Center, University of Georgia; Athens, Georgia.

Table 2. Logistic Regression Analysis of Age, Income, Race and Bank on Loan Acceptances in Two Georgia Counties

	Credit Cards	*Mortgages*	*Home Equity*	*Farm*	*Auto*	*Consumer*
Intercept	−1.370[1]	2.615	1.659	8.389	3.459	−1.819
	(1.965)[2]	(5.261)	(3.321)	(66.759)	(2.702)	(3.579)
Age	.358*	.008	.056*	.081	.021	.098*
	(.018)	(.060)	(.033)	(.050)	(.026)	(.050)
Income	.198*	−.004	.213	.132	−.030	.023
	(.103)	(.273)	(.165)	(.189)	(.120)	(.149)
Race	−.749	−2.616*	−.933	−3.460	−2.865***	−3.098**
	(.591)	(1.553)	(.944)	(2.196)	(.872)	(1.092)
Bank	.950	2.570*	−1.428	−3.645	1.421	2.292*
	(.659)	(1.382)	(1.172)	(33.358)	(.963)	(1.275)
Chi square	14.81	9.13	7.43	8.71	21.33***	18.23***
N	176	89	59	34	168	72

* $p < .05$.
** $p < .01$.
*** $p < .001$.
[1] Parameter estimate.
[2] Standard error.
Source of data: *Study of Financial Services and Credit Needs in Early and Seminole Counties, Georgia [1992]*. Data available from Small Business Development Center, University of Georgia; Athens, Georgia.

that holding other factors constant, whites were more likely than non-whites to be approved for a mortgage. Bank had a positive sign, meaning that customers of banks other than the one requesting the study were more likely to receive a mortgage loan.

Model three was an analysis of the likelihood of being approved for a home equity loan. Race and bank had the largest effects. Again, the sign on race was negative, but in this case, bank was also negative, meaning that customers of the bank which requested the study were more likely to receive a home equity loan. Only age was statistically significant at the levels indicated.

Our fourth model examined the likelihood of acceptance for a farm loan. None of the independent variables were statistically significant. The magnitude of the effects of race and bank were relatively large, and both had negative signs. The positive signs on income and age were as expected.

Model five showed the effects of the independent variables on the likelihood of being approved for an automobile loan. In this case, race is statistically significant, negative, and has the greatest effect of all the variables examined. Bank also has a large effect, although not significant.

The final model examined the effects on acceptance for a consumer loan. Both race and age were statistically significant. Race and bank had the greatest influence on acceptances rates, holding the other factors constant. The sign on race was negative.

The evidence suggested that acceptance rates for various types of loans were often related to age and income. Race was strongly related to acceptance of automobile and consumer loans. There was evidence that acceptance rates varied by bank for mortgages and consumer loans. The bank requesting the survey had a higher rate of denial for mortgages and consumer loans. One important implication of these findings was that it is important to consider specific types of loans in any evaluation of capital flows in rural communities; some types of credit may be more of a problem than others.

Awareness of Financial Products

In addition to experiences with applying for loans, information was collected regarding awareness, use, and rating of various financial products from the respondent's primary bank. Under CRA requirements, banks must demonstrate that they make an effort to increase community awareness of the services they offer. Respondents showed a great deal of variation in their awareness and use of different types of financial products (Table 3). Almost 90 percent knew that their bank

Table 3. Awareness, Use and Evaluation of Financial Services in Two Georgia Counties

Financial Service	*Aware*[1]	*Use*[2]	*Rating*[3]
Checking account	89.8	74.2	4.65
Savings account	85.9	52.7	4.61
Cashiers' checks	70.8	31.3	4.66
Direct deposit	69.5	25.1	4.64
Safety deposit box	67.4	28.7	4.69
Night deposit box	63.7	18.8	3.32
Travelers' checks	61.6	19.3	4.51
Credit cards	51.4	17.0	4.43
Notary service	45.2	8.9	4.41
Automatic teller machine	42.6	13.3	4.37
Bank-by-mail	40.7	8.9	3.64
Automated loan payments	36.8	8.9	4.34
Electronic fund transfers	30.0	8.1	4.14
Financial and estate planning	26.4	5.2	3.83
Student loans	25.1	3.1	3.88
Fax service	24.8	3.9	3.64
Other	2.1	1.3	4.83

[1] Respondents were asked to indicate whether or not they were aware of their primary bank offering the following list of services.
[2] Respondents were asked to indicate whether or not they used the service at their primary bank.
[3] Respondents were asked to rate the quality of those services that they used at their primary bank on a 1–5 scale, where 5 is the highest rating and 1 is the lowest rating.
Source: *Study of Financial Services and Credit Needs in Early and Seminole Counties, Georgia [1992].* Data available from Small Business Development Center, University of Georgia; Athens, Georgia.

offered a checking account, and almost 86 percent were aware of their bank's savings accounts products. Only 30 percent knew whether their bank offered electronic funds transfers, just as only 26 percent knew if their primary bank provided financial and estate counseling.

The most often used product was checking accounts (74 percent), followed by almost 53 percent having a savings account. The least used product was student loans, cited by 3 percent of the respondents. Finally, respondents were asked to rate the financial services and products. Most services received a high average mark. Safety deposit box services received the highest rating and night deposit box services received the lowest ratings. Financial and estate planning, with nearly the least recognition and use, got relatively low marks.

SUMMARY AND CONCLUSIONS

The Community Reinvestment Act offers a unique opportunity for community development practitioners to encourage lending institutions to become more aware of the credit needs and problems in their locality. The information needed to assess these issues, however, is more readily available in urban than in rural areas. For example, the HMDA data that are frequently used to analyze redlining in urban areas are not available for rural communities. This evaluation process is complicated by the fact that many banks in rural areas are branch banks and there is very little available information on their performance. Collecting primary data in rural communities on the performance of lending institutions will improve the awareness of residents of their banks' practices, products and services and provide these institutions with an evaluation by clients on these products and services.

Although we have focused on how a survey of a local credit market can be used to evaluate community reinvestment issues, it may be possible to combine other data sources, particularly secondary data sources, to triangulate information on lenders. This strategy would work best when practitioners were evaluating several banks in different credit markets. As in most instances it is usually better to collect data on several financial institutions for evaluating their performance. Surveys of financial services and needs can be a valuable tool for practitioners in evaluating local capital markets. This information can be used to identify credit gaps and to encourage lenders to become more involved in local economic development activities.

The Clinton Administration has responded to the recent criticism of CRA evaluation criteria and has proposed instead three tests for banks (see Center for Community Change, 1993). The first test is the lending test, which looks at market share of housing, small business, small farm and some consumer loans in low/moderate income areas as opposed to lending in other areas. Ratings will be based on the disparity in the lending performance in these two areas. The second test is an investment test, which evaluates banks on the basis of investments that benefit low and moderate income people and communities. Examples of these investments might be CDCs, community development banks, or other community-oriented economic development projects. Finally, the service test focuses on the accessibility of a bank's branches. One indicator would be the percentage of branches in low and moderate income areas. This measure would also consider the bank's record on opening and closing branches and the quality and quantity of services provided to low and moderate income areas. To assess market share for lending, regulators will obtain information on the bank's housing, small business, small farm, and consumer lending by census tract in metropolitan areas and by block numbering areas in nonmetropolitan areas.

Although these data would improve our understanding of capital flows in rural areas, a major loophole still exists in the proposed CRA revisions. The regulations would establish a different evaluation system for small banks (assets less than $250 million) than for large banks, which would comprise the majority of banks in nonmetropolitan areas. Small banks would be exempt from the three tests discussed above and would not be required to release information on its housing, small business, small farm, and consumer lending. Small banks would be rated satisfactory if they met the following conditions: (1) have a loan-to-deposit ratio exceeding 60 percent; (2) make the majority of their loans in their market area; (3) make a variety of loans across income groups; (4) have few complaints from the community; (5) there exists no evidence of discrimination; and (6) the bank has a reasonable geographic spread of mortgage loans (for those banks reporting in a metropolitan area).

Overall, the new proposal generally is less bureaucratic and requires more reliable sources of data than the existing system. However, the exemptions made for small banks still make it difficult to evaluate lending patterns in rural areas. Given the exemption made to small banks it will be difficult, if not impossible, to study the market share of institutions when most of the banks in small towns will still not be required to report their lending activities.

This study also indicates the need for modification of the CRA, to open their files or provide systematic documentation on loan patterns based on geography, race, age and income. This provision is especially true since many rural banks have a high percentage of loans that are actually "purchased" from more urban markets.

The emphasis on data, however, should not overshadow the importance of community organization and action in the reinvestment process. It is clear that regulators will be looking more closely at the performance indicators on lending institutions in the future. However, the real success of the CRA movement has been, and will be, in a particular type of community mobilization:

> The organizing that emerged from the reinvestment movement was unique in many ways. It was unique in that the organizing did not take the typical role of opposing an institution and trying to block its activities in the community. Rather the organization was aimed at insuring that the institution would carry out its activities in the local communities organized around the issue (Bradford & Cincotta, 1992, p. 236).

The history of the reinvestment movement suggests that community organizations cannot count on the good will of regulators or governmental officials to insure that lending institutions meet the capital needs of their locality. Community developers can play an important role in helping organizations evaluate the performance of their lending institutions and in encouraging bankers to address community needs. Practitioners may find that they are pulled in two different directions when working on community reinvestment issues. On the one hand, they may take a technical assistance approach to working with organizations and provide them with the necessary data and methods to evaluate their local lending institutions. On the other hand, community organizations may adopt more of a conflict approach in challenging the lending practices of banks, and practitioners may be helping to organize and educate local citizens about the need to pressure these institutions. In the case of our study in southwest Georgia, the project was initiated by a local lender concerned with providing evidence to satisfy community reinvestment concerns. Banks in other areas can be encouraged to consider the approach that was adopted here. In most cases, however, the assessment will be initiated by local groups interested in assessing community lenders, changing the role of the community development practitioner.

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THE ORGANIZATIONAL POTENTIAL OF WOMEN IN AGRICULTURE TO SUSTAIN RURAL COMMUNITIES

By Betty L. Wells and Bonnie O. Tanner

ABSTRACT

To turn America's rural communities from decades of decline to a condition of maintenance in the 1990's and to growth and development in the new century requires local knowledgeable leadership. This leadership must include agricultural and rural women, not only because of their appreciation of the interdependence of farm family, family farm, and rural community, but also because of their unique ability to work together within and between organizations. Yet their talents are under-employed. The authors draw upon a number of sources, including their experience facilitating the Agricultural Women's Leadership Network (AWLN), to explain the steps it will likely take to fully engage agricultural women on behalf of rural communities. The activities of the AWLN and other rural women's organizations may hasten the coming together of the diverse agricultural, rural, and nonrural interests needed to bring new vigor to the nation's rural communities.

INTRODUCTION

Women have been the heart of family farming in the United States, vital links between production and consumption, past and future, family and community. In addition to the labor they have contributed to agricultural production, both for market and home consumption, farm women have generally been responsible for domestic work in the farm household and have ensured intergenerational continuity by bearing and rearing children. They have generally been most vocal and visible in times of crisis, when their organizational skills and resources for community and agriculture are welcomed at the local level, where they exercise leverage privately and behind-the-scenes. Through their formal and informal work in gender, family, and neighborhood networks, they have spun and woven the social fabric of community (Haney & Knowles, 1988, p. 5)

Betty L. Wells is Associate Professor, Sociology/Extension, Iowa State University. Bonnie O. Tanner is Special Assistant to the Assistant Secretary for Food and Consumer Services, U.S. Department of Agriculture.

Their contributions to agricultural organizations notwithstanding, few American farm women serve on state or national boards of mainstream agricultural organizations (Miller & Neth, 1988, p. 357). Despite their contributions to community, few are recognized as leaders. If women are so valuable, why do they continue to be undervalued and underrepresented? We answer this question, and address the changing role of agricultural women in sustaining rural communities, by drawing from our practice with women's agricultural organizations and from theory and research.

As the number of farms has decreased, so has the number of farm women. Their role has also changed. Although farm women have always contributed to the informal economy and to the community, the dollar income of increasing numbers employed in the nonfarm formal economy is now essential to the well-being of their family and farm. The number of women represented in the nonfarm sectors of the agricultural economy has also increased. The propensity of women for alliance building and cooperation, as articulated in this paper, may portend a new public community building role for agricultural women.

Our insights have grown primarily from our experience facilitating the Agricultural Women's Leadership Network (AWLN), a council of the women leaders of 12 national agricultural and rural organizations. We employ an action learning/action-research approach which takes as the center of the investigation the perspectives of women leaders, and our role as change agents. We describe the need for leadership, and the resource represented by women's leadership. We then discuss the evolution of agricultural women's leadership, culminating in the structure and work of the AWLN. We relate insights from our practice to theory, and theory to practice, in a search for the patterns required to advance praxis (defined as combination of practice and theory) in the nexus of gender and rural community. We conclude by suggesting some implications for community developers.

RURAL COMMUNITY LEADERSHIP: A NEED BEING MET BY WOMEN

The increasingly interconnected parts of the world need new integrative structures and leaders who are able to manage this new interconnectedness (Gray, 1989; Drucker, 1989; Senge, 1990; Boswell, 1990). Gardner (1990, p. 118–119) suggests that the very survival of our pluralistic system is at stake. To survive, leaders from all segments and levels of society must join in "networks of responsibility" to seek to resolve pressing problems. Interdependent sets of organizations (which Trist, 1985, terms organizational ecologies) must devise ways of sharing the limited resources of a common environment.

Rural communities urgently need to develop new leaders and new conceptions of leadership. Potential leaders must be nurtured and the obstacles that prevent people from realizing their leadership potential must be eliminated. In the case of women, progress as been inadequate. As John Gardner (1990) forcefully notes in his recent treatise *On Leadership,* we cannot be satisfied with incremental changes. We need the leadership resource of women and we cannot afford to wait until the next century to realize their leadership potential.

We are convinced not only of the need of rural America for leaders who can manage interconnectedness, but also of the potential of women to contribute significantly to the health of rural communities. Women possess the leadership qualities that are in short supply, including human relation skills and the ability to synthesize information and to fashion integrated solutions to systemic problems. While these qualities are not exclusive to women, growing evidence suggests that they are found in greater proportions among women than in men (Rosener, 1990; Lunneborg, 1990). Leaders who can manage interconnectedness, who have a vision of what collaboration can accomplish, and the ability to create the linkages needed to get things done, are critically important (Gardner, 1990, p. 118–119; Gray, 1989, p. 279). Collaborative skills are an essential component of transformational leadership, a new leadership paradigm for our complex, relational world (Burns, 1978; Rogers, 1988; Sergiovanni, 1984).

The qualities that women bring to leadership are mirrored in their organizations. In a national study, Knoke (1990) found women's associations to be unique among American associations for the cultural values that members bring to the group, and for the effective utilization of these member resources for mutual benefit. A study of women's organizations in Washington conducted by Schlozman (1990, p. 354–360) identified both the problems faced by women's organizations and their corresponding coping strategies. Problems include inadequate financial resources, a hostile environment, discrimination, and exclusion from significant networks. Coping strategies include working harder, being more sensitive, having facts in order, playing by the rules, and forming alliances with other organizations, especially women's organizations. Schlozman indicated that women's organizations are more likely than other organizations to employ alliance building as a strategy, and to name it one of their most important strategies.

Collaboration is logical and necessary, but by no means an easy response to growing interdependence. Collaborations will take various forms. We are concerned primarily with collaborations between agriculture and nonagricultural interests in the rural domain. Once, rural and agriculture were nearly synonymous. Today, a healthy rural economy still depends in large part of a healthy agriculture. Agriculture continues to be critical to the survival of many small communities, and a vital farm family and family farm still depend on a healthy rural community. Success in the current struggle by rural communities to maintain community schools, hospitals and municipal services is essential to farm as well as nonfarm families. Such community effort is especially important to rural women, farm and nonfarm alike, and requires their leadership as they work together in new collaborations.

As local governments and local economics become more dependent upon forces beyond their direct control, leadership becomes more important. Leadership may influence which rural communities will succeed in their efforts to maintain or improve their quality of life. Wall (1989) found that the more viable communities contain more women in leadership positions, and that overcoming the traditional male dominance of leadership indicates a more open climate for issue resolution. O'Brien (1991) also found evidence of greater viability (defined as continuing to function as trade and service centers rather than merely surviving) among communities that involve women in leadership roles. Women clearly represent a resource needed by rural communities, organizations and institutions.

In this paper, we limit our observations to the largely unexplored sphere of women in agricultural organizations. Making sense of gender divisions among (or within) agricultural organizations is not easy. Things have changed little since Hill (1981, p. 378–379) noted the dearth of knowledge about the internal operations of farm women's organizations, the meaning of membership, or the characteristics of members. Today, even within one national organization, there may be variations not only between states but also between counties within states. However, we believe the effort worthwhile, for our immediate objective of improving the functioning of the AWLN and also for elucidating the characteristics of change common to other gendered groups, as well as possible parallels to other categorical constituents of community.

SOCIAL CHANGE IN GENDERED AGRICULTURAL ORGANIZATIONS

Gender, which forms the social categories and identities of women and men, unfolds in specific ways, times and places. The concept of gender belongs at the heart of any model of rural/agrarian social change. Traditional stereotyping of gender roles is part of the rural/

agrarian social structure (Hoggart & Buller, 1987; Chafetz, 1990), perhaps a residue of the division of labor inherent in an agrarian economy. Gender inequality and male domination of formal agricultural institutions and organizations has been documented in many different countries (Whatmore, 1990; Martin, 1984).

Our theoretical goal in this section is twofold: first, to move beyond describing gender divisions at the *farm* level of analysis to describing gender divisions at the *institutional and organizational* level, and, second, and more importantly, to move in the direction recommended by Whatmore (1990, p. 255) from *describing* such divisions to *explaining* how such patterns are legitimized and maintained, or contested and changed. Our specific focus is on how the identity construction of gendered organizations (or communities or other collectivities and categories) contributes to social change.

Before articulating the process of change, we will briefly address how rural gender stereotypes have been maintained. In the United States, rural women have been stereotyped as isolated farm wives or small-town homemakers, despite evidence that women are active organizationally, economically, and politically (Stoneall, 1983; Moen, 1986). Farm women are stereotyped as helpers, although most are partners. Stereotypical roles are enforced through a variety of institutions (family and religious, economic, educational, regulatory) and facilitated by the relative isolation, strong tie networks, and powerful sanctions ranging from isolation to harassment. In our research, we've heard women talk about how alone they feel when challenging the status quo, to the point of questioning their sanity. Policies created without the input of women reinforce these stereotypes and perpetuate discrimination against rural women.

A male bias in research, and practice, has affected this process of exclusion. Scholarship by women and about women is often considered trivial compared with the work of men as defined by men. Much male-only research is implicitly or explicitly generalized to persons of both sexes. The exclusion of women is part of a larger problem of male gender bias in which both men and women tend to accept male categorizations of social phenomena. Traditionally, men have constructed reality and have defined knowledge (Bernard, 1973; Smith, 1974). Men have been seen as the theorists and have had their theories accepted as legitimate (Spender, 1983). These biases cross-cut many avenues of empirical inquiry and practical application.

Sternweis and Wells (1992) articulate the way this bias is reflected in leadership practice. A bias favoring male leadership is a manifestation of a nonconscious sex role ideology. A set of beliefs and attitudes is accepted implicitly but remains outside one's awareness because alternate conceptions of the world remain unimagined (Bem & Bem, 1970). Because this sex role ideology is nonconscious, people who outwardly consciously reject sex role stereotypes may nevertheless practice the accompanying prejudices (Hofstadter, 1982). Social influences that produce nonconscious ideologies are powerful and pervasive; beliefs and attitudes that many people hold about women and their "natural" role do not include that of leader (Bem & Bem, 1970). Our difficulty in seeing women as leaders is rooted in our conceptions both of leadership and of women's roles, reflecting a basic tendency to divide human affairs into a public realm and a private realm (Crosby, 1988).

The more blatant aspects of this nonconscious ideology may have been rejected, but more subtle aspects endure. Women have little chance to be seen and acknowledged as leaders even if they are acting in a way that would be perceived as leadership in men. For practical purposes, these women are invisible as leaders. To redefine leadership requires a shift from a male-oriented conception of leadership that devalues women, to a standard that integrates values of the female ethos and credits women's experience (Rogers, 1988).

An Example: Agricultural Women's Leadership Network

We illustrate processes of social change in gendered organizations culminating with the emergence of the Agricultural Women's Leadership Network (AWLN). We begin with historical accounts; as our analysis progresses, we return to our contemporary knowledge and practice as facilitators of the AWLN and draw upon the relatively small body of theory and research.

We will suggest that (1) change begins as social networks expand to issue-focused organizations, (2) women and their organizations gain a foothold during times of economic crisis, (3) recognition of new interdependencies brings new alliances, (4) change continues as identity needs begin to compete with material needs, and (5) gains are consolidated as the numbers of women in decision making positions reach a critical proportion. We challenge the reader to consider parallels with processes of change in gendered collectivities or other categorical constituents of community with which they are familiar.

An action-learning/action-research approach, which takes the perspective of women in agricultural organizations as the center of investigation, is prescribed by our practice. Our primary focus is the Agricultural Women's Leadership Network (AWLN),formally chartered in October 1988 in Arkansas at Winrock International Institute of Agricultural Development when representatives of 10 national organizations convened to explore common interests. The outcome of this meeting was a mission "to link women leaders of agriculture-related organizations for a positive impact on our communities, nation, and world." Such cooperative strategies among women and their organizations are not new. However, the AWLN is significant because of the potential it represents for a united voice emanating from agricultural organizations. While the members may hold shared positions on specific agricultural issues, the network is bound by the unique concerns of women for farm family and community.

1. **Change begins as social networks expand to issue-focused organizations.** The expansion of social networks is driven by technology. Technological advances, from the telephone to the automobile, reduced the isolation which perpetuated gender rigidities. As Frysinger notes

> . . . mechanical and scientific developments have revolutionized the entire world, the farm no less than the factory . . . . The farm woman of to-day lives in an age of factory production, and many of the productive activities have been removed from the home. . . . Good roads, telephone, automobiles, and radios have dispelled the specter of loneliness and isolation (1926, p. 86–87).

Technological advances, such as rural electrification, by reducing the sheer physical drudgery that characterized the lives of many farm women, profoundly affected women's lives.

Early farm women's organizations fulfilled an essential social function. By 1926 issue-focused organizations had already emerged. By joining organizations, women could not only support each other, but also address substantive issues:

> . . . farm women are recognizing that their organizations form avenues of expression for an important sector of public opinion, and they are earnestly endeavoring to help put public institutions on a plane of statesmanship and efficiency. They are utilizing their organizations to demand public expenditures for public well being. They are asking of public officials statements as to their policies and platforms, and are demanding that pledges to the public be fulfilled (Frysinger, 1926, p. 91).

2. **Women and their organizations gain a foothold during times of economic crisis.** The increased visibility of women during times of economic crisis is a pattern not limited to rural areas, nor to the U.S. Frysinger noted in 1926 that "great world movements, together with the stimulus of the war, have changed public opinion as to the place of women." We are perhaps more aware of the impact of women entering the formal U.S. economy during World War II.

Most voluntary farm women's organizations were formed during periods of agricultural recession, often outside traditional institutions

(Miller & Neth, 1988). During difficult times, farm women's organizations have revived or expanded their community-building networks to reach state and national levels and have cooperated with male-member mainstream institutions in efforts to influence the farm policy agenda. In the 1970s and 80s, rural communities confronted another wave of economic structuring and its ancillary economic, political, and demographic consequences. Women not only entered the formal off-the-farm economy in large numbers, but they created a series of "new wave" farm organizations and alliances (Cebotarev & Beattie, 1985).

3. **Recognition of new interdependencies brings new organizational alliances.** Cooperative strategies among farm women and their organizations are not unusual. Frysinger noted in 1926 that:

> Farm women are recognizing the value of increased contacts . . . expressed in the formation of clubs of rural women . . . , affiliation with urban groups of women, and in many instances federation with the county, state, and national federations of women's clubs. Farm women are joining many national organizations of varying interests. They are attending national and international meetings. They are becoming more broad gauged in thought and action (p. 90).

Then, as now, women's organizations coped with problems by forming alliances with other organizations, especially other women's organizations (Schlozman, 1990, p. 354–360). The ground for the Agricultural Women's Leadership Network (AWLN) was prepared by these earlier organizational efforts.

The emergence of the AWLN is related in part to recognition of new interdependencies. When the AWLN emerged, the global restructuring of the 1980s was profoundly impacting agriculture. In addition to the increased competitive pressures of a global economy, the changing domestic balance of power was reflected in the growing public concern for safe food, the impact of agricultural technologies and practices on the environment, and the cost of farm programs to taxpayers. Rural community economies were weakening. Fiscal and functional responsibilities were devolving to local governments at the same time that resources were dwindling, and many communities were struggling to maintain community services and facilities. Women and their organizations began filling the leadership void.

4. **Change continues as identity needs begin to compete with material needs.** Rural women's demands for equal status and their challenges to the existing gender order are struggles about identity as well as material status (Whatmore, 1990, p. 255–256). Identity construction becomes a crucial dimension of change when identity needs of members of gendered groups begin to compete with material needs.

Women's voices in agriculture were first heard in traditionally female spheres (family welfare) and subsumed under the material demands of agriculture (farm economics). In the 1970s, farm women's demands began to be cast increasingly in terms of identity. General farm women's organizations were formed such as Women Involved in Farm Economics and American Agri-Women. Such organizations began giving U.S. agricultural women a voice *as women* on substantive farm issues, both economic and social. The formation of an internal identity, which reflects how the members see themselves, also clarifies how others see them. The development of an external identity to complement the new internal identity may indicate a new stage of maturity.

In 1992, the mission of the AWLN was modified: "To link women leaders of organizations supporting rural or agricultural related interests to make a positive impact on our communities, nation and world." Substituting "*organizations supporting* rural or agricultural related interests" for "*agriculture-related* organizations" has allowed nonagricultural rural organizations to continue their membership. It signaled recognition of the steady erosion of rural power and the need to work together. Survival of this fragile alliance has been insured by the leadership of women who see commonalities more than differences, and are pragmatic about the changes shaping our society. The AWLN's new recognition of the importance of speaking with one voice, rather than multiple, confusing voices, represents a new stage of political realism.

5. **Gains are consolidated as the numbers of women in decision making positions reach a critical proportion.** Multiple level and sector strategies are needed to continue and to sustain progress. Although we believe that all effective change must be local, substantial lasting progress must combine grassroots "bottom-up" with "top-down" initiatives. Strategies at the top are needed to complement local strategies because women as a social category are unique both in quantity and in dispersion through society (Verba, 1990, p. 560), and because women are so under-represented in positions of power. "Downward" flow helps to preserve and sustain program gains by offering more points of intervention, and creating a greater multiplier effect (Chafetz, 1990, p. 108).

To maintain improvements in women's relative status requires increased access to top leadership roles in central social institutions (Chafetz, 1990, p. 221; Gardner, 1990). Significant change requires increasing the numbers of women in positions of power (Gardner, 1990, p. 181), their absolute numbers and their proportion relative to men (Kanter, 1977). In organizations where women are a small minority, their effectiveness is limited by their different or unequal social positions (Kanter, 1977).

The so-called traditional auxiliaries were quite functional in their day and even now provide women an arena in which their leadership skills can grow. Some have evolved into independent women's organizations, e.g., Cowbells into American National CattleWomen. The former Porkettes, now the Pork Council Women, has gone through two evolutions. They first evolved into an independent organization and then more recently merged with the National Pork Council with a guarantee of representation of the council. Such experiments in mainstreaming may or may not succeed, and may strengthen or weaken, the positions of general farm women's organizations such as Women Involved in Farm Economics (WIFE) and American Agri-Women (AAW).

CONCLUSIONS: SUGGESTIONS AND STRATEGIES

In organizations long dominated by men, a practical strategy that women have used to diversify power bases and consolidate gains is to follow rules constructed by men, while supporting other women on behalf of issues affecting women. The evolution of the AWLN follows this pattern. We observe both the strengthening of horizontal ties among organizations and an interesting individual variant of this pattern of practicality among *individual* women who maintain dual memberships in mainstream organizations and gender affiliates and women's general organizations.

We have suggested that (1) change begins as social networks expand to issue-focused organizations, (2) women and their organizations gain a foothold during times of economic crisis, (3) recognition of new interdependencies bring new alliances, (4) change continues as identity needs begin to compete with material needs, and (5) gains are consolidated as the numbers of women in decision making positions reach a critical proportion. The latter has not yet been achieved.

A recent United Nations report, while recognizing that women's organizations enable women to defend and further their progress, strongly advocates integrating women in mainstream development policies, programs and projects (McNaughton, 1991). Women's organizations will remain essential until women are represented in sufficient numbers in mainstream organizations because women's organizations provide women a place from which to address the special concerns of women and the opportunity to develop and exercise leadership. That the AWLN is bound by concerns for community is perhaps of primary significance. If and when step five is achieved, will the community focus be maintained, or is community simply the least common denominator?

We challenge the reader to consider parallels between processes of change with (1) community focused gendered organizations in other spheres (such as in urban areas of the United States and in other western and nonwestern cultures); and (2) other categorical constituents of community (such as visible racial-ethnic minorities). If, for example, the process of identity formation is found to be central in varying situations, this is significant for community developers because identity formation is a process which can be shaped or guided by deliberate interventions.

Our observations of the AWLN as a gendered organization have many implications, small and large, for community developers and change agents. In our other community work, we can, for example, encourage the sponsors of new community development programs to turn to local women's as well as men's groups for needed leadership. We can ourselves seek out leaders of women's groups and/or women leaders in mainstream groups— or women not in groups. We can role model our expectations in the early stages of development, making clear that *all* members are welcome to participate in planning and implementation and striving whenever possible to specifically invite all—"women, men, young, and old;" everyone's participation is needed and welcome. Van Nostrand (1993) offers many specific intervention techniques for use in group settings.

In the largest sense, we agree with Gardner that pressure on all institutions is needed to accelerate progress, to bring to our consciousness the limiting power of nonconscious sex role ideologies, and to open our society to the resources offered by women. Rural women need more opportunity to develop and exercise leadership at all levels and a public arena or forum for developing their collaborative potential. Although this paper has focused on organizations, rural development efforts must also promote off-farm employment for women by providing credit and technical assistance to micro-businesses, accompanying this with training, and enacting laws in favor of small entrepreneurs, often women (McNaughton, 1991).

Van Nostrand (1993) argues that we are all obligated to practice gender-responsible leadership, perhaps especially men, who benefit most from gender-privilege, and people in leadership positions in institutions who marshal considerable resources for change. Leaders from all segments (rural and urban, agricultural and nonagricultural) and levels (from local to global community) of society must join in "networks of responsibility" to resolve pressing problems inherent in our complex, pluralistic society. Successful domain building means representing the interests of women and men and allowing greater access by women to decision making structures and processes. To the extent that rural and agricultural institutions exclude women, they are disadvantaged because this coming together is necessary and will be aided by women's abilities to work together in and across organizations. Organizations and institutions that restrict the participation of women lose a vital membership resource at a time when the unique leadership abilities of women are needed as never before. Responsible action is essential because women's unique leadership abilities may help bring about the eventual integration needed for our pluralistic society to survive.

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ESTIMATES OF RETIREE SPENDING IN THE RETAIL AND SERVICE SECTORS OF A COMMUNITY

By David Henderson

ABSTRACT

This paper presents estimates of retirement spending which provide new information about the strategy of using a retirement population to expand a local economic base. Estimates of retirement spending for 42 different retail and service business types by size of community and type of retirement household are provided. Hypotheses tested include differences in the average propensity to consume locally by business type and tests for differences in retirement household mobility. The results of the study have implications for community development practitioners who chose to use a retiree population to help diversify and strengthen the retail and service part of community. These implications include: most retiree expenditures can be expected to be spent locally, the impact of developing a retirement base will spill over to regional shopping centers, and the increased viability of the retail and service district in a community will vary significantly by type of business and retirement household.

INTRODUCTION

The number of persons 65 years of age or older has increased from 3.1 million in 1900 to 31.1 million in 1990. The Census Bureau estimates about 1 out of 8 Americans were elderly in 1990 and that when the post war baby boomers become elderly the ratio will increase to 1 out of 5 (Taeuber, 1992). The increase in the retirement aged population is the impetus for a strategy community development practitioners can employ to diversify the retail and service businesses in a community by developing the retirement base of a local economy.

Attracting a retirement population to help diversity a local economic base is limited to the 5 percent of noninstitutionalized elderly which change household residency annually. Less than 2 percent of all elderly move out of the county of residence and less than 1 percent move out of the state of residence (Taeuber, 1992). In general, the primary mi-

David Henderson is Research Associate, Piketon Research and Extension Center, The Ohio State University, Piketon, Ohio.

gration pattern of the retirement population can be characterized as moving from the urban northeastern areas to areas in the south (Fuguitt & Tordella, 1980; Serow, 1987). While the migration flows are relatively small, the income flows which accompany the relocation of retirement homes is significant, estimated at 2.5 billion dollars per year between 1975 and 1980 (Crown, 1988). In fact, the non-metropolitan counties designated as retirement destination counties had the highest rate of growth in personal income and employment during the decade of the 1980's (Glasgow & Reeder, 1990).

A strategy of retaining a retirement population to help diversify a local economic base encompasses the remaining 95 percent of non-institutionalized elderly which do not change household residency annually. Real personal income grew 16 percent for people over the age of 65 between 1979 and 1987 as compared to a 10 percent decline in real income for people younger than 50 years of age (Minkler, 1989). The older market is responsible for 50 percent of total discretionary income in the country and are a major part of the final demand sector of the economy (Fagan, 1988). Whether a community actively follows a retention strategy or not, most of the elderly are expected to age in place and contribute significantly to the final demand for the retail and service businesses in most local economies (Longino & Crown, 1990).

The potential economic benefits to a local economy of a retirement base include increases in private retail and service business development as well as enhancement of the local tax base. The potential benefits to the private sector include increased income and employment in the trade sectors which supply goods and services to the retirement population (Henderson, 1990). The fiscal impact of retirees include a stimulus to property and sales taxes as well as a possible burden on local public service expenditures (Glasgow & Reeder, 1990: Hoppe, 1991).

Local spending in the private sector by retirees in Arkansas (Miller, 1993), North Carolina (Hass et al., 1990), Arizona (Happel et al., 1988), and New Jersey (Heinte, 1976) indicates the expenditures of retirees contribute significantly to private businesses in the local economy. This paper presents estimates of retirement spending for 42 retail and service business types by size of community and type of retirement household. Three sets of hypotheses are tested. The first set tests for factors which influence the level of retirement spending in a local economy. The second set of hypotheses tests for differences in the average propensity to consume locally (APCL) and non-locally

(APCNL) by type of business and size of community.[1] The third set of hypotheses tests for differences in mobility between two categories of retirement households.

SPENDING PATTERNS OF RETIREES

Economic theory postulates that expenditure patterns of a retirement household reflect how the household allocates income among all the goods included in the household consumption bundle. Each household allocates a proportion of total household income among the goods and services the household members consume so as to maximize the interdependent utility function of the household members. The higher the level of retirement income the greater the quantity of goods and services consumed by retirees.

Geographic theory postulates that expenditure patterns of retirement households will be affected by the spatial configuration of rural businesses. Within a central place framework, households located in or around a small community will purchase goods in both the lower ordered community and adjacent higher ordered communities (Henderson et al., 1992). The household budget allocation between different ordered goods offered by businesses in the various sized communities that comprise the local hierarchy results in a dissimilar APCL by order of community.

The relationship between personal income and local retail sales varies by source of income in rural hierarchies (Henderson, 1990). The APCL from income associated with retirement households was found to vary by type of business and order of community (Henderson & Hines, 1990). The varying APCL by type of business and order of community results from both the unequal allocation of the household budget among goods and the unequal spatial distribution of businesses throughout the hierarchy (Henderson et al., 1992).

Two important factors affecting retirement spending within a rural hierarchy are the composition of the retirement consumption bundle and the mobility of the population. With respect to the consumption bundle, if retirement households tend to consume only higher ordered goods, then no matter where the household is located in a rural area

[1] In general, the average propensity to consume locally (APCL) is the amount of expenditures spent in the local economy divided by the amount of expenditures in the local plus the non-local economy. The average propensity to consume non-locally (APCNL) is defined as (1 − APCL). The APCL can be estimated for each type of business by dividing the amount spent at a particular type of business in the local community by the total amount spent in the local plus the non-local economy at that particular type of business.

the positive effect of retirement spending will accrue only to higher ordered communities. On the other hand, if retirement households tend to consume more lower ordered goods and the household is located in a smaller community, then the positive effect of retirement spending could accrue primarily to the businesses in the lower ordered community (Henderson et al., 1988).

With respect to mobility, a more mobile retirement population is expected to travel more outside a local community and spend more outside the local community. Differences in mobility between retirement households affect the shopping patterns of retirement households at businesses in an area by affecting the level of local and non-local spending. Variations in local and non-local spending between retirement households will affect the strength of local impacts from retirement spending by affecting which size of community retirement spending occurs in.

Study Area and Data

The study area is located in a rural county in south central Ohio. The area is a hilly wooded transition zone between the corn-soybean belt region of the midwest and the Appalachian mountain region. The county has a planned retirement development and recorded the highest rate of net retiree aged immigration in Ohio between 1980 and 1985.

The sample consisted of 125 retirement homes located in a housing subdivision within a community of 5,000. The area has a larger community with a population of 20,000 located 22 miles away in an adjacent county and a major metropolitan area 60 miles away. The sample retirement population has migrated to the smaller community from over 30 states and are from a variety of professional careers and lay vocations.

A household survey was used to collect data from the retirement residents. A liaison group of eight retirement residents was organized to pretest the survey instruments and secure wider participation within the retirement subdivision. Surveys were hand delivered and mailed back with prepaid postage. The survey design did not employ repeat sampling to insure the confidentiality of the participants and resulted in a response rate of 47 percent.

The survey was divided into three main sections. The first section was designed to collect socioeconomic information, the second section collected data on shopping patterns for different business types by community size, and the third section was a daily household expenditure log by business type and location. The households kept the expenditure log for one typical week in the third quarter of 1992. The expenditure log data were not biased by holiday shopping and should be representative of a characteristic week of spending by the residents.

The sample consisted of two types of retirement homes. One part consisted of 98 *independent living* households which resided in single unit detached homes performing all personal care and home management functions. The remaining 27 *assisted living* households resided in a multi-unit apartment complex where a variety of personal care and home management functions were provided.[2]

The household classification into independent and assisted living groups is based on functional limitations (Wiener et al., 1990). The two groups within the classification correspond to a scale used to measure the ability to perform physical chores related to a set of complex tasks including shopping and traveling (Taeuber, 1992). Nationally the number of elderly within each group varies substantially from study to study, although census data estimate the number of elderly needing assistance with one or more activities to be 4.4 million of the total 31 million elderly (Harpine et al., 1990).

Methodology and Results

The results reported in this paper employ the expenditure log data to calculate means for per person spending by type of retirement household, type of business, and order of community. The standard errors of the average per person expenditures were used in hypothesis tests for difference of means by type of household, type of business and order of community. The data from the shopping patterns portion of the survey are employed to illustrate reasons for differences in local and non-local shopping patterns.

The expenditures at businesses reported in this paper were divided into two categories. The first group encompassed 30 retail business types from Standard Industrial Classification Code (SIC) Division G: Retail Trade. The second category encompassed 10 service business types from SIC Division I: Services and 2 business types from Division E: Transportation.[3]

[2] The planned retirement development is structured with homes for independent living retirees, apartments for retirees needing assistance with one or more daily living activities, and a convalescence center for those requiring a higher level of caregiving.

[3] The types of businesses included in the expenditure log coincide with four digit SIC codes within the Department of Commerce Standard Industrial Classification Code Manual and are consistent with most secondary income and employment data sources. Data were also collected on less frequently purchased items (monthly and annual) as well as public sector purchases. Expenditures not included in the current analysis include: utilities, real estate, financial instruments, medical expenses, insurance, and large infrequent purchases such as cars and boats.

Purchases made by order of community were divided into two groups. The community where the residents of the sample resided was designated as a lower ordered community representing the local economy. Expenditures at the larger regional community and the metropolitan area were employed to estimate the non–local retirement spending.

Table 1 shows retirees' estimated average weekly per person expenditure by type of business and retirement home. The whole sample of 125 retirement households (200 persons) spent an estimated average of $121.64 per person per week. The 98 *independent living* homes (167 persons) spent an average of $121.67 per person per week and the 27 *assisted living* households (33 persons) spent an average of $121.28 per person per week.

The independent living group spent an estimated 71 percent of the household budget at the identified 30 retail business types, 15 percent at the identified 12 service sector business types and the remaining 14 percent of the budget at other unidentified retail and service businesses.[4] The assisted living group spent an estimated 83 percent of the household budget at the 30 retail business types, 7 percent at the identified 12 services business types, and 10 percent of the budget at other unidentified retail and service businesses. In general, both groups tended to expend more in the retail sector than the service sector.

The largest total expenditures for both groups were at grocery stores and for prescription drugs. The typical independent living person reported spending 62 percent more for auto related products than did a typical assisted living person in the retail sector. Similarly, a representative independent living person spent 500 percent more for auto related services than did a typical assisted living person. The higher level of auto related expenditures implies a relatively higher degree of local mobility for an independent living person as compared to an assisted living person.[5]

Figures 1 and 2 illustrate the frequency of shopping trips for the two groups. The independent living group indicated 77 percent of their

[4] "All Other" is a residual category which includes expenditures in the private goods and service sectors not reported by the individually identified business types. The most frequently reported categories included in the "All Other" residual were: Religious Organizations (8661) and Accounting Services (8721). A complete study of the Health Services (80) sector (public and private) including types of physicians, frequency of visits, location of visits, method of payment, and public costs is forth-coming.

[5] The typical independent living person reported an average of $212 per week in travel expenditures for out of state travel, as compared to no reported expenditures for a typical assisted living person. The reported expenditures are not atypical as many of the retirees included in the study travel abroad annually.

Table 1. Average Weekly Per Person Retiree Expenditures by Selected Retail and Service Business Type[1]

Business Type[3]	*Independent Living* Average Expenditure ($)	*Independent Living* Total Expenditure ($)	*Assisted Living[2]* Average Expenditure ($)	*Assisted Living[2]* Total Expenditure ($)
Retail goods				
Lumber/building materials (521)	0.00	0.00	0.00	0.00
Hardware supplies (525)	9.02	180.37	.75	3.00
Nursery, garden supplies (526)	7.55	110.17	.75	2.00
General merchandise (53)	10.03	332.06	4.69	43.00
Groceries (541)	11.45	4,084.60	20.88	602.00
Fruit/vegetable markets (543)	6.12	152.17	7.10	73.00
Bakeries (546)	9.53	93.26	7.88	32.00
Auto/home supplies (553)	9.90	133.61	4.63	41.00
Gas stations (554)	9.12	832.80	13.95	247.00
Mens apparel (561)	36.02	504.33	1.25	10.50
Womens apparel (562)	18.48	400.68	32.83	300.50
Other apparel (569)	0.00	0.00	12.75	26.00
Furniture (57)	280.95	561.90	178.48	535.95
House goods (571)	97.56	1,365.97	37.16	223.00
Household appliances (572)	177.75	1,066.47	1.00	4.00
Electronics (573)	66.42	567.04	4.50	17.00
Fast food restaurants (581)	3.29	484.69	5.13	43.00
Other restaurants (5812)	6.43	1,282.11	9.85	106.50
Prescription drugs (591)	19.92	1,192.00	29.19	649.74
Over the counter drugs (5912)	6.13	349.75	7.56	113.50
Liquor (592)	8.91	71.29	2.00	2.00
Sporting goods (594)	27.78	111.11	0.00	0.00
Books/book supplies (5942)	9.18	136.41	5.09	28.95
Jewelry (5944)	7.86	47.85	10.00	10.00
Hobby supplies (5945)	6.25	74.35	12.50	25.00
Camera/camera supplies (5946)	3.87	23.19	8.00	24.00
Sewing goods (5949)	4.28	57.54	4.70	24.00
Mail order/catalog (5961)	22.60	135.65	7.63	34.00
Florists (5992)	9.50	76.00	6.64	48.00
Miscellaneous retail (5999)	5.12	66.86	5.63	48.00
Services				
Taxi (412)	3.28	25.60	5.75	13.00
Travel agency (4724)	212.41	1,274.50	0.00	0.00
Laundry service (721)	11.51	44.30	5.11	49.00
Beauty shops (723)	7.58	345.00	7.17	90.50
Barber shops (724)	3.89	128.50	2.75	16.50
House keeping (7349)	9.71	199.50	5.57	43.00
Auto repair (751)	30.45	780.36	6.60	42.00
Furniture/electrical repair (762 & 764)	11.00	22.00	10.00	10.00
Theaters (movies) (783)	3.20	28.00	10.00	10.00

Table 1. Continued

Business Type[3]	Independent Living: Average Expenditure ($)	Independent Living: Total Expenditure ($)	Assisted Living: Average Expenditure ($)	Assisted Living: Total Expenditure ($)
Services (continued)				
Video rental (784)	0.00	0.00	10.00	10.00
Theatrical/sports events (792 & 794)	3.50	31.00	5.00	5.00
Golf/other clubs (799)	8.79	52.75	0.00	0.00
All Other	10.96	2,899.50	16.26	395.60

[1] Not all individuals purchased goods from each business type. The frequency of reported purchases per week can be obtained by dividing the total expenditure by the average expenditure for each business type.
[2] For the Independent Living n = 98 households, 167 persons. For the Assisted Living n = 27 households, 33 persons.
[3] Standard Industrial Classification Code (SIC) is in parentheses. Two digit codes are aggregated to encompass all 3 and 4 digit SIC business types within the category. Three digit codes are aggregated to encompass all 4 digit SIC business types within the category.

total shopping trips were in the smaller community as compared to 86 percent for the *assisted living* group. Both groups shopped in the regional center about 12 percent of the time. A notable difference was the number of shopping trips to other places, to which the independent living group reported 11 percent of their total shopping trips as compared to less than 2 percent for the assisted living group. The higher frequency of purchases outside the local community implies a

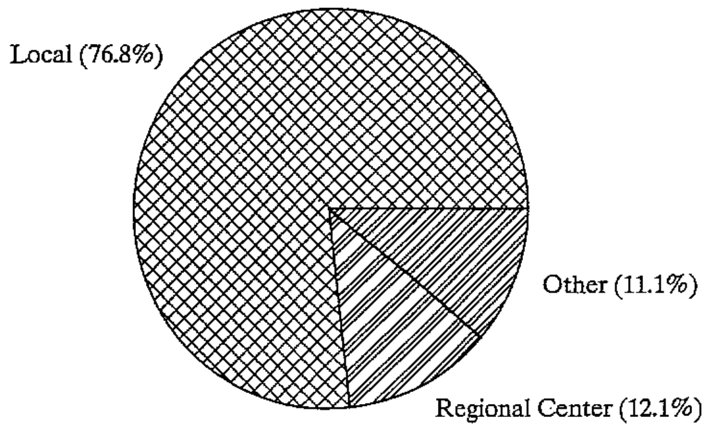

Figure 1. Frequency of shopping trips for the independent living group by community.

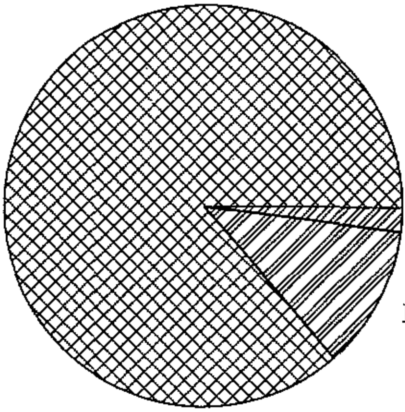

Figure 2. Frequency of shopping trips for the assisted living group by community.

relatively higher degree of mobility of the independent living group as compared to the assisted living group.

Table 2 shows the estimated average propensity to consume locally (APCL) by type of household and business. The mean APCL across the all retail and service business types for both groups of retirement households was .738, implying that about 74 cents of every dollar was spent locally. The mean APCL for the 98 independent living homes was 61 cents per dollar and the mean APCL for the 27 assisted living households was 86 cents per dollar.

The estimated APCL for the independent living households for the 30 retail business types identified in the study ranged from a low of .000 for Furniture and Sporting Goods to a high of 1.0 for Jewelry and Florists. The mean APCL for the independent living households for the 30 retail business types was .555. The APCL for the independent living households for the 12 service business types identified in the study ranged from a low of .039 for Laundry Service to a high of 1.0 for Furniture/Electrical repair, House keeping, and Travel agencies. The mean APCL for the independent living households for the 12 service businesses was .695. A typical independent living household spent an estimated 70 cents out of every service dollar locally and 56 cents of every retail dollar locally for the 42 business types identified in the study.

Figures 3 and 4 illustrate the reasons why the independent living group shops in the local community as compared to the non-local economy. Convenience (70%) was the most commonly cited reason for shopping locally, as compared to selection (68%) for shopping non-

Table 2. Retirees' Average Propensity to Consume Locally by Retail Business and Household Type

Business Type[1]	*Independent Living*	*Assisted Living*
Retail goods		
Lumber/building materials (521)	NA	NA
Hardware supplies (525)	.437	1.000
Nursery, garden supplies (526)	.937	1.000
General merchandise (53)	.241	.697
Groceries (541)	.965	1.000
Fruit/vegetable markets (543)	.699	1.000
Bakeries (546)	.140	1.000
Auto/home supplies (553)	.820	.878
Gas stations (554)	.831	.987
Mens apparel (561)	.075	.476
Womens apparel (562)	. 295	.908
Other apparel (569)	NA	1.000
Furniture (57)	0.000	.065
House goods (571)	.839	.995
Household appliances (572)	.003	.750
Electronics (573)	.549	.882
Fast food restaurants (581)	.857	.906
Other restaurants (5812)	.465	.953
Prescription drugs (591)	.992	1.000
Over the counter drugs (5912)	.991	1.000
Liquor (592)	.778	1.000
Sporting goods (594)	0.000	NA
Books/book supplies (5942)	.453	.552
Jewelry (5944)	1.000	1.000
Hobby supplies (5945)	.242	1.000
Camera/camera supplies (5946)	.396	1.000
Sewing goods (5949)	.506	.875
Mail order/catalog (5961)	.663	.735
Florists (5992)	1.000	.875
Miscellaneous retail (5999)	.376	1.000
Services		
Taxi (412)	.804	1.000
Travel agency (4724)	1.000	0.000
Laundry service (721)	.039	1.000
Beauty shops (723)	.888	1.000
Barber shops (724)	.953	1.000
House keeping (7349)	1.000	1.000
Auto repair (751)	.967	.976
Furniture/electrical repair (762)	1.000	1.000
Theaters (movies) (783)	0.000	1.000
Video rental (784)	NA	1.000
Theatrical/sports events (792)	.161	1.000
Golf/other clubs (799)	.242	NA
All Other	.459	1.000

[1] Standard Industrial Classification Code (SIC) is in parentheses. Two digit codes are aggregated to encompass all 3 and 4 digit SIC business types within the category. Three digit codes are aggregated to encompass all 4 digit SIC business types within the category.

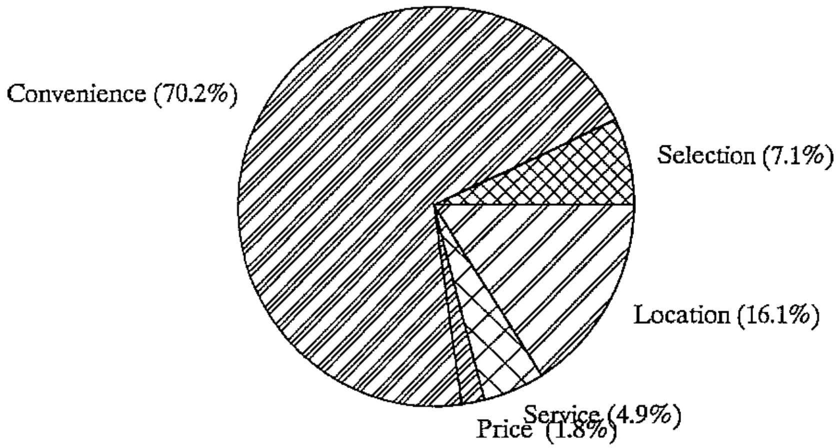

Figure 3. Reasons for shopping locally for the independent living group.

locally. Neither price or service were important factors in the decision of where to shop for the independent living group.

The estimated APCL for the assisted living households for the 30 retail businesses identified in the study ranged from a low of .065 for Furniture to a high of 1.0 for 12 other retail business types (Table 2). The mean APCL for the assisted living households for the 30 retail

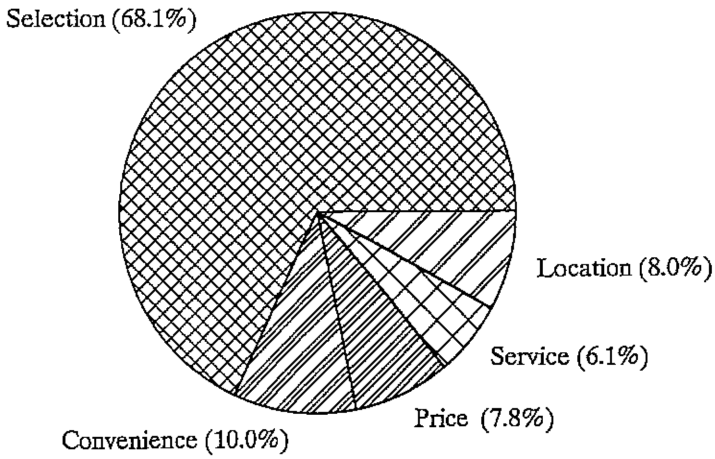

Figure 4. Reasons for shopping non-locally for the independent living group.

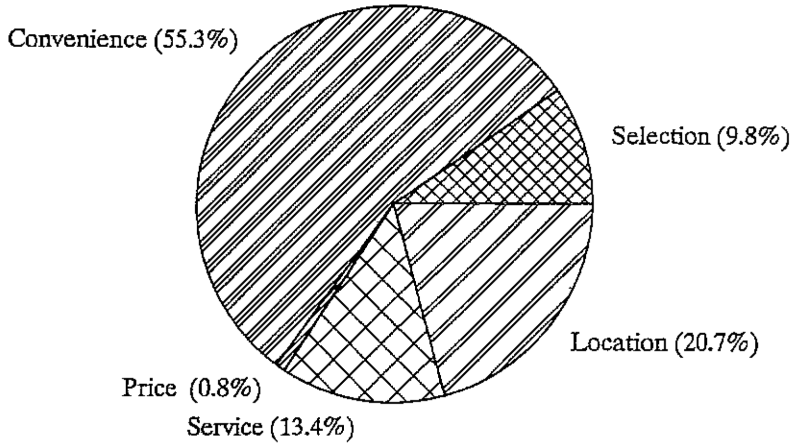

Figure 5. Reasons for shopping locally for the assisted living group.

business types was .874. The APCL for the assisted living households for the 12 service business types identified in the study ranged from a low of .000 for Travel agencies to a high of 1.0 for 9 service business types. The mean APCL for the assisted living households for the identified 12 service business types was .915. A typical assisted living household spent an estimated 92 cents out of every dollar locally and 87

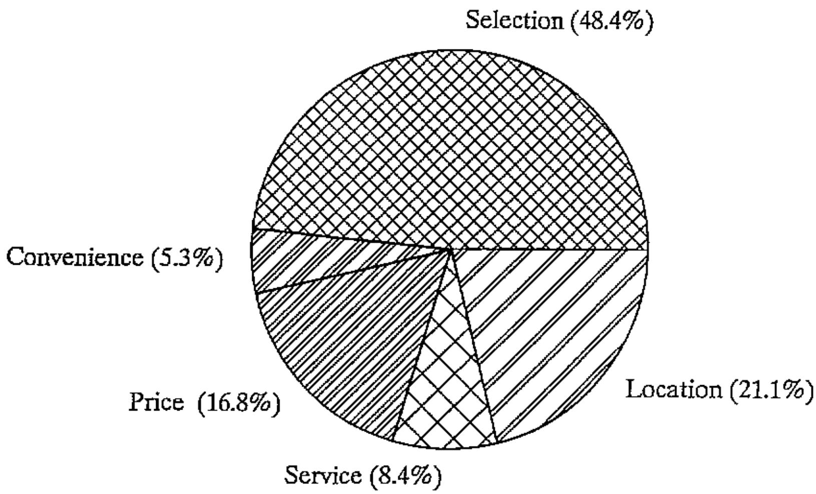

Figure 6. Reasons for shopping non-locally for the assisted living group.

Table 3. Hypothesis Tests of Differences Between Retirement Households

Hypothesis	*Result*
H_0: Per person expenditures by Independent Living persons ($121.67) equals per person expenditures by Assisted Living persons ($121.28)	Fail to reject
H_0: APCL of an Independent Living Household (.59127) equals APCL of an Assisted Living Household (.90666)	Reject
H_0: Per capita income of an Independent Living Household ($16,742.27) equals the per capita income of an Assisted Living Household ($13,042.90)	Fail to reject

cents of every retail dollar locally across the 42 service business types identified in the study.

Figures 5 and 6 illustrate the reasons why the assisted living group shops in the local community as compared to the non-local economy. Convenience (55%) was the most commonly cited reason for shopping locally, as compared to selection (48%) for shopping non-locally. Both price and service were generally more important factors in the decision of where to shop, particularly for non-local shopping, than for the independent living group.

Hypothesis Tests

The estimates indicate the level of per person expenditures are independent of type of retirement household. The estimates also indicate that the assisted living retirement person may expend a higher proportion of the household budget locally than an independent living person. Furthermore, the estimates suggest that an independent living retirement household is more mobile than an assisted living household. Nine hypotheses were formulated to test the implications of the retirement household expenditure estimates.

The first set of hypotheses relate to the level of retiree spending (Table 3). The first hypothesis tested for differences in the level of per person expenditures between the independent and assisted living groups. The second hypothesis tested for differences in the APCL between the two groups. The third hypothesis tested for differences in the level of per capita household income between the assisted and independent living groups.

Table 3 shows the average weekly per person expenditures of a typical independent living retiree is not statistically discernable from the average weekly per person expenditures of a representative assisted living person across the 42 business types. The mean propensity to

Table 4. Hypothesis Tests of Different Average Propensities to Consume Locally and Non-Locally

	Hypothesis	*Result*
Independent living		
H_0:	Retail APCL (.55535) = Retail APCNL (.44465)	Reject
H_0:	Service APCL (.69472) = Service APCNL (.30528)	Reject
Assisted living		
H_0:	Retail APCL (.87357) = Retail APCNL (.14643)	Reject
H_0:	Service APCL (.91466) = Service APCNL (.08533)	Reject

consume locally for an assisted living retiree was greater than the mean APCL for an independent living retiree. Per capita household income between the two groups was not statistically discernable at the 5 percent level.

The results of the hypotheses tests imply that the local impact from retirement homes varies by type of retirement household. The outcome of the hypotheses test indicate that differences in local spending between the two types of retirement households are not statistically attributable to either per capita retiree income or per person expenditures. The primary factor determining the level of local impact between the two categories of retirement households are the difference in the APCL between the household types.

A second set of hypotheses tested for differences in the average propensity to consume locally and non-locally for the 42 identified retail and service businesses. Table 4 shows the mean APCL for the 30 retail business types is statistically different from the mean average propensity to consume non-locally (APCNL) for the same 30 retail business types for both types of retirement home. The mean APCL for the 12 service business types was also statistically discernable from the mean APCNL for the same 12 service businesses for both the independent and assisted living households.

The results of the APCL and APCNL hypotheses test indicate retirement spending in the local community differs from retirement spending outside the local community. The APCL was statistically higher than the APCNL for both the retail and service business groups. The result holds for both the independent and assisted living retirement homes.

The third set of hypotheses are designed to test for differences in mobility between the two categories of retirement households. Table 5 shows the average weekly per person expenditures of a representative assisted living person on transportation was statistically less than the average weekly per person expenditures of a representative indepen-

Table 5. Hypothesis Tests of Differences in Mobility by Type of Retirement Household

Hypothesis	*Result*
H_0: Transportation expenditures by an Independent Living retiree (\$12.79) equals transportation expenditures by an Assisted Living retiree (\$9.11)[1]	Reject
H_0: Per week non-local purchases by an Independent Living retiree (2.26531) equals per week non-local purchases by an Assisted Living retiree (1.22222)[2]	Reject

[1] Transportation expenditures estimates include expenditures at auto stores (SIC 553), gas stations (SIC 554), and auto repair (SIC 751).
[2] Number of purchases per week outside the local community is based on the actual number of reported purchases during a typical week in the 3rd quarter of 1992.

dent living person on transportation. Results of the shopping frequency hypothesis indicate a typical independent living person shopped more frequently outside the local economy than did a representative assisted living person. The results indicate retirement spending in the local community is negatively related to mobility and that expenditures on transportation goods, as well as the frequency of non-local shopping trips, are factors which help explain the difference in the APCL between the two types of retirement households.

IMPLICATIONS FOR COMMUNITY DEVELOPMENT PRACTITIONERS

The expenditure estimates for the 42 different types of retail and service businesses provide information about which type of local business will be affected the most by retirement populations. Based on this sample, the business types which will be affected most include: grocery stores, drug stores, home furnishing stores, restaurants, and travel agencies. While some types of businesses will benefit more than others, the results indicate that retirement spending is across the board and can be used to diversify and strengthen the rural retail and service sectors of a community.

The APCL estimates for the 42 different types of retail and service businesses indicate the impact from a retirement population is not evenly distributed across the communities in an area. The estimates reveal the level of expenditures per retirement person in the local economy differs by 32 percent between independent and assisted living retirees. The difference in direct expenditures for goods and services at local establishments by type of retiree implies an assisted living retiree has a larger impact on the local economy than does an independent living retiree.

Table 6. Estimates of a Retirement Person's Direct Impact on a Local Economy[1]

	Per Week Expenditures	*Number of Weeks*	*Annual Expenditures*	*Estimated APCL*	*Direct Impact*
Independent living[2]	$121.67	52	$6,326.84	.59127	$3,740.87
Assisted living[3]	$121.28	52	$6,306.56	.90666	$5,717.91

[1] Estimates apply to the 42 retail and service business types identified in Table 1.
[2] Independent Living (n = 167).
[3] Assisted Living (n = 33).

Table 6 contains estimates of a retirement household's direct impact on the local economy by type of retiree. The estimates indicate the direct impact of an assisted living retiree is significantly greater than the direct impact of an independent living retiree for a local economy. The greater impact in the local economy occurs because of the differences in the APCL between the two groups.

The results indicate that the APCL is negatively related to mobility and that transportation expenditures and the frequency of non-local shopping trips are factors which affect the APCL. One implication for community developers is that businesses in the smaller communities which host a retirement population could experience an increase in sales if a retirement population were to become less mobile. On the other hand, regional centers which draw on a retirement population residing in surrounding smaller communities may experience a decline in retail and service activity if a retirement population becomes less mobile.

SUMMARY AND CONCLUSIONS

The average weekly per person expenditures of a typical independent living retiree is not statistically different from the average weekly per person expenditure of an assisted living person for the 42 business types identified in this study. The mean income of the independent living person was also not statistically discernable from the mean income of the assisted living person for this sample. Based on this sample, the mean propensity to consume locally of the assisted living person is statistically higher than the mean APCL for the independent living retiree. The results from this study indicate that retirement related expenditures are higher in the host community than in larger surrounding communities. Finally, the results indicate that independent living retirees are more mobile than are assisted living retirees.

The results of the study have several implications for community development practitioners who attempt to use a retiree population to diversify and strengthen the rural retail and service parts of community. First, most retiree expenditures can be expected to be spent within the host community and can be an important component of a viable retail and service district. Secondly, the impact of developing a retirement base also has a regional aspect in that the impact on retail and service businesses will spill over to regional shopping centers in the area. Finally, not all retirement households are the same, particularly with respect to mobility, which implies the contribution of retirement spending to the viability of the retail and service district in a community will vary significantly by type of retirement household.

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BOOK REVIEW

Clark, Cal. *101 Ideas on Economic Development.* (Omaha, NE: Peoples Natural Gas, 1994, 115 pp.), paper, $12.95.

Cal Clark's *101 Ideas on Economic Development* fills a gap in the community economic development literature. There are many academic writings targeted to professional economic developers. There is also a fair amount of uninformed opinion and advocacy writing. *101 Ideas* takes neither of these approaches. Cal's columns are aimed at educating a nontechnical, general audience about the practical aspects of economic development. His essays are short, focused, and well-written. They are grounded in economics and community development principles, but are tempered by real-world experiences and constraints.

The reader should be cautioned, however, that this book is a compilation of columns that have appeared in weekly newspapers in a part of the Upper Midwest. As such the parts sum to something less than a book written to educate lay audiences about economic development. First, the content is geographically biased. Minnesota's Star City program and Community Reinvestment Fund are prime examples of resources he touts in his essays, but these are local resources. On the other hand, he does suggest contacting Small Business Development Centers—a good idea—but neglects to mention that the nationwide Extension Service is a largely untapped resource for unbiased research and technical assistance to help communities.

Second, because the book is an accumulation of existing newspaper columns, it is not very comprehensive. That is, had Mr. Clark sat down to write a book to educate people about community economic development he probably would have added and deleted some of the essays contained in this volume. This shortcoming is mitigated by two things. First, he does an excellent job of organizing his 101 essays into topical chapters (e.g., labor force trends, leadership, retailing, target marketing, getting help). Second, he draws on a wide range of diverse resources in crafting these essays. People in isolated rural communities who are not likely to have heard about the national Corporation for Enterprise Development, for instance, can get a quick synopsis of CFED's latest research through Cal Clark's columns.

Overall this book will appeal to citizens interested in developing and preserving the quality of life in smaller, rural communities. One of the refreshing things about this book is that it is so balanced in its treatment of complex issues. This includes the supposed tradeoff between economic development and environmental protection, and viewing recruitment and retention strategies as complementary to development. Finally, readers will appreciate Mr. Clark's communication style. He demonstrates that general audiences can be taught complex subject matter in nontechnical language.

BETH WALTER HONADLE
University of Minnesota

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BOOK REVIEW

Wilkinson, Kenneth P. *The Community in Rural America.* (New York: Greenwood Press, 1991, 152 pp.), cloth, $42.95.

The Community in Rural America, published under the auspices of the Rural Sociological Society, is part of the series *Contributions to Sociology, Volume 95.* While this book has been available for less than three years, it has already generated interest in community development. Several researchers, for example, have cited Wilkinson's book in recent articles published in *The Journal of the Community Development Society.*

This book is in a rare class—it has value to both community development researchers and practitioners. *The Community in Rural America* is useful to researchers and teachers because it is based on a solid theoretical and scholastic foundation that adds to our knowledge of the community and community development. But it also is valuable to community developers in the field since it provides practical guidelines for working in communities. In addition, Wilkinson suggests a pragmatic policy agenda to improve rural communities.

The author successfully addresses two important and interrelated questions that are especially critical to the community development profession. First, he asks, how can the idea of community persist in a modern society? And second, how does the concept of ruralness affect community? These are valid questions. The increasing complexity and escalating urban nature of contemporary society has fueled the concern that ideas like community are becoming outmoded and irrelevant. Community has often been used in connection with more pastoral and simpler times. It is Wilkinson's contention that, even in today's more turbulent context, the concept of community continues to be important to individuals and their well-being. He does a good job proving his point.

In general, *The Community in Rural America* summarizes the relationship of individuals to community, particularly to the rural community. While not conducting any new empirical research, Wilkinson carefully synthesizes concepts and extends existing concepts on community and community development. The book has both academic and practical objectives. He states that his goal is to "understand the community and its contribution to rural well-being so that this contribution can be encouraged in practice" (p. 11). The book proceeds in a logical manner to meet this goal.

The concept of community is examined first in the book. Rather than take a fragmented institutional or systems approach to studying community, Wilkinson takes an interactional approach. An interactional approach occurs on the individual level, but it still is holistic in its analytical framework. He says that "the substance of community is social interaction" (p. 14), where actions are taken concerning the common interests of people living in a local area. Community is of course a place, but more importantly, according to Wilkinson, it is the interaction of people. Community developers have known for years that development takes place only when the people in the community are intimately involved in the development process. Wilkinson's book, then, should be required reading for all developers in the community, including the economic developers.

The remainder of the book is concerned with the connection of community to ruralness. Like many other scholars and policy researchers, Wilkinson discusses the difficulty in defining what is rural. He says that rural and urban is not a dichotomy of terms, but rather a continuum. In other words, rural is not simply non-urban. Rural has to do with the dispersion of the population, and this has an impact on the interactional approach to community. Rural communities have widely dispersed populations and there is thus less opportunity for social interaction, the foundation to community.

An important function of community development, especially in rural areas, then, is to help local residents develop the capacity to work together to purposively improve their common area. Wilkinson accurately characterizes the community developer as the catalyst who helps community residents improve their relationships with each other. That is not an easy task in most cases. While community development is always purposive and positive in its aims, it is not always successful, according to the author. *The Community in Rural America* describes the many obstacles that community developers need to overcome in rural areas. That is an important first step in successful community development.

This book is a valuable source of information on rural community development. *The Community in Rural America* should be read by everyone studying and practicing community development. Because of its scholarly approach, however, many practitioners may not be able to carefully digest the contents of this important work. A shortened version of this book, especially edited for practitioners, should be part of a compilation of community development sources and materials.

ROBERT BLAIR
University of Nebraska at Omaha

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