

# growing small and

## MEDIUM-SIZE ENTERPRISES THROUGH PARTNERSHIPS

By Patricia W. Pool, Tom Seth Smith, and Michael D. Woods

### ■ INTRODUCTION

Rural Enterprises Incorporated of Oklahoma (REI) is the place where government, public, and private partnerships come together to develop businesses across Oklahoma. Coming of age in its 21st year of incorporation, REI has developed programs that respond to the needs of small to medium-size enterprises (SMEs).

Increasing jobs and new business ventures in the southeastern quadrant of Oklahoma may have seemed like an idealistic challenge in the late 1970s coming from Wes Watkins, then U.S. Representative from the Third Congressional District. He believed a significant portion of his constituents were eager to find prosperity at home given the existence of more local job opportunities, a cause he had worked toward since he was elected. With his help, Rural Enterprises Incorporated of Oklahoma Inc. (REI) was established.

The original goal was to improve the economic welfare of local communities by helping entrepreneurs and small business owners locate funding, grow their businesses, and create and retain jobs. Success breeds success. REI now functions as a non-profit economic development organization impacting growth of SMEs in southeast Oklahoma and across the state.

This article provides a brief history of how REI was established, how it has changed over time, how it operates, and how it is staffed. Also discussed are examples of programs that have experienced rapid growth in the recent past, REI's entrepreneurial venture, and lessons learned from building partnerships for SME growth.

### REI OF OKLAHOMA

Rural Enterprises Incorporated of Oklahoma (REI) was incorporated as a private nonprofit industrial development corporation in 1984 headquartered in Durant, Oklahoma. This article describes the evolution of REI from a regional organization to a statewide economic development engine. Activities supported include business finance, incubator management, micro-enterprise loans, entrepreneurship assistance, housing, and partnerships for international trade. Cooperative efforts and initiatives combined with a strong Board of Directors and program flexibility have led to REI's substantial success.



*Trim Rite Moulding: This business graduated from REI's business incubator program and located into its own facility.*

### A LOOK BACK

REI was incorporated as a private nonprofit industrial development corporation in 1984, headquartered in Durant, Oklahoma. The original mission was to develop new private-sector jobs in its service area. While REI represented a new beginning, it was the result of the culmination of 20 years of economic development efforts in southeast Oklahoma to stem the out migration of jobs.

#### **Evolution of Economic Development Yields REI in Southeast Oklahoma**

Early 1960s economic development programs in southeast Oklahoma included the Technology

Patricia W. Pool, MBA, Ph.D. is executive director of the Center for Workplace Learning at Grayson County College, Denison, Texas. Formerly, she was a professor of marketing and leadership at the John Massey School of Business, Southeastern Oklahoma State University, Durant.

Tom Seth Smith, CERD, is president and CEO of Rural Enterprises Incorporated of Oklahoma, Durant, Oklahoma.

Mike D. Woods, Ph.D., teaches, conducts research, and provides community outreach programs through Oklahoma State University, and is a professor in the Department of Agricultural Economics, Oklahoma State University, Stillwater, Oklahoma.

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*Atoka business incubator tenant – C & C Services, a plastics products and design firm.*

Utilization and Study Center (TUSC) which was funded by the National Aeronautics and Space Administration (NASA) and the organization of the Kiamichi Economic Development District of Oklahoma (KEDDO), a sub-state 21-county (seven counties currently) planning and development district.

In 1977, Congressman Watkins initiated the partnering of TUSC and Southeastern Oklahoma State University located in Durant. This effort was to foster industrial and economic development in the economically depressed 24-county area of southeast Oklahoma. NASA again provided the original funding. The program was designed to provide the means for applying NASA technological innovations to private industry.

The Industrial Technological Research and Development Center (ITRAD) was formed as a private non-profit in 1980 to stimulate industrial and economic growth through the practical application of technological innovation. Inventors and entrepreneurs were sought to utilize funding from a combination of government, public corporation, and private grants. Staff was put in place to help evaluate new products and to encourage growth of new enterprises in the service area. Rural Enterprises Development Corporation (REDC) was established in 1982 as a Certified Development Company of the U.S. Small Business Administration. ITRAD and REDC merged to bring about commercialization and marketing aspects of product development. The merger resulted in the incorporation of Rural Enterprises, Inc. in 1984.

With this merger, REI moved from an academic setting on the Southeastern Oklahoma State University campus to a location near the Durant industrial park. It was then that Congressman Watkins established the first three of REI's business incubators in Oklahoma. These incubators were in partnership with the Kiamichi Area Vocational and Technical campuses. The incubator concept was patterned after a private venture by Control Data of St. Paul, Minnesota. Professional oversight was provided to promote the growth of fledgling companies. Today, REI business incubators experience an 80 percent success rate.

### ***Responsiveness to Market Needs Mandated Change***

Organization directives in the early years of REI addressed needs for technological innovations in manufacturing and new product development. In 1988, REI established the Central Industrial Applications Center (CIAC) at its headquarters. The Center was a contractor with the National Aeronautics and Space Administration to provide literature searches and corresponding document retrieval to assist entrepreneurs in obtaining the latest data for technical and business needs. Since space exploration had produced a vast storehouse of technology, the Center's mission was to make this information available to U.S. business and industry. A Technology Applications Team served as an intermediary between research scientists and private businesses. This assistance was essential to small businesses oriented toward production and marketing but lacking in research and development capabilities.

The mission of job creation and retention during REI's early years was carried out by applying a combination of five innovative industrial development tools: innovation evaluation, new products and processes evaluations, technology transfer to small businesses, incubation of small businesses, and financial services assistance.

The emphasis of organizational directives shifted in the late 1980s. The focus changed from economic development based upon technological transfers and research and development within manufacturing to a service orientation centered on the most critical need of SMEs and entrepreneurs: securing sources of funding. By the early 1990s, REI programming reflected the mission of an organization with clear vision and purpose.

### **STRUCTURE SUITED FOR STATE-WIDE SERVICE**

Today, Rural Enterprises Incorporated of Oklahoma is structured to function as an umbrella organization to cover the entire state with its line of

economic development services. REI's current staff of 34 economic development professionals and REI's statewide partnership base allow the organization to provide services in all four quadrants of the state. Recently, REI opened branch offices in Oklahoma City and Tulsa to allow for even better facilitation of its services and a branch office in western Oklahoma is forthcoming. Funding sources for the organization are divided into four categories: 73 percent are internally generated; 15 percent are federal funds; 11 percent are state funds and 1 percent are from other sources. Oversight of both nonprofit and for-profit operations is under the leadership of the president and CEO who serves at the pleasure of the 13-member Board of Directors. The leadership team consists of five executives who represent three distinct divisions: administrative services, business and community development, and financial services. The headquarters is located in Durant, OK. The facility has been expanded in the past six years to include additional incubators, international trade offices, and the Rural Women's Business Center which houses conference facilities complete with videoconferencing technology. A 320-acre International Business Park is adjacent to headquarters and includes a 30-acre foreign trade zone (FTZ #227) designation. Satellite offices are located in Oklahoma City, Tulsa and Stillwater.

The Administrative Services Division of REI provides internal support for the organization. The accounting and contract management division monitors nine internal loan programs and more than 12 federal and state contracts or grants. The marketing and communications division publishes bi-monthly newsletters with circulations in excess of 4,100. This division maintains media packets and develops all organizational collateral materials. It also maintains a schedule of internal and external marketing research projects that are utilized by the leadership team in strategic planning.

### PROGRAMS THAT IMPACT SMEs

Business incubators have long been an effective program at REI. The organization currently manages incubators in 11 Oklahoma communities across the southern half of the state. Some facilities accommodate light manufacturing businesses while others are designed for technology-related and service industries; others are targeted to warehouse and distribution. The current focus is to encourage

more technology-related and service start-ups or expanding industries. Facilities range from 3,000 to 42,000 square feet. They are designed to house technology, start-up, or expanding businesses. Most facilities allow entrepreneurs the advantage of high speed Internet services, computing equipment, video conferencing, loading docks, and storage spaces. REI's technology-based incubators include computing equipment, video conferencing and other technology needs. Below-market rent and tax incentives combined with consistent business assistance, financing, equipment programs, and training and technical assistance have kept the incubator program growing steadily.

Since 1982, REI has been a Certified Development Company of the U.S. Small Business Administration (SBA). It provides two types of SBA loan packages for qualifying small businesses statewide. The first is the SBA-504 loan. With a fixed rate for 10 or 20 years, loans are available for up to \$1 million plus bank participation for fixed assets. The SBA-7A loan is the



REI assisted Valero Energy Corporation with a sub-zone through Foreign Trade Zone #227.



Employer-Assisted Housing Incentive provides families with down payment assistance to achieve homeownership.

second type of loan package. Loans are available for up to \$1.5 million guaranteed with a maximum loan amount of \$2 million. Besides construction, real estate, and equipment, the SBA-7A loans can also be used for furniture or fixtures, working capital, and inventory. From 1981 to the present, total financing secured for Oklahoma businesses is \$289,827,951. In 2005, 63 businesses in 29 Oklahoma counties were assisted with business financing totaling \$23,871,961. This assistance created/retained 529 jobs in the state.

Experiences gained from managing SBA loans positioned REI to expand its product offerings to include: the Lease/Purchase Equipment Program, the Microloan Program, the Intermediary Relending Program (IRP), and the Business and Industry Program.

### ***Relending Programs for Capital Acquisitions***

The Lease/Purchase Equipment Program has been in place since 1993 to assist manufacturers with fewer than 25 employees. Customized payment plans are established for equipment amounts under \$30,000 that waive loan down payments. Borrowers receive below market interest rates on equipment under the maximum loan value of \$75,000. Between 1994 and 2004, REI assisted manufacturers in 16 counties with \$1,447,339 with various equipment leases or purchases. The Microloan Program was also developed to assist other SMEs with the purchase of machinery, equipment, inventory, furniture, fixtures, or with working capital. There is no stipulation on the number of persons employed. Loans of up to \$35,000 are available for a maximum of six years. REI's current portfolio of 20 microloans totals \$280,881,



*Direct mail business in Durant business incubator.*

including such businesses as day care centers, Internet-service based businesses, manufacturers, retailers, educational software providers and others. These microloans can make a real difference for low income families and individuals attempting to pull themselves out of poverty.

The Intermediary Relending Program is available to SMEs located in communities with populations under 25,000. Loan limits for machinery, equipment, inventory, furniture, fixtures, working capital, real estate, construction, or refinancing are set at a maximum of \$150,000. The program offers a sliding amortization schedule depending upon how the money will be used: real estate loans can be made for 20 years, equipment for 10 years, and working capital and inventory for five years.

The purpose of the Business and Industry Program is similar to that of the SBA-7A loans.

Borrowers may use financing for the purchase of machinery, equipment, furniture, fixtures, real estate, or for construction and working capital. However, the maximum loan value is up to \$20 million as compared to \$2 million with the SBA-7A. The amortization schedule allows for maximum loan terms and is available as follows: seven years for working capital, 15 years for machinery, and 30 years for real estate. From 1994 to 2004, REI secured over \$181 million in business financing through these programs. The loans assisted businesses in 57 Oklahoma counties.



*REI assisted Durant automotive shop through its lease/purchase equipment program.*

### ***Women Entrepreneurs***

The Rural Women's Business Center (WBC) began in 2001. This thriving program resulted from the partnership of REI and the Small Business Administration. Training programs and one-on-one counseling have seen women-owned business ventures flourish. One of the most popular activities is the Biz Connection. These quarterly meetings are held in different locations around the service area. The meetings feature a motivational speaker and provide networking opportunities for those attending. In 2003, a DHHS Office of Community Services grant was awarded to construct a 5,973-square-foot facility. Located at the REI headquarters in Durant, the facility has space for five incubators, the WBC administrative offices, and their Enterprise Center which consists of a conference room with teleconferencing capabilities and the reception area. Since the Center's inception in 2001, there have been nearly 3,000 entrepreneurs counseled or trained.

### ***Housing the Workforce***

REI has established two programs that have further utilized organizational economic development expertise. The first program met a desire to help



rural communities attract SME investment by making affordable housing available through REI's down payment and closing cost assistance program. This program serves 76 counties across the state. It targets families earning under \$71,000 annually. Assistance with down payments and closing costs is provided on 30-year fixed rate loans. The second program is the Employer Assisted Housing (EAH) Incentive. This program partners with employers to provide an employment benefit to their workforce. REI matches employer assistance of up to \$2,500 per employee to be used in purchasing a home. Research has shown that employers who demonstrate such a level of commitment to their employees have lower turnover. The employer investment is recaptured over time and a loyal employee has a home. Since the inception of the first bond issue to launch these programs in 1998, over 1,400 rural Oklahoma families have become homeowners.

REI has also issued approximately \$37.7 million in bond issues to assist with student housing at three Oklahoma universities.

#### **Partnerships for International Trade**

The industrial park, in which REI headquarters was built, is located on Highway 69/75 just 70 miles north of Dallas, Texas, an international port of entry and major cargo distribution center. Durant is 45 miles east of Interstate 35, known as the North American Free-Trade Agreement (NAFTA) Superhighway, which connects Mexico to the U.S. at Laredo, Texas. It continues through San Antonio, Dallas, Oklahoma City, Kansas City, and then northeast to Des Moines, and the Twin Cities area of Minneapolis/St. Paul. The 30-acre FTZ was in partnership with the city of Durant.

REI and the city of Durant received the Foreign Trade Zone designation in 1998, just four years after NAFTA was signed. REI located to its new headquarters within the zone in the same year. In 2000, construction was completed on REI's Rural Service International Trade & Incubation Center with 3,300 square feet of space available for new or existing technology-related businesses. In 2002, the 30,000-square-foot Wes Watkins Global Distribution Complex warehouse facility was completed. The warehouse is targeted to companies involved with international trade and is currently occupied by a marble and granite company.

Through the leadership of the president and CEO, the REI Board of Directors made a strategic decision to seize an entrepreneurial opportunity in 2003 with the establishment of New Markets Tax Credit, LLC. The mission is to bring needed capital into eligible, low-income Oklahoma communities. This venture represented the first for-profit endeavor by REI.



*REI and Oklahoma State University applications engineer program partnership assists rural manufacturers.*

One of only four foreign trade zones in Oklahoma, Durant's FTZ #227 continues to experience steady growth. Recently, the Valero refinery in Ardmore, Oklahoma, attained sub-zone status through FTZ #227.

#### **Entrepreneurial Venture**

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The LLC received its first \$80 million allocation for tax credits in 2003. A second allocation of \$56 million in tax credits was received in 2005. The program is designed to help underserved low-income communities by offering investors an attractive tax benefit through a 39 percent federal income tax credit for new investments in economically blighted areas.

The term of the tax credit is seven years. Investors will be able to claim a tax credit of 5 percent for each of the first three years of credit and 6 percent for each of the last four years, for a total of 39 percent over seven years. As of July 2005, total investments in the LLC stand at \$59,358,923, affecting well over 1,000 jobs in Oklahoma.

#### **PARTNERSHIPS ACCELERATE GROWTH**

REI is a partnership-based economic development organization which enables it to conduct pro-



*Academic software company utilizes training facility in REI's Women's Business Center.*

grams statewide. The organization's diverse partnership base includes the private sector, such as Oklahoma banks, utilities and cooperatives, technology centers and higher education, and numerous state and federal organizations. Partners located at REI corporate headquarters include the Oklahoma Department of Commerce, Oklahoma State University, and the Oklahoma Alliance for Manufacturing Excellence, Inc.

As REI expands its services and establishes satellite offices, the partnership base will continue to diversify and increase in number. Over the years, REI has learned that no one organization can stand alone in the complex field of economic development. Cooperative efforts and initiatives that can be carried out regionally with a diverse partnership base are assets any organization must have in order to be successful. Therefore, REI will continue to expand and diversify its statewide network of partnerships.

### LESSONS LEARNED

REI has been in existence for over two decades. There have been notable successes and many lessons learned. The role of the Board of Directors has been one key to success over the years. Notable Board considerations include:

- Provide the Board of Directors with adequate information to make informed decisions.
- Utilize the diverse expertise of those serving on the Board.
- Build trust and a strong working relationship between the Board and the president/CEO.
- Nurture a culture of moderate risk taking to fulfill the organizational mission and to be able to adapt to the needs of those served.

Throughout the years, serving small to medium-size businesses has been the impetus for continued improvement. Staying abreast of the changing needs within the client base has resulted in a dynamic structure that has evolved as opportunities and challenges have arisen. The overall structure of REI allows it to respond to the needs of business at the speed of business. Structural considerations include:

- Flexibility based on identified needs of existing and emerging enterprises.
- Programming that has evolved from a regional to a statewide focus.
- Developed expertise in re-lending and responded to other opportunities such as affordable housing programs.
- Utilized relationships developed through the Women's Center to foster potential lending clients.

Overall, REI has built a program and mindset with the focus on job creation and enterprise development. Partnerships and aggressive networking have led to an even stronger organization. The coming years should see even more impact for this model of local economic development. 🌐

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