
Policy support for small firms in rural areas: the English experience[†]

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Abstract. This paper is concerned with small business development in rural areas and the policy approaches currently being used to support them. The key question underlying the paper is the extent to which small businesses located in rural areas have distinctive support needs, associated with the characteristics of rural businesses themselves or their owners, and/or the characteristics of the external operating environment for business in rural areas. A related question concerns the possible influence of enterprise characteristics and the characteristics of rural areas on how the business support needs of rural businesses are best addressed. The study comprised a desk-based review of existing literature relevant to the support needs of rural enterprises and/or the means of addressing them. It also included primary research on policy initiatives and programmes concerned with enterprise development in rural areas. Telephone interviews were conducted in 2001 with representatives of Business Links with catchments that included rural areas, as well as other key agencies (for example, the Countryside Agency). In addition, twenty-four case studies were completed of rural policy initiatives, based on face-to-face interviews. Following a brief review of key literature, an overview of the policies currently being operated by Business Link is described, based on the survey. This is followed by an identification of good-practice principles of rural business support, based on an analysis of the case-study support initiatives. The paper concludes by identifying the implications of the analysis for future enterprise support policy.

Introduction

Aims

This paper is concerned with entrepreneurship and small business development in rural areas in England and the policy approaches currently being used to support them. This is an important policy topic in an English context in the aftermath of the foot and mouth crisis, which emphasised the vulnerability of many rural economies. The paper is based on research undertaken as part of a study commissioned by the Small Business Service (SBS), undertaken by the Centre for Enterprise and Economic Development Research (CEEDR) in 2001–02.

The key question underlying the paper is the extent to which small businesses located in rural areas have distinctive support needs, associated with the characteristics of rural businesses themselves, or their owners, and/or the characteristics of the external operating environment for business in rural areas. A related question concerns the possible influence of enterprise characteristics and the characteristics of rural areas on how the business support needs of rural businesses are best addressed. Although focused on England, these issues are of wider international significance, as rural areas in many countries are increasingly affected by processes of structural change and internationalisation.

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Methodology

The methodology comprised both desk-based and primary research, with three main elements. The first was a desk-based review of existing research, relevant to identifying the distinctive characteristics and needs of rural enterprises. The second element involved contacts with each of the main agencies in the United Kingdom,⁽¹⁾ involved in offering policy assistance to rural enterprises,⁽²⁾ which included extended telephone interviews in May 2001 with key staff responsible for providing support to rural enterprises in those Business Links (BLs) with substantial rural catchments. The third element took the form of a series of twenty-four in-depth, face-to-face interviews with practitioners involved in a variety of rural enterprise initiatives across the United Kingdom, which appeared either to contain some elements of 'good practice', or were innovative in some way.

Selection of the case studies followed telephone interviews with more than fifty key informant practitioners, including twenty-nine BL representatives, who were asked if they were aware of policies or programmes aimed at, or involving, rural enterprises that they considered to be 'good practice' and/or 'innovative' and, if so, in what respect. In fact, almost two thirds of the BL respondents identified policies or programmes that they considered to be 'good practice', mainly but not exclusively located in their catchment areas. In addition, staff responsible for rural enterprise development in the eight English Regional Development Agencies (RDAs) outside of London were contacted. The other key organisation contacted in England was the Countryside Agency, which retains an interest in rural business issues. It has also undertaken a series of nine Land Management Initiatives (LMIs), designed to assist specific land-based businesses in different parts of England. In Scotland the Scottish Executive was contacted, as well as Scottish Enterprise and Highlands and Islands Enterprise (HIE), which have responsibility for organising rural business support policy, through the network of Local Enterprise Companies (LECs) in south and north Scotland, respectively.

Through these key informants, the researchers were able to select and undertake case-study interviews with programme or initiative managers. Interviews were undertaken either face-to-face, or via extended telephone interviews, using a semistructured survey instrument. In each case, the interviews explored the historical development of the initiative, the services offered, how the service was delivered, targets and outputs, partnership working with other organisations, and future developments, whilst also seeking to draw out the key innovative and good-practice elements of support.

Following a brief review of key literature, an overview of the policies currently being operated by Business Link is described, based on the 2001 survey. This is followed by an identification of good-practice principles of rural business support, based on an analysis of the case-study support initiatives. The paper concludes by identifying the implications of the analysis for future enterprise support policy in rural England.

The rural policy context

During the mid-1990s, responsibility for enterprise support in English rural areas shifted from the Rural Development Commission (RDC) to BLs, associated with a winding-up of the RDC and the transfer of its policy responsibilities to a restructured Countryside Agency. The change represented a shift from providing specialist support

(1) Although the focus of the research was on England, we contacted selected agencies in Wales and Scotland, in order to draw on wider experience.

(2) This included the Countryside Agency, Scottish Enterprise, Welsh Development Agency, the English Regional Development Agencies, and those Business Links with rural catchments.

to rural small businesses, delivered through a network of dedicated rural business advisers, to a more generic mainstream approach, delivered through the national Business Link network. More recently, the establishment of the Small Business Service (SBS) and the restructuring of BLs in April 2001 was associated with a wider remit for BLs to offer assistance to all types of small enterprise in all locations. As far as rural areas are concerned, important elements of this wider remit were the inclusion of start-ups and microenterprises as part of the target group for BLs and also the transfer of responsibility for delivering support to farmers with the establishment of a new Farm Business Advisory Service (FBAS),⁽³⁾ under the SBS umbrella. As a consequence, this is an appropriate time to assess the extent to which rural enterprises have distinctive support needs and the way these are currently being addressed.

It is necessary to place business support policy in the wider rural development context, because the case for using public funds for business support services must be linked to the potential welfare benefits for the economy as a whole. Within the overall aim of encouraging and supporting the creation of productive, sustainable, and inclusive rural economies, the government's stated policy objectives at a national level include facilitating the development of dynamic and competitive rural economies through, for example, tackling the market and government failures that hamper rural economies (PIU, 1999). In this context, the need for an enterprising countryside is recognised by policymakers, together with the need for sustainable agriculture, an enhanced environment, and thriving and inclusive rural communities. To achieve this, a number of specific areas were identified in the Performance and Innovation Unit (PIU) report as requiring attention, including the burden of regulation on rural businesses; a planning system that is more supportive of the needs of rural businesses; an enriched skills base in rural economies; improved infrastructure; improved provision of business advice and support; and improved support for the tourism and recreation sectors. More recently, the Countryside Agency (2003) has published three main justifications for public policy interventions in rural economies:

- (1) the contribution of businesses based in the countryside to national and regional gross value added, emphasising the importance of ensuring that these businesses have access to appropriate advice, training, finance, information and communication technologies (ICT) and other infrastructure, in order to remain competitive;
- (2) as part of a need to tackle disadvantage and social exclusion, emphasising the potential role of self-employment in contributing to household income, focusing particularly on women, young people, and those who want to continue to work after retirement;
- (3) the need to invest to sustain 'countryside capital', which is an important feature and an asset for some rural businesses, such as those involved in food processing and tourism.

This paper is particularly concerned with the first of these, but with implications for the other two. The organisations with strategic drivers for economic development, regeneration, and competitiveness in the English regions are the RDAs (HM Treasury, 2002). RDAs are expected to ensure that business support services are in line with their Regional Development Strategies, working closely with the SBS and BLs as the main delivery agencies.⁽⁴⁾ It is important that the particular needs of businesses located in rural areas are recognised in these strategies, together with issues affecting how they can be effectively addressed. The role of RDAs in relation to rural development was investigated in

⁽³⁾ The FBAS is a national programme developed in collaboration between the Department for Environment, Food and Rural Affairs and SBS and launched in October 2000.

⁽⁴⁾ http://www.sbs.gov.uk/content/crosscutting/ccr_finalreport.pdf.

a recent report commissioned by the English RDAs (Ward et al, 2001). Among its recommended priorities was a need to ensure that rural areas and rural businesses are integral to RDA strategies and actions on regional competitiveness, innovation, entrepreneurship, skills development, and business growth.

The recent foot and mouth crisis in 2001 has underlined the vulnerability of rural economies (Countryside Agency, 2001), resulting in rural development issues becoming higher on the political agenda in the United Kingdom. Many rural businesses have been affected indirectly as impacts have filtered along the supply chain and reduced the number of visitors to the countryside, with businesses in the hospitality, recreation, and cultural sectors having been among the worst affected (Phillipson and Raley, 2002). Empirical research has shown that the impacts are particularly serious for the smallest businesses, and most of all in the more remote rural areas. In addition, there are a number of lasting effects for impacted businesses, relating to additional debt, reduced reserves, and shelved plans for growth and investment, which in a third of impacted firms recently surveyed in northeast England were expected to last for a number of years (Carroll et al, 2002).

The distinctive characteristics of small firms in rural areas and their support needs

Support needs

In reviewing the existing literature, the aim is to identify any distinctive 'support needs' of small firms in rural areas that may be associated with distinctive characteristics of the enterprises, the characteristics and motivations of their owners, and/or problems or constraints resulting from characteristics of the rural environment. The term 'support needs' refers to the external resources that a business may draw upon, from time to time, in order to strengthen or extend its internal resource base (Smallbone and North, 1999). Any business requires access to resources in order to develop, such as appropriate finance, management skills, labour, premises, information, and competencies. In the case of small businesses, limited internal resources are likely to increase the need for them to access external resources compared with larger firms. The key question in this regard is the extent to which small enterprises in rural areas have distinctive support needs in comparison with the rest of the small business population and/or experience greater difficulties in addressing them.

There is a wide range of possible sources of external support, drawn from both private and public sectors and including informal as well as formal sources of advice and support. Possible sources include banks, accountants, solicitors, consultants, customers, suppliers, business associates, family members, friends, as well as a number of specialist business support agencies (for example, enterprise agencies, business development centres, and innovation and technology centres). The fact that rural areas have lower population and business densities than urban areas leads to an 'a priori' expectation that rural firms may face greater difficulties in accessing business services from formal, private sector sources.

Characteristics of rural enterprises

In terms of profile characteristics, the existing literature points to a number of ways in which rural businesses are said to differ from their urban counterparts. For example, businesses in rural areas tend to be smaller on average (Cosh and Hughes, 1998), with a higher proportion of microbusinesses and one-person businesses (Lowe and Talbot, 2000), suggesting that they may be less able to meet their needs from their own internal resources. As far as sector characteristics are concerned, although the economic structure in rural areas is becoming increasingly diverse and employment structures increasingly resemble those of urban areas (Countryside Agency, 2003), agricultural

firms make up more than 15% of rural businesses in England. In addition, there remains an important agricultural dimension in relation to business support needs, such as with respect to farm diversification, as well as in relation to farming itself.

Although there is little systematic evidence to support the proposition that rural businesses are less growth oriented than similar urban firms, differences have been observed in actual growth performance, particularly with respect to employment. However, whereas in the 1980s it was rural small and medium-sized enterprises (SMEs) that outperformed urban firms in terms of employment growth (Keeble and Tyler, 1995; North and Smallbone 1995; 1996; SBRC, 1992), recent evidence suggests that this pattern no longer exists (Cosh and Hughes, 1998; 2000). The most recent Centre for Business Research survey confirms that, in the aggregate at least, rural SMEs have lost the dynamism which was a key characteristic of the 1980s and early 1990s (Cosh and Hughes, 2003). In addition, the overall picture of the declining relative employment-growth performance of rural SMEs through the 1990s, is paralleled by evidence of net losses of VAT-registered businesses in rural areas, which, unlike the Cambridge survey, includes agriculture. Analysis shows that the growth in the number of VAT-registered businesses in the late 1990s was concentrated in London and the large cities, with a relative decline in the rural counties (Keeble, 1999).

A similar pattern can be identified with respect to innovation. Whereas rural SMEs appear to have outperformed their urban counterparts in innovation activity in the 1980s (mainly with respect to product innovation) (Keeble et al, 1992; Smallbone et al, 1993a), by the middle 1990s this urban–rural contrast seems to have disappeared, at least when ‘accessible’ and ‘remote’ rural areas are combined (Cosh and Hughes, 1998). In fact, in the latest CBR survey, rural firms have the lowest innovation rate of any of the locational categories (conurbations, large towns, small towns, and rural areas), compared with 1985–90 period, when they had the highest rates (Cosh and Hughes, 2003). Clearly, SMEs in rural areas are no longer the dynamic innovative force they were fifteen years ago. Moreover, a number of studies have consistently pointed to SMEs in the more remote rural areas being laggards with respect to process technology (Keeble et al, 1992; North et al, 1997) and in the use of the Internet. Consequently, as more businesses use the Internet, there is a danger that rural SMEs may be disadvantaged by their slowness to exploit the technology available to them (Raley and Moxey, 2000; Talbot, 1997).

Characteristics of the rural environment

Aspects of the external operating environment in rural areas present particular challenges for smaller firms. For example, small local markets, combined with the distance from major national and international markets, is one of the competitive disadvantages faced by rural small firms, which niche focusing may help to overcome (North and Smallbone, 1996). Because of the low population and business density in peripheral rural areas, small businesses typically have to penetrate nonlocal markets at an earlier stage of their development than their counterparts located in more urbanised areas. From a business support perspective, this emphasises the need for appropriate assistance with respect to market development, exporting, and marketing for rural firms, especially those located in peripheral rural areas.

The small size and occupational composition of rural labour markets can also impose constraints on rapidly growing rural firms (CEEDR, 1998). Moreover, access to suitable training provision is typically more difficult for firms in remote rural areas, particularly because the majority of ‘off-the-job’ training opportunities are urban based (Bennett and Errington, 1995). There is also a low incidence of management training exhibited in remote rural businesses. For example, Smallbone et al (1997) found that

only one third of surveyed manufacturing firms in rural northern England had managers with professional training and/or management qualifications, a proportion that fell to one fifth of firms with fewer than twenty staff. Another aspect is that the financial and business services sector is typically weaker in rural areas (Hitchens, 1997), either because commercial providers of business services, such as accountants or law firms, are thinner on the ground and/or because the service offered is of lower quality. Furthermore, lower rural business densities compared with urban areas also means there are fewer local businesses with which to develop informal networks (PIU, 1999). This makes the provision of public sector services, in order to address market failure, all the more important (Smallbone et al, 2002).

Access to business support

From a policy perspective, lower population and business densities in rural areas make it more expensive to deliver business and training support than to comparable urban-based firms (Bennett and Errington, 1995; Smallbone and North, 1999). Because of the so-called 'rural premium', the service provided tends to be patchy across the country, varying with the ability of BLs to access additional funds for this purpose, such as from EU Structural Funds. However, it must be recognised that the rural premium applies to firms as well as to support providers, in terms of the cost of attending training sessions, meetings with advisers, and network events, unless these are offered locally. It can be argued that market failure with respect to the delivery of business support is particularly prominent in rural areas, where businesses are at a greater average distance from business advice and support services offered through the market, given that the spatial structure of business advice has been shown by Bennett and Smith (2002a), to be a major influence on client choice. Their large-scale study of business advisers demonstrated that 70% are within 25 km of their clients, with the dominant demand-side factors affecting access to business support being search and information costs with key constraints relating to client location from the supply side.

Results from a survey of small businesses in manufacturing and services drawn from five representative locations in Britain emphasise the influence of distance on the propensity of small firms to access business advice (Bennett et al, 2000). Respondents were asked to assess the "three professional suppliers of advice and consultancy that had made a major contribution to their business during the last three years" (Bennett et al, 2000, page 825). The results showed that localisation is important, because 60.5% of advisers were drawn from within 10 km of the client business and 81.5% from within 25 km. Not surprisingly, there was a positive correlation between the degree of localisation of sources of advice and consultancy and settlement size, implying that firms in rural areas face higher transaction costs (or time) in accessing business advice or consultancy than their urban counterparts and/or that their suppliers face higher costs in delivering support to them.

The dominant factors influencing access to business support in the Bennett et al (2000) study were shown to be search and information costs on the demand side and constraints emerging from the spatial distribution of businesses on the supply side. Both factors favour large agglomeration centres rather than smaller ones, thereby emphasising the disadvantages of businesses in rural (and particularly peripheral rural) areas in this respect (Bennett and Smith, 2002b). As a consequence, it is suggested that there is a strong case for public sector support to be focused on locations where SMEs have difficulty in accessing major sources of advisory support by virtue of their location, that is, on rural, and particularly, more peripheral areas (Bennett and Smith, 2002b). Significantly, in a recently published enterprise policy document, there is no apparent recognition of the role of location in relation to market failure in addressing business

support needs, despite an explicit discussion of the barriers faced by small businesses with respect to accessing advice (HM Treasury, 2002, pages 52–55).

The overall conclusion on the question of the distinctiveness of rural businesses from a business support perspective emphasises the implications of their smaller average size compared with urban firms, and therefore their greater need of external support, combined with the effect of lower business densities and greater average distance from private sector business services on their ability to access business support. These are potentially important issues for public sector business support policy, because very small firms are a notoriously ‘difficult to reach’ group for support agencies and the geography of business in rural areas adds to the difficulties of reaching them cost effectively.

Rural enterprise policy in practice

The approach of Business Links

The results of the telephone survey of BLs, which was undertaken to identify current policy and practice with respect to rural enterprises in England, showed that more than half (16 out of 29) claimed to have a specific policy towards rural enterprises, which was typically associated with either the FBAS, or with other targeted policy initiatives related to training, mentoring, access to finance, marketing, or ICT and E-commerce. However, the corollary is that almost half did not have a specific rural business policy, relying instead on the claim of treating all businesses the same, which is difficult to justify in view of the heterogeneity that exists within the SME sector. Moreover, it has been previously noted that in practice there has been a tendency for BLs to chase output targets by focusing on easier to reach urban market catchments, to the detriment of rural businesses (PIU, 1999).

The survey also revealed that few BLs (11 out of 29) had systematic data on rural enterprises within their catchment. Indeed, one third of respondents were unable to estimate what proportion of businesses in their catchment were located in rural areas. In view of recent research which emphasises the importance of location to a client’s access to business advice (Bennett and Smith, 2002a), there is a case for requiring BLs to demonstrate their market-penetration levels in different types of location within their territory. Such a requirement could be part of a wider need to improve the quality of management information in BLs.

Significantly, more BL respondents (26 out of 29) identified distinctive support needs of rural enterprises than reported specific policies towards them. Their perception of the distinctiveness of rural enterprises focused on sectoral characteristics, emphasising agriculture and related business activities (for example, food processing), tourism and leisure, with high technology (Devon and Cornwall, Bedfordshire, and Lincolnshire), multimedia (Devon and Cornwall, County Durham, South Derbyshire, and Lincolnshire), and engineering (Northamptonshire, Essex, Berkshire, Sussex, Cumbria, and Wiltshire) reported characteristics of certain rural areas. Apart from sectoral characteristics, the most common issues identified included those surrounding the barrier effects of distance and the perceived ‘lifestyle’ nature of many rural microbusinesses.

With regard to the specific business support needs of rural businesses, more than three quarters of respondents (22 out of 29) mentioned that remoteness, including distance from markets, was a key issue. Apart from distance from major markets, remoteness was considered problematic with regard to accessing finance because of the closure of rural bank branches, but it was also reported to affect access to, and the affordability of, training. Respondents also referred to wider skills shortages associated with the limited size and scope of local labour markets. Remoteness was further exacerbated by poor transport and communications networks in some areas and a

Table 1. Case-study rural enterprise support initiatives.

Name of initiative	Delivery agency/ lead organisation	Regional location	Target market
Norfolk Arable LMI	Morley Research Centre/ Countryside Agency	east of England	arable farms in Norfolk
Merseyside Farm Enterprise Programme	Business Link Merseyside/MAFF	northwest England	farming
Bedfordshire FBAS	Business Link Bedfordshire	east of England	farming
Essex FBAS	Business Link Essex	east of England	farming
Forest of Bowland Initiative	Bowland Initiative/ MAFF	northwest England	farming in Forest of Bowland
Rural Business Advisory Service	Business Link Surrey	southeast England	farming and rural business
South West Forest Initiative	Forest Commission/ Countryside Agency	southwest England	farming and land-based work
Clyde Valley Tomatoes	Robert Owen Foundation	Scotland	Clyde Valley tomato growers
Rural Recovery Programme	Business Link Herefordshire	West Midlands	rural, nonfarm businesses
2 Star Hotel Scheme	Ross and Cromarty Enterprise	Scottish Highlands	hotels in Ross and Cromarty
Village Shop Scheme	Bassetlaw Development Agency	East Midlands	retail in North Nottinghamshire
Gateway to Enterprise	Newark Enterprise	East Midlands	start-ups and existing microenterprises
North Walsham Outreach Business Access Point	Norfolk and Waveney Enterprise	east of England	start-ups and existing SMEs
Peak District Initiative	Business Link Staffordshire	West Midlands	SMEs in High Peaks, Staffordshire
People Into Enterprise	Northumberland County Council	northeast England	start-ups in rural coalfields
ICT Experience Exchange	Anglia Polytechnic University	east of England	farming and rural business
ICT Business Support	Derwentside Council	northeast England	Derwentside e-business
E-Business Advisor	HIE	Scottish Highlands	Highlands SMEs
Outreach Incubator Scheme	New Park/HIE	Scottish Highlands	Innovative and high tech
HIE Marks Scheme	HIE	Scottish Highlands	SMEs and specified sector clusters (for example, microbrewing)
East Northumberland Regeneration Initiative	ENRGI agency/ Northumberland County Council	northeast England	community enterprise in rural coalfield area

Table 1 (continued).

Name of initiative	Delivery agency/ lead organisation	Regional location	Target market
Springboard Initiative	Northern Rural Partnership/MAFF	northwest England	women in rural Lancashire
Eyemouth Initiative	Scottish Borders Enterprise	Scottish Borders	Eyemouth fishing and tourism
Stratford Rural Development Strategy	Stratford District Council	West Midlands	SMEs in rural Stratford

Note: FBAS—Farm Business Advisory Service, HIE—Highlands and Islands Enterprise, ICT—information and communication technologies, LMI—Land Management Initiative, MAFF—Ministry of Agriculture, Fisheries and Food, SME—small and medium-sized enterprise.

lack of broadband telecommunication lines. These latter issues relating to poor communications also presented barriers to client support provision from BL staff, as one interviewee put it: “The distance to travel to see clients makes the effective delivery of support difficult.”

Significantly, more than two thirds of BL respondents (21 out of 29) considered the existing approaches to rural business support to be inadequate. Their priorities with respect to improving support provision for rural enterprises focused mainly on raising awareness among small rural firms of the services offered (reflecting a need to be more proactive) and technology-related initiatives designed to increase access to and the use of ICT by rural firms. Previous studies have pointed to the dangers of advisers meeting numerical performance targets by concentrating on the ‘easier to reach firms’, unless the needs of firms in rural areas are explicitly recognised (Smallbone and North, 1999). The overall conclusion from the BL interviews was that, although distinctive characteristics and needs of rural enterprises are recognised by staff in the majority of BLs with rural areas within their catchment, there is little evidence of a systematic policy approach to addressing these in many agencies. Moreover, a majority of those responsible for delivering support to rural businesses consider existing approaches to be inadequate.

‘Good practice’ rural business support

Having presented an overview of the current approaches to rural enterprise support by BLs in England, the aim in this section is to consider examples of business support initiatives or programmes that are targeted at, or which include, rural enterprises and which possess features that may be considered innovative or ‘good practice’. The twenty-four in-depth case studies were selected to represent a range of initiatives aimed at assisting different types of rural enterprises, as well as different approaches (table 1). Although the aim is to inform rural enterprise policy development in England, some of these case studies were drawn from Scotland, because informants had pointed to some examples of good-practice initiatives there.

The case-study rural enterprise support initiatives were very varied in nature. Some had an explicitly rural orientation, whereas others were wider initiatives that were adapted to the rural context in some way. They included *farm and land-based initiatives*, such as farm-diversification schemes, sustainable development plans, and the activities of the Farm Business Advisers in seeking to integrate business support for farmers into

mainstream programmes. They also included *other rural sector initiatives*, focusing on non-land-based activities, such as village shops (for example, Village Shop Scheme, Bassetlaw Development Agency), tourism (for example, 2 Star Hotel Scheme, Ross and Cromarty Enterprise) and technology initiatives (for example, E-Business Advisor, HIE). Other cases represented *general business support and/or training programmes targeted at SMEs*, including initiatives where there has been an attempt to modify the content and/or delivery methods of programmes in response to the distinctive needs of rural enterprises, such as rural outreach work for business start-ups (for example, North Walsham Outreach Business Access Point, Norfolk and Waveney Enterprise). They also included *initiatives focusing on minority and/or disadvantaged groups in rural areas*, such as the long-term unemployed or women (for example, Springboard Initiative, Northern Rural Partnership, Lancashire). A final group of initiatives sought to embed enterprise support in a wider regeneration context and might best be described as *strategic initiatives for rural regeneration* (for example, Stratford Rural Development Strategy, Stratford District Council, South Warwickshire).

In a paper of this length there is insufficient space to describe the case-study initiatives in any detail, although this is done elsewhere (Smallbone et al, 2002). Instead, we summarise a number of principles or themes emerging from the analysis that would seem to justify wider dissemination because they represent an attempt to tune policy support to the specific characteristics of rural enterprises and/or the rural environment in which they operate, although the relative emphasis between them may vary in different rural contexts. The key principles identified are as follows.

(a) *Integrated approaches*, which seek to integrate enterprise support into a wider development framework, such as the Eyemouth Initiative in Scotland and Stratford Rural Development Strategy. Both of these initiatives seek to involve the local community and incorporate a range of interrelated matters, such as inward investment, housing, transport, and social issues. Overall, it would appear beneficial for rural enterprise support initiatives to be part of an integrated and more strategic approach to rural regeneration which avoids duplication and overlapping of activities and brings suitable partner organisations together in order to achieve an effective and efficient rural regeneration process. An integrated approach is also an appropriate response to regeneration, which recognises the interdependencies within the rural economy, which the foot and mouth crisis has emphasised.

The advantages of an integrated approach have been amply demonstrated in Stratford, South Warwickshire, where a rural strategy has been in place since 1998, based on an integrated approach to rural development. The strategy was able to pool various funding resources such as the Single Regeneration Budget (Round 5) and EU Structural Funds to develop a range of assistance programmes, including: rural workspace provision, a corporate purchasing forum, farm-diversification support, the establishment of local farmers markets, village shop promotion, and an ICT training and advice service. The strategy has raised the profile of rural business issues and led to greater crosscutting working within the local council. This includes 'village appraisals', which require close working with local communities to provide a holistic and inclusive form of rural regeneration that includes transport and social issues, as well as business support.

(b) *Partnership*: In rural areas where resources can be particularly thin on the ground (Bennett and Smith, 2002a), successful partnerships are vital in order to allow access to information, specialist advice, and training support from appropriate providers. On the supply side, successful public-private partnerships offer a mechanism for cost-effective delivery, avoiding duplication of services (Hitchens, 1997). Examples drawn from the Scottish Highlands include the E-Business Advisor and Outreach Incubator initiatives.

In these cases, the LECs have worked closely with other public and private sector providers to utilise available skills and resources (such as specialist advisers) from different sources, in order to provide maximum coverage. This highlights the need for flexibility in delivering support using the existing rural infrastructure, such as village halls, libraries, and schools for meetings, training, and/or as resource centres, and village shops as information points, associated with a strategy based on outreach to facilitate easier access to support for clients.

(c) *Contribution to capacity building* is a key criterion for assessing good-practice rural development policy, in order to ensure that there are long-term benefits accruing from any public intervention. In this regard, the initiatives reviewed include examples where enterprise support is embedded in an approach which seeks to build the entrepreneurial capacity of individuals, whilst also seeking to provide civic leadership to communities to facilitate longer term adjustment. This was evident in the northeast, where a local regeneration agency (ENRGI) was developing community enterprise in a former rural coalfield area. Their approach included training and assisting unemployed people in local villages to break out of a 'dependency culture', which involves looking for alternatives to relying on big business and the state to provide work and an income. These individuals were encouraged to develop new businesses serving the local community and to take part in local civic fora. A similar principle was at the core of the Countryside Agency's LMI in Norfolk, where long-term solutions to the problems of local small and medium-sized farming operations were being developed. These involved new entrepreneurial approaches that were sensitive to the needs of farmers, incorporating 'whole farm plans', aiming to add value to existing activities, rather than introducing radical quick-fix diversification solutions. This programme also sought to position farmers in the mainstream of local community activity, in order to explore how community and farmers could help each other.

(d) *Bottom-up approaches*: A number of case-study projects that were analysed demonstrate the benefits of initial research involving the local community and businesses, in contributing to a grounded approach to rural development. This can help to avoid some of the pitfalls associated with top-down, prescriptive solutions with respect to the support needs of particular communities or areas. This approach is strongly advocated by the Robert Owen Foundation, amongst others, and is evident in their work assisting Northumberland County Council to establish community enterprise activity in the former coalfield villages of northeast England. Whereas initial research can help to identify needs on the one hand and gaps in support provision on the other, an effective monitoring process can reveal what is working and what requires improving or further development, in order to meet the needs of the assisted enterprises. In this way, initiatives can work on a basis of continuous improvement, avoiding becoming outdated, outmoded, or poorly focused on the needs of the enterprises or communities they are intended to serve.

(e) *A proactive approach to delivery*: The use of outreach activity and peripatetic advisors is essential in rural areas if business support is to reach dispersed business communities effectively (Lowe and Talbot, 2000). The importance of this is underlined by the fact that many rural enterprises (for example, farms and microenterprises) have been outside the main target groups of BLs in recent years (Carter and Rosa, 1998; Smallbone and North, 1999), which means that business owners are often sceptical about the relevance of BL services to their needs and/or lacking in knowledge about what support is actually available. Previously, the RDC had adopted a proactive approach to business support, particularly in Rural Development Areas, where it was expected to adopt an initiating role, seeking out business potential and helping to develop it (Smallbone et al, 1993b).

In this context, there is no realistic alternative to proactive outreach, involving face-to-face meetings with clients. Although in theory, the use of ICT provides a mechanism for delivering basic business support cost effectively, particularly in rural areas, programme managers who were interviewed were sceptical about it. This was partly because the use of ICT by business is less advanced in rural areas (Talbot, 1997), but also because ICT training needs to be undertaken face-to-face to be effective (Gray and Juhler, 2000). More fundamentally, face-to-face meetings between advisers or trainers and clients are required to build 'trust-based' relationships. It has been strongly argued, notably in the Peak District Initiative, that the high initial cost of outreach activity can be outweighed by the resultant increase in client numbers and impacts that services achieve.

(f) *Effective coordination of sector-specific support with generic services*: Effective coordination between business support providers is essential, particularly where this involves linkages between sector-specific support and generic services offered by mainstream agencies. This is at the heart of the brokerage principle underlying the current BL model, although it does not always operate as effectively in practice as policymakers assume it does. The inclusion of the FBAS under the SBS umbrella is an example. There are considerable advantages in bringing farms and land-based industries into the mainstream of business support through the FBAS, particularly in terms of delivering generic business advice to farmers, but it is essential that existing specialist support providers are involved in the process (Carter, 1998). This will avoid duplication of services and enable the development of a more coherent approach that can build on what has worked successfully in the past.

(g) *Encouraging cooperation and networking between enterprises*: This type of approach offers a number of potential advantages, as well as some potential pitfalls (Lowe and Talbot, 2000). Ultimately, there are considerable potential advantages in rural enterprises working together collectively (for example, farmers collectives or cooperatives, and village shop associations) to reduce their purchasing costs, boost their sales potential, and benefit from their collective knowledge and experience of the industry, provided that businesses which may perceive each other as competitors can be persuaded that the potential benefits outweigh the potential risks. One of the most successful examples in recent years has been the Clyde Valley Tomato Growers group, assisted by the Robert Owen Foundation, where a growers' collective was formed in order to launch a new, higher value added, branded product into the large supermarket chains in the United Kingdom.

(h) *One-stop-shops*: Rapid access to business support is just as important in rural areas as in an urban context (Bennett and Smith, 2002a), although arguably more challenging to deliver because of business dispersal. For example, the success of the Peak District Initiative and Forest of Bowland Initiative has been founded on their ability to provide a one-stop service, through an adviser who will effect a rapid and suitable response to client enquiries and whose role sets out to be that of a 'trusted confidante'. Although this type of relationship may be facilitated by channeling all enquiries and initial contacts through a common entry point, the main rationale for a one-stop-shop is to reduce fragmentation and thus a potential source of confusion in the minds of potential clients, as well as contributing to the more effective delivery of support by increasing coordination on the supply side.

Conclusions and policy implications

The distinctive characteristics of rural enterprises, particularly with respect to their smaller average size, combined with the issues relating to characteristics of the rural environment, particularly those that affect the access of rural enterprises to business services, make it necessary for support agencies to recognise rural enterprises as a

distinctive segment in the 'market' for business support. Moreover, the issue takes on a particular significance when the role of enterprise is considered in relation to the wider economic and social development needs of rural areas. In this context, the survey of existing policy practice shows BLs to be falling short overall, whilst demonstrating good practice in some cases. In this final section, we present the main implications emerging from our review of existing policy approaches for future enterprise support policy in rural areas.

(1) *The need for a systematic approach to rural enterprise support*

The research has demonstrated the need to tailor rural business support programmes to the specific needs of local areas. All BLs, which have rural areas within their catchments, should be required to include an explicit strategy within their business plans, explaining how they are addressing the needs of rural enterprises. They should also be required to gather and publish data to show the extent to which they are penetrating rural areas, as part of their annual reporting. The need for greater effort to increase penetration levels in rural areas was widely accepted in the surveyed BLs, yet few appeared to have explicit strategies for achieving it.

(2) *A need for policymakers to recognise the distinctiveness of rural enterprise development, which has implications for the effective delivery of business support*

The distinctive characteristics of rural enterprises and rural areas have implications for the effective delivery of business support. Policy initiatives aimed at encouraging the formation, growth, and survival of enterprises in rural areas need to take into account the distinctive characteristics of businesses, as well as difficulties that result from characteristics of the rural environment itself. For example, because of limited local market opportunities, many small businesses, especially those located in peripheral rural areas, require external assistance with market development, exporting, and marketing methods. In many instances, this is likely to require direct practical assistance in the form of regional product-marketing initiatives and help with exhibiting products at trade shows in other regions and abroad.

The barrier effects of distance can also make the delivery of business and training support services to rural firms more expensive than in an urban context, requiring creative solutions but also a higher level of resource allocation per unit in many cases. The PIU report stresses that the SBS must achieve a similar level of performance in rural as in urban areas (PIU, 1999, page 66). In our analysis, this requires approaches that are sensitive to the distinctive characteristics of the rural environment, which are proactively delivered, and recognise the specific support needs of agriculture and other rural industries, within the context of a mainstream approach to business support.

Experience suggests that proactivity and outreach activity by business advisers, involving regular contacts with client businesses to develop trust-based relationships, is a successful model for delivering advisory support in rural areas. In fact, it may be a necessary condition to be fulfilled if business support is successfully to penetrate the more dispersed rural communities. Although this type of support can be expensive to deliver, it is almost certainly necessary if BLs are to increase their penetration levels in rural areas. The policy case studies also demonstrate the value of a flexible approach to delivering business support in rural areas, which make use of the existing infrastructure (such as village halls, shops, and schools) in order to meet and deliver support to client businesses.

(3) *A need for a more integrated rural enterprise policy*

The effects of the recent foot and mouth epidemic have demonstrated the potential vulnerability of rural economies, associated with the high level of interdependence

between businesses in agriculture, tourism, and local services. Although there are no easy solutions to this issue, it is important that BLs work closely with RDAs and other key partners to develop approaches that are economically, as well as environmentally and socially sustainable (Ward et al, 2003). In England, RDAs would seem to be the most appropriate organisations to coordinate rural enterprise policy at the regional and subregional levels, in the context of “acting as the key organisations and catalysts for overseeing and targeting support for all sections of the rural economy and to bring about the integrated approach” that is required (Carroll et al, 2002, pages 155–156).

The policy case studies reviewed include examples which demonstrate the advantages of an integrated approach to rural development, which involve rural communities and which avoid the use of top-down solutions. In this context, there is an important potential role for business support agencies, working in close cooperation with those responsible for housing, transport, and social issues. Other key characteristics of successful initiatives appear to be the use of an action research approach to inform and monitor policy development and implementation, and economic and social sustainability that emphasises capacity building in rural communities and partnership working between agencies.

An integrated approach to rural development should also seek to be inclusive. In this context, it is important to recognise that the survival of firms in some rural communities may be as important locally as their ability to grow, if the social and economic development of rural communities is to be sustained. As a result, a focus on growth-oriented SMEs is insufficient in rural areas, where even firms without an intention to expand can be important to social cohesion and employment in rural communities. This is particularly the case because many of these firms are concentrated in highly embedded sectors such as transport and construction serving local markets. Helping such enterprises to survive, and where appropriate to grow, may have wider social and economic benefits in some rural contexts.

(4) An ongoing need for sector-specific support in rural areas

Sector-specific assistance is necessary to help to address the specific business support issues facing key rural industries, such as agriculture and tourism. Although farms share many of the business problems faced by other small firms, suggesting that the integration of the business advisory service for farmers into the mainstream is to be welcomed, it is important that access to high-quality sector-specific expertise is maintained. In this context, the integration of the FBAS into the mainstream SBS services appears to work well in some areas, where specialist agricultural organisations are involved in partnership working with BLs. However, the policy case studies revealed that farm diversification is not a panacea for the problems of agriculture and that farmers need good-quality business advice if they are to succeed in the rapidly changing external environment in which they operate. Other sectors that play key roles in many rural areas, such as tourism, have similar needs for specialised support, particularly in the post foot and mouth period.

(5) A need for an integrated approach to improving the effective use of ICT in rural enterprises

There is a vital need to prioritise an integrated approach to improving the effectiveness of ICT use in rural enterprises. Policy support is vital if small firms in rural areas are to exploit more fully the potential offered by developments in ICT with respect to improving their links with customers and suppliers, particularly in the more remote rural areas. It also offers potential for greater use of ICT in the future, as a delivery mechanism for some business support services. Research evidence (for example, CEEDR, 1998; Talbot, 1997) has consistently shown that rural firms tend to be

laggards in terms of the take-up and use of ICT. This is partly associated with their smaller average size, compared with urban firms, but is also related to factors such as the sector and local market dependency (Mitchell and Clark, 1999).

In this regard, policy support needs to include basic and advanced training courses in the use of ICT for both workforce and management, which in the latter case needs to include how to integrate technology successfully with other business processes. Improvements in access to ICT infrastructure is an additional issue in some rural areas. However, recent evidence suggests that, if ICT is to be used as an electronic gateway to business support services and to regulatory information, there will need to be considerable effort to assist small firms to access services telematically, as well as to improve the infrastructure in some areas (Lowe and Talbot, 2000). Inferior and patchy access to telecommunications infrastructure is one of the disadvantages for firms of being located in rural areas. A final point revealed by the policy case studies is that ICT is not a panacea to overcoming all of the problems associated with assisting remote rural enterprise. 'Remote assistance', in much the same way as 'remote marketing' using the Internet, still requires some contact through face-to-face meetings, particularly in the initial stages of assistance. Indeed, at the heart of successful rural enterprise support is the establishment of 'trust-based' advisor–client relationships.

(6) A need for more systematic evaluation and dissemination of good-practice rural policy

This research has demonstrated that there is a considerable range of rural business support taking place in the United Kingdom, but surprisingly little knowledge and dissemination of the good-practice elements of these activities taking place between policy practitioners. Part of the reason for this is undoubtedly the variety of different organisations involved in this process, with improved coordination and integration remaining a priority need. Therefore, an important recommendation to policymakers is the need for a more systematic approach to the dissemination of rural enterprise support policy, in order to facilitate effective policy learning and future policy development. This should be linked to a more systematic approach to policy evaluation in order to provide more quality control over what is disseminated.

Many of the policy issues raised in the paper are not exclusive to rural areas, although the rural context gives them a particular focus or emphasis. For example, delivering effective business support to microenterprises is an enormous challenge for the BL network, partly because of the sheer size of the potential market, because nationally they represent about 95% of the total stock of 3.7 million businesses (DTI, 2002); but also because they can be a difficult to reach group, as a result of their lack of orientation towards formal sources of business advice and support. One of the factors influencing the ability of the mainstream business support network to meet the needs of rural enterprises is their ability to penetrate the microenterprise sector successfully. However, the extent to which they will be able to do this without a significant increase in funding is open to question.

The appropriateness of existing institutional arrangements for addressing the needs of rural enterprises remains to be proven. The decision to integrate publicly funded business support services under the SBS umbrella was an attempt to move towards a more integrated and coordinated national system, in which services are delivered through a brokerage model, with key partners. Not surprisingly, this tends to work better in some areas than in others, influenced by different local traditions of cooperation between agencies (Patton et al, 2003). However, the integration of enterprise support into the wider rural development agenda requires a regional or subregional dimension (that is, above the level of many BLs). In this regard, there are currently pilot schemes operating in two English regions to bring the management of the BL

network more directly under the influence of the RDAs. If the results of these pilots are positive, this could provide a mechanism for achieving greater integration between enterprise support and rural development policy at the regional level.

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