CENTRE FOR RURAL ECONOMY
NEWCASTLE UNIVERSITY

Honey Pots and Hives: Maximising the potential of rural enterprise hubs

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Centre for Rural Economy Research Report

North East Rural Growth Network | Helping businesses to start and to grow

North East Farming and Rural Advisory Network

Department for Environment Food & Rural Affairs

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1. Executive Summary

The North East (NE) Rural Growth Network Programme is one of five DEFRA funded national pilot programmes that are designed to test new ways of stimulating economic growth in rural areas.

This research project is one of the core elements within the RGN programme. This first work package in the research programme set out to investigate the nature of rural enterprise hubs in the rural north east, and how the RGN programme can help them deliver the economic growth needed as the economy recovers from the recent crisis.

The research, whilst grounded in academic theory, is intended to be applied research. This means that as well as providing an understanding of the current situation, it seeks to inform the future of the RGN programme.

The research sought to engage a wide range of stakeholders. Surveys have been conducted with both hub owners/managers, as well as with the businesses that occupy those hubs. The key findings can be summarised as follows:

- Rural enterprise hubs have an opportunity to be more than physical business spaces. They are capable of being key nodes in the flow of knowledge within the rural economy - both within the hub and between the hub and the wider economy.
- There are a diverse range of enterprise hubs in the rural north east. They are geographically dispersed across all parts of the region. Their ownership is divided between private ownership (50%), the third sector (33%) and the public sector (17%). They vary enormously in size the smallest being just 7 units with the largest being 35 units.
- Enterprise hubs, in common with many sectors in the economy, are experiencing some financial pressures. Hubs are finding it harder to let units and are therefore suffering a reduced income at a time when overheads are rising.
- Rural hubs can be differentiated into 4 types: (i) A destination hub (**honey pot**)which is only lightly managed; (ii) a destination hub (**honey pot**) with wide ranging / intensive support; (iii) a hub with mainly Business to Business (B2B) occupiers (**hive**)

which is only lightly managed; and (iv) a hub with mainly B2B occupiers (**hive**) with wide ranging / intensive support.

- One of the greatest challenges facing both hub owners/managers and hub occupiers is forming productive networks.
- The report has identified 5 key recommendations for the RGN and its partners to take forward;
    - **Recommendation 1 –** Steps should be taken to develop a north east network of enterprise hubs, connecting not only the rural hubs covered in this programme, but also those based in the urban core
    - **Recommendation 2 –** Future economic development policies in the region, for example the forthcoming NELEP Economic Growth Strategy, should be mapped on to the existing and potential hub infrastructure. In particular this should focus on the contribution rural areas can and do make to the key growth sectors, digital, media & creative arts as well as the more traditional heritage and tourism.
    - **Recommendation 3 –** Investigate opportunities to generate more demand for vacant units in the existing hubs. This could be through joint marketing via the NE Hub Network (see recommendation 1) or developing a signposting service which helps businesses find the right type of space, in the right hub in their area,
    - **Recommendation 4** –Investigate options for expanding the network of enterprise hubs and strengthen the existing enterprise hubs in the North East.
    - **Recommendation 5 –** Develop a bespoke Hub Business Support Programme within the RGN general business support programme. Hubs are businesses in their own right and deal with B2B commerce. The support programme will seek to support hub owners and managers to develop their hubs by developing networking opportunities, developing or promoting the best practice material (i.e. common letting terms).

2. Introduction

Rural areas in England have undergone significant changes in recent decades. A key element of the changes to the rural economy has been the decline in traditional rural industries, such as farming and forestry (Woods, 2005). Although agriculture still accounts for a significant proportion of the employment in remote rural areas (CRC, 2010), recent surveys by the Commission for Rural Communities (CRC) (2007, 2008& 2010 for example) highlight the fact that, in terms of employment and output, the wider rural economy now mirrors the national picture with ‘property and business services’ and ‘manufacturing’ being the largest employers in rural areas. DEFRA statistics indicate that around 2% of rural Gross Value Added (GVA) comes from agriculture, forestry and fishing (DEFRA, 2013, p.82). Although this is likely to be an underestimate (DEFRA, 2013, p.84) it indicates the limited extent to which these sectors contribute to rural GVA.

Sector	**%**
Agriculture, Forestry and Fishing	2
Business Service Activities	10
Construction	7
Distribution, Transport, Accommodation and Food	20
Financial and insurance	4
Information and communication	4
Other services and household activities	4
Production	18
Public administration, education and health	22
Real estate activities	8

Table 2.1 GVA in predominately rural areas (adapted from DEFRA 2013, p.84)

The rebalancing within rural economies away from traditional rural sectors towards the more knowledge intensive sectors and the service economy has also been the focus of government policy, including the rationale underpinning the RGN programme.

The way business is done has changed markedly in the last 20 years. For example in 2011 the UK was the highest ranking western European country for internet spending. Growth in internet retailing is expected to expand at a rate of 8% per annum between 2012 and 2016 (Euromonitor International, 2012). Online sales are not just restricted to retail businesses, many knowledge intensive businesses (KIBs[i]) based in rural areas operate significant elements of their business via the web.

In a globalised economy, rural businesses access markets, customers and suppliers beyond their localities as well as within, reflecting a greater diversity in ways of doing business. The 'new rural economy' therefore needs new infrastructure to support it.

One of the key elements of this shift to a new rural economy is the need for more business space in rural areas (Taylor, 2008). This is not just a question of quantity, although that was highlighted as a primary problem in the Taylor Report (2008), it is a question of quality as well. This report therefore seeks to understand what constitutes good quality rural business space. In particular it focuses on what added value can be created by developing purpose built rural business hubs and supporting existing ones.

The report is structured as follows: It starts with a brief review of the current best practice and theoretical debates about enterprise hubs. It then goes on to outline a typology of business hubs. The next section then presents a review of current business hubs in the rural north east and relates the experience of these hubs to best practice throughout the country, applying the typology of hubs developed in the previous section. This section will include a case study of a business hub. The analysis also includes a comparison of data from the hubs to the Rural Business Survey (CRE, 2009). The final section will summarise the key findings of the research and make recommendations for policy and delivery, including: the establishment of new business hubs the in the rural north east and the development of existing ones, together with a network of hubs to   share best practice and learning.

3. Outline of the research aims and objectives

This research project has been a collaboration between the Rural Growth Network Partners and the Centre for Rural Economy at Newcastle University. The research methodology was agreed between the partners, with the key steps outlined below:

- Review of literature on business hubs
- Initial desk based survey on the relevant hubs within the rural NE and scoping telephone questionnaire with hub stakeholders
- Prepare outline typology of hubs
- A detailed analysis of a minimum of 10 sample hubs including telephone interviews with hub manager/owners and occupiers
- Produce research report to include a) a guide to best practice for the development/management of rural growth hubs; b) baseline evidence for hub performance; c) consideration of added value to rural economic development of a networked approached to rural growth hubs.

The key research questions identified were:

1. What is a rural business hub?
2. Is a rural business hub different from an urban business hub?
3. What is the nature of the rural North East's business hubs?
4. How can these North East businesses hubs be fitted into a typology of business hubs?

4. Literature Review

4.1 What is an enterprise hub?

The literature review will first address the question: what is an enterprise hub? In the academic literature there seems to be little use of the term 'enterprise hub'. The Oxford English Dictionary defines hub as meaning one of 5 things, the most relevant to this research is "the central point of an activity, interest, etc." (1993: 1273). We therefore adopted the following working definition of an enterprise hub:

"A hub will be the central point in a business network. This could be a physical point or, given the development of information and communication technology (ICT), it could be a virtual point."

This definition can accommodate both physical co-location of businesses in one geographic location as well as networks of businesses which share a virtual presence or interest and indeed a combination of both. This project, however, is focusing on physical clusters of businesses hosted within a single building, or in a single physical location.

There are two factors which differentiate an enterprise hub from any other business premises. The first relates to the physical characteristics of the enterprise hub. Enterprise hubs tend to offer additional facilities and services which are not offered within a general business premises. For example Bergek & Norrman (2008) argue there are four features common to all business enterprise hubs:

- "Shared office space, which is rented under more or less favourable conditions;
- A pool of shared support services to reduce overhead costs;
- Professional business support or advice;
- Network provision, internal and/or external." (Bergek & Norrman, 2008 p.21)

In addition there are also other benefits which relate to the flexibility in the terms of letting the premises. Flexibility in terms of length of tenure and the ability moving between larger and smaller spaces over time as the business grows or shrinks is extremely beneficial to growth businesses.

The second, less tangible factor which differentiates an enterprise hubs from other business premises is the opportunities to share and exchange knowledge. Having space in an Enterprise Hub provides opportunities to the businesses to share of knowledge both internally with other business within the hub and externally with the wider economy. This knowledge brokering is a key source of additionality which enterprise hubs can provide. It adds value over and above the physical bricks and mortar of the building. Enterprise Hubs become key nodes in the transmission and use of knowledge within the rural and regional economy.

The question then becomes what can be done to foster these knowledge intensive economies and in particular how can the necessary knowledge be developed and shared effectively between those who can best utilise it. Depending on the scale and extent of the economy being considered, there have been a number of academic theories developed to explain how knowledge can be shared to foster economic development.

The first theory which is applicable is that developed by Porter (2000) and outlines the benefits of clustering similar or complementary businesses in a specific geographical location. Porter defines a cluster as "a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementariness" (p.15). In a cluster, competitive advantage is gained through agglomeration and spill-over affects (Cooke, 2002 and Caniels & Romijn, 2005). This requires a degree of synergy between the businesses involved in the cluster. This synergy means the flow of people and knowledge between the businesses, either through the supply chain or by virtue of employees moving between businesses, spreads both codified and tacit knowledge.

The next relevant theory is that of the 'Learning Region' – This is a broader concept than the cluster and relates to the idea that geographical proximity of businesses is further enhanced by the presence of knowledge based institutions which foster an innovative and entrepreneurial local economy. Some writers place universities at the heart of this network (see Ward et al., 2005 for discussion of what this might mean in a rural context).Others highlight the need for 'institutional thickness' to provide the necessary environment to support business growth (Saxenian, 1994; Amin & Thrift, 1994). The term 'institutional thickness' refers to a network of civic and governance institutions working in collaboration with businesses to ensure supportive business and social environment (Putnam et al. 1994). Researchers have found that this approach can be important to create a 'local buzz' (Bathelt, 2004) attracting entrepreneurs not just because of the business environment but also the social environment.

A final theory which has relevance to this research is the triple helix model as developed by Etzkowittz & Leydesdorff (2000). The triple helix model seeks to place universities at the heart of innovation and enterprise. An often quoted example of the triple helix model in action is Silicon Valley in California (Saxenian, 1994). Here the focus has been on the funding of start-up and high growth companies. In this model venture capital firms and business angels have close links with incubators and those managing incubators. This model has been introduced to the UK with the 'Silicon Roundabout' or Tech City being held up as the way forward (BBC, 2012).In the UK this has involved banks sponsoring high-tech business hubs in the east end of London.

Therefore in addition to providing physical space, business hubs also provide additional benefits both tangible and intangible to the businesses occupying them. Tangible benefits include shared services, beneficial terms of occupation and business support. Intangible benefits stem from the networking opportunities provided by being co-located with businesses of a similar nature (this can be in relation to their business sector or stage in their life cycle). Enterprise hubs can also provide networking benefits with the wider economic community through institutions and individual contacts of both hub managers and hub occupiers. The next section explores how enterprise hubs can have a wider network effect.

4.2 The Rural Knowledge Economy

Knowledge can be roughly divided into two types, codified or formal knowledge and tacit or lay knowledge. Codified knowledge is information that can be written down and exchanged between individuals and businesses without necessarily any personal interaction. It is often protected by property rights such as patents and trademarks. Tacit knowledge on the other hand is personal knowledge. It is based on personal experience and connections often involving personal contact rather than more formal means of transmission.

It has long been recognised by a range of academics from various disciplines that successful economies have the ability to exchange and circulate both codified and tacit knowledge affectively. As outlined above, a range of terms have been used to describe this ability to encourage the flow of knowledge, for example 'institutional thickness' is the term used to describe the capacity of civic and businesses institutions to work together to provide the necessary environment for business development and growth. Examples of this could be research facilities and knowledge exchange (codified knowledge) processes operated by local universities (Ward et al.,2005) or else the presence of a vibrant venture capital and business angel resource base which can support business growth and networking (tacit and codified knowledge) (Saxenian, 1994; Amin &Thrift, 1994). Other researchers have found that institutional thickness can be important to creating a 'local buzz' (Bathelt, 2004) attracting entrepreneurs not just because of the business environment but also the social environment created within and around the business environment, again providing opportunities to share tacit knowledge. Hence different kinds of knowledge and the ability to access it are fundamental to the ability of rural businesses to survive and thrive in a globalised economy.

Enterprise hubs therefore sit at the centre of a number of important knowledge networks. Figure 4.1 is an attempt to visualise the various networks within which an enterprise hub operates. The added value an enterprise hub can bring to the rural economy is in the way it can help the businesses operating from the hub to gain access to a variety of knowledge networks. An enterprise hub is thus able to both foster the bottom-up development that helps build capacity at the local level whilst at the same time drawing in extra-local resources which would otherwise be beyond the reach of local actors.

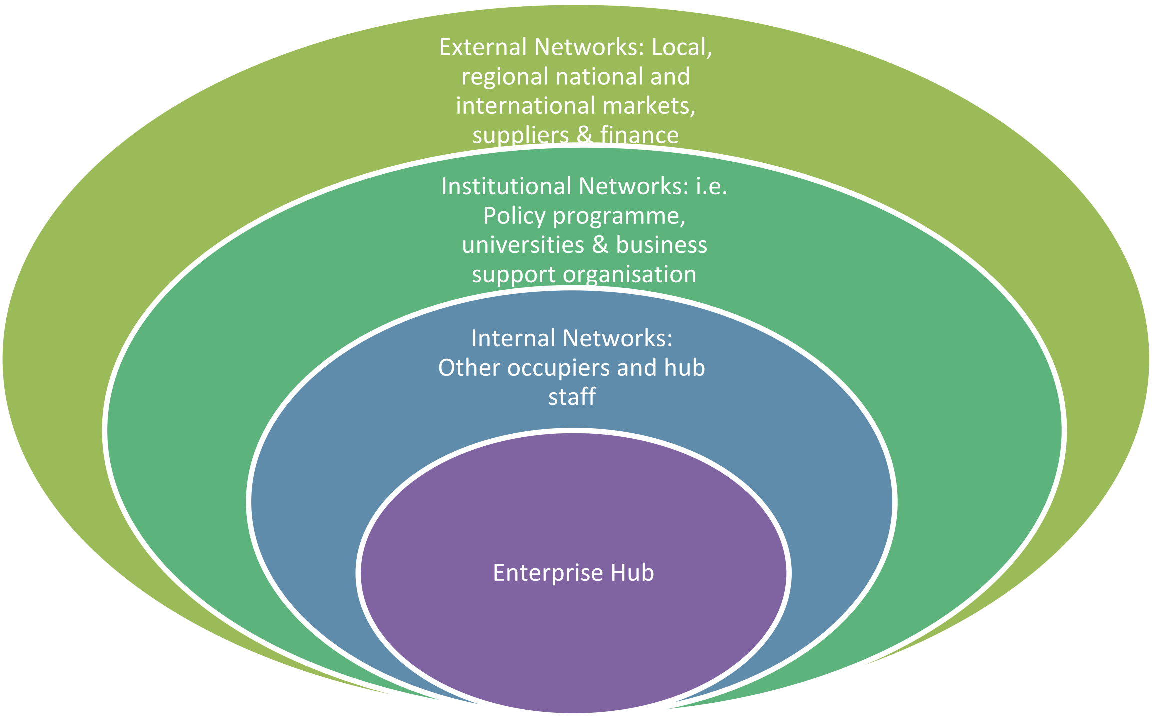


Figure 4.1The knowledge networks around an Enterprise Hub

4.3 The role of Enterprise Hubs

Developing the concept of the knowledge economy and the value of knowledge to rural businesses outlined in the previous section, this section aims to outline the additionality rural enterprise hubs can offer.

At a functional level enterprise hubs offer physical space, but also and perhaps more importantly a space that provides opportunities to make connections to other businesses and institutions both within the hub and beyond. Using figure 4.1 as a framework to examine the various knowledge networks surrounding an enterprise hub it is possible to examine how best to develop this further.

4.3.1 Internal Networks

The internal networks within a hub are between those occupying and managing the hub. To a certain extent this may happen through natural social interaction. This can be fostered through the physical design of the enterprise hub. Communal spaces are areas where hub occupiers and others using the hub can meet and interact. This can be further enhanced through formal and informal meetings arranged by the hub managers or by external bodies such as trade associations or training bodies. These could be informal such as a business breakfast or more structured such as training and mentoring for new businesses.

4.3.2 Institutional Networks

Enterprise hubs offer excellent opportunities for enterprise institutions, be they from local or national policy programmes, to reach into and connect with the rural economy. Enterprise hubs offer nodes through which knowledge can be transferred both out to the businesses but also back to the institutions tasked which fostering development. This can be policy related networks or those within the wider business institutional world, for example networks related to finance or trade through export. This links with the next element external networks.

4.3.3 External Networks

Enterprise hubs sit at the centre of a whole range of networks at a range of scales, from the very local (i.e. Enterprise House's Home Based Business Network) to the international (i.e. Micropol). These external networks are perhaps even more important than the internal networks and the provision of physical office space. They are potentially a source and location of bridges and connections between the various networks required for a successful local economy.

4.4 A typology of enterprise hubs

As outlined above the key element within enterprise hubs is the flow of knowledge. In relation to hubs this will relate to both the physical nature of the hub and its ability to foster the flow of knowledge. This could be through flexible use of space which allows businesses to share premises and swap and change as demand changes. It also relates to communal areas which allow businesses and their employees to interact on an ad hoc informal basis and exchange tacit knowledge. On a more intangible level it will relate to the ability of the hub to form networks, both internally and externally within the wider economy. This could relate to the exchange of codified knowledge, i.e. business support and training or by promoting the exchange of tacit knowledge through networking events and introductions to extra-local actors and their knowledge resources.

It is thus possible to differentiate between various types of business premises on the basis of which they do or do not exhibit this flexibility and connectivity. At one end of the scale are business premises which merely provide businesses space on traditional letting terms, with little or no services or interactive space. These could be described as lightly managed business premises. At the other end of the spectrum would be perhaps the ideal type enterprise hub. Here space is available on flexible and affordable terms. Communal services and shared space offer additional benefits to occupiers which because the cost is shared are affordable to the individual businesses. There are abundant opportunities to become involved in a range of networks and knowledge exchange activities both within the hub and connected to the wider economy. This end of the spectrum would be an enterprise hub with wide ranging and intensive support.

This differentiation between lightly managed and intensive support applies across the board, both in rural and urban areas. A second differentiation which can be made in relation to enterprise hubs is around the type of market in which businesses in the hub predominately operate. A number of business clusters in rural areas are based around visual art, heritage and crafts as tourism destinations There is a growing awareness that these sectors are becoming a key aspect of the economy of rural areas (Bell & Jayne, 2010) As such they are dependent to a certain extent on customers visiting the hub to view and purchase the goods and services. For this type of hub there needs to be a point of interest to draw customers to the location. Examples of this would be historic houses, gardens, or museums. The visitor to the hub is looking for an enjoyable and rewarding experience as well as the opportunity to buy the hub occupiers' goods and services. It should be acknowledged that, as the research below will show; direct sales on site are only part of the marketing strategy of businesses in this type of sector and hub. Online sales and sales through trade fairs and farmers markets etc. also make up an important element of the overall business strategy.

This can be contrasted with other knowledge intensive businesses that mainly service other businesses. These businesses to business (B2B) hubs do not necessarily need their customers to visit their premises. Much of their business can be done at a distance and the location of the market for their goods and services is not the main deciding factor in the choice of business premises. Other factors in the decision to locate a B2B type business therefore come into play. This is often connected to the business owner's personal circumstances, their place of residence or location of their children's school. The availability of suitable staff and their needs is also an important factor in business premises location for this type of business.

This second axis of differentiation then allows rural business premises to be divided into 4 types as shown in figure 4.2.

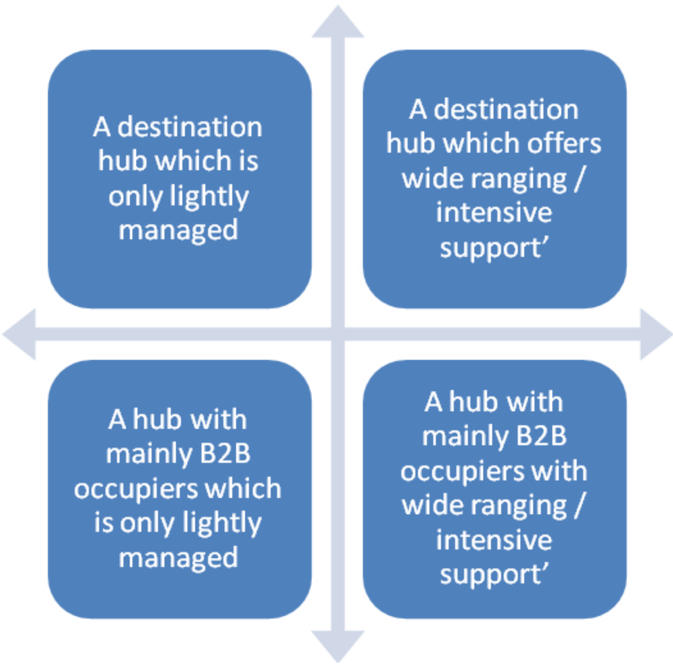


Figure 4.2 A conceptual typology of business premises.

It could be argued that business premises falling to the left of the central Y-axis, i.e. lightly managed premises are not really enterprise hubs at all. They do not offer the additionality that more intensively managed enterprise hubs offer in terms of their support for businesses and the flow of knowledge. However, opportunities for knowledge to flow e.g. between customers and the businesses, or business to business remain. The key distinction is the provision of activities, facilities and services that help facilitate flows of knowledge as part of a deliberate management policy. The conceptual typology will now be applied to the research findings that follow.

5 Enterprise Hubs Research Findings

5.1 Overview of the hubs

From a total sample of 22 potential hubs it was possible to interview 12[ii] hub owners for this phase of the research – a response rate of just under 50%. The full list of the 22 potential rural hubs in the RGN area is included in Figure 6.2 and in the appendix. This is not a comprehensive list of all business hubs in the RGN area but a working sample around which the research has been structured. There will inevitably be additional business hubs that have been missed off the list.

In terms of their physical size the hubs range from the smallest which was Fourways in Amble with only 7 units available, to the Berwick Incubator which has 35 units available. There was also a wide variety of unit size with units ranging from $9m^2$ to 473 m^2.In terms of flexibility of space only 3 of the 12 units could reconfigure their units to vary the size of space available and in all cases this could only be done by linking two adjoining units.

There was a mixed approach to flexibility of tenure. At the most flexible end of the scale a number of hubs had 'easy in – easy out' licences which allowed occupiers to take space on flexible terms and have short term letting agreements. Other hubs operate a more formal lease arrangement with fixed term leases.

There was also very limited flexibility in relation to tenants sharing space with third party businesses. Only 1 of the 12 hubs would allow occupiers to share space. Research has shown greater flexibility in allowing occupiers to share space helps in the growth cycle of businesses and creates better flow rates of tenants. There is a risk an occupier will limit their growth so as to fit the available space rather than take a risk and move to bigger premises. By allowing occupiers to share space businesses can move to a larger space and sub-let part of that space until such time as it is required by them. In turn the small business sharing the space has the benefit of flexibility and interaction with an existing business; in turn it may then take space in its own right as its needs change. This 'grow on space' is an important part of what hubs can offer over and above normal business premises.

One other important aspect of hubs relates to their ability to have an impact on business development and economic growth i.e. an ability to produce an economic output which is greater than the sum of the business parts. This relates to the ability to generate spill-over and agglomeration affects.ie there are benefits of businesses clustering together in terms of knowledge sharing and potential collaboration. The mix of tenants can be important to developing these spill-over and agglomeration affects. For example having a number of firms from the same sector but undertaking different roles can allow the businesses to collaborate and take on larger projects which alone they would not be able to tackle. A good example of this can be found in the South West:

Case Study - Digital Peninsula Network was started in the late 1990s essentially to support the growing number of home-based ICT business in Cornwall. The network has since developed to offer a wide range of services and training to digital businesses. As well as the standard hub services; hot desking, meeting rooms, training and networking meetings, the network also actively encourages businesses to collaborate to win larger contracts both locally and outside the area. The mix of members is important to allow this type of collaboration to happen.

http://www.digitalpeninsula.org/

Within the hubs contacted in the North East, 5 had some form of tenant selection. Indeed one hub was subject to a restrictive covenant, which related to the freehold title, which prevented certain businesses which were involved in gambling or the consumption of alcohol occupying the hub.

Other hubs had a more proactive approach to the tenant mix. For example, one hub owner had previously tried to ensure a complementary mix of tenants. However the ability of the hub owner to continue to do this was limited by decreasing demand for space in the hub. Whereas once there was a waiting list for places in the hub now there were vacant units that could not be filled.

Other hubs, in the public and not-for-profit sector, had a tenant mix policy based on the nature of their institution. For example, one hub was focused on developing new and young businesses while another was only able to accept occupiers from the creative industries.

5.2 Aims and objective of the hub

To try and create a typology of rural hubs in the North East the hub owners/managers were asked about the main objectives of the hub and how they were managed. Figure 5.1 shows the relevance of certain aspects of hub activity to the individual hub.

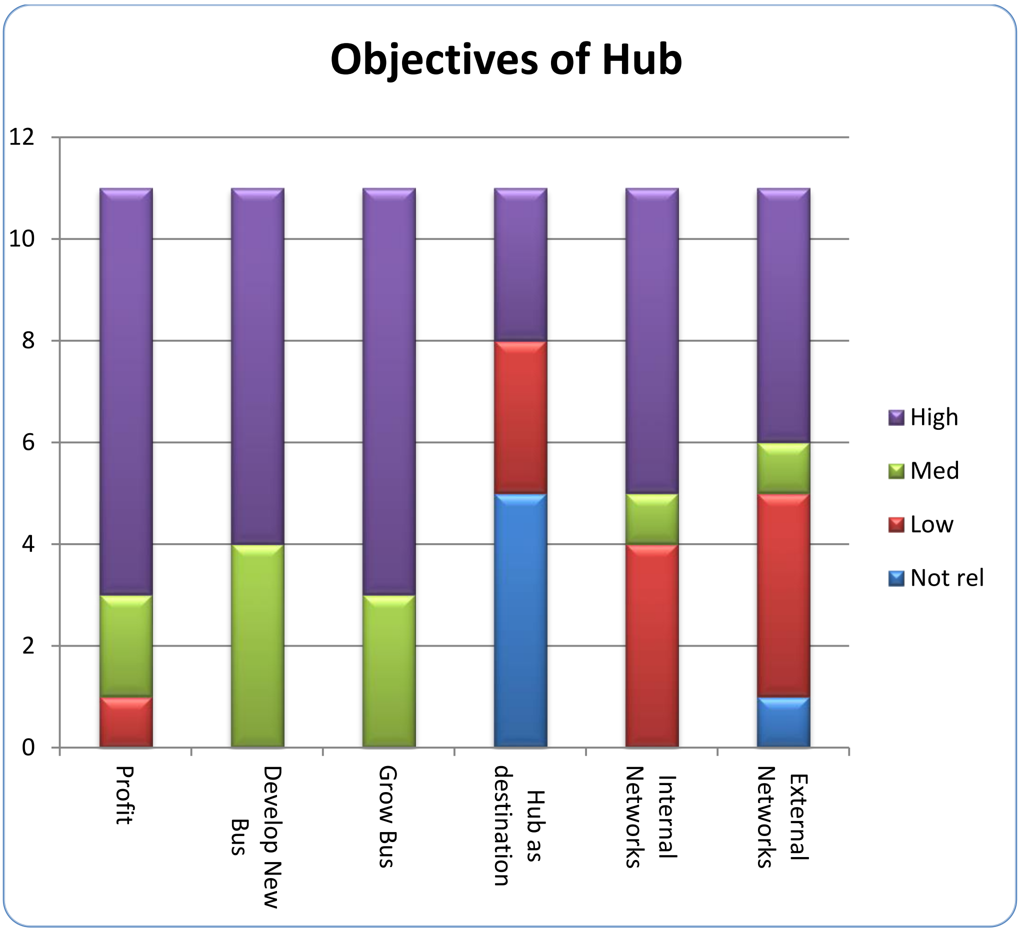


Figure 5.1 – Objectives of Hub

The first three aspects of hub activity: to make a profit, develop new businesses; and help businesses grow were the main objects for nearly all the hubs.

The role hubs play in networking was a little less of a priority. All of the hubs confirmed they do promote internal networking activity. The hubs could, however be separated into those hubs which actively engaged in networking activity for example through business breakfasts or seminars and those which took a passive approach, for example by having shared space such as a kitchen or staff room where occupiers could bump into each other informally.

Amongst the hubs engaging in active networking activity only 2 had any business support activity within the hub. The examples of this were Enterprise House and Fourways in Amble. In both instances the business support programmes were linked to other programmes and were not necessarily guaranteed to continue in the longer term.

5.3 Services offered

In terms of the services offered by the hubs, all the hubs contacted offered at least two services. Figure 5.2 shows the overall picture of services offered. Shared amenity space is offered by nearly all the hubs with 2/3rds of hubs also providing receptionist cover, photocopying facilities and meeting rooms. Very few now provide ICT infrastructure. A number of the owners have commented that whilst this was important a few years ago, developments in mobile technology, cloud computing and the reduced cost of hardware means most business can source and maintain the ICT they need themselves.

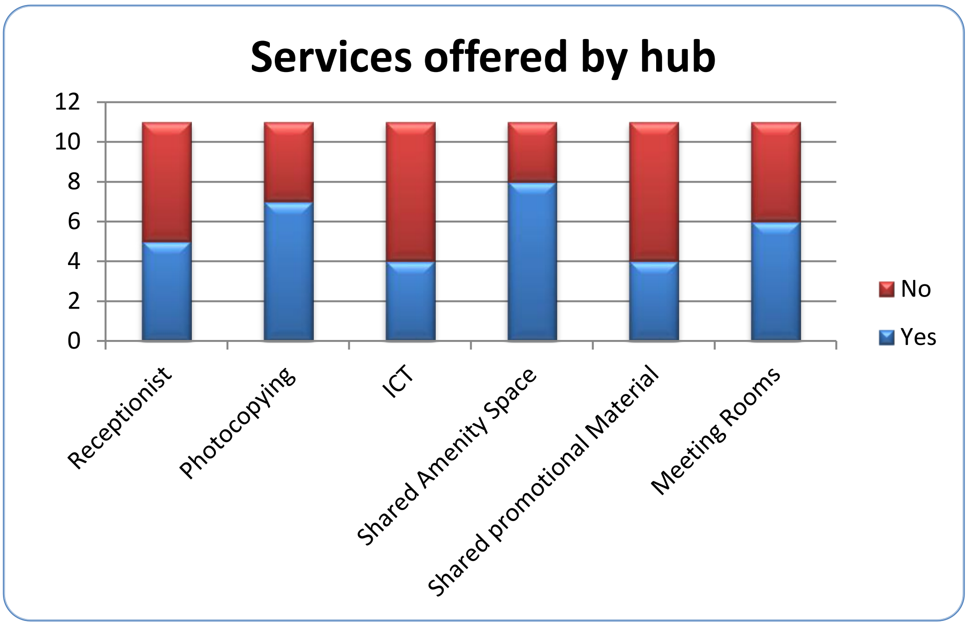


Figure 5.2 - Services provided by Hubs

All but one of the hubs had a broadband connection. Lee Moor Farm being the exception did not have a broadband connection. One business interviewed for the research confirmed this was not a major issue as the dial up speed was sufficient for the majority needs. When a faster speed was required they worked from home. In terms of broadband speed perhaps the most interesting aspect of the research was that very few of the hubs knew what speed their internet connection was. For those that did the speed ranged from 2 Mbps to 54 Mbps. This is something that will be addressed in the hub occupier's survey.

Given the low level of additional service provision it is questionable whether some of the hubs could be considered to be enterprise hubs as defined earlier (see p.13). In terms of these rural hubs, there is a need to determine whether there is a threshold of shared services below which a hub ceases to be a hub, and is a cluster or business park. In the end this may be a subjective decision related to the perceived as well as actual value being derived by those businesses because of their presence within the hub, as opposed to easily identified, quantifiable thresholds of provision by the hub owners.

5.4 Financial stability

One of the main concerns for hub owners and managers was the short and medium term financial stability of the hub. Two of the hub managers commented that whilst in the past there had been a waiting list for units in their hub, this was no longer the case. Figure 5.3 shows the hub owner/managers views on their financial stability:

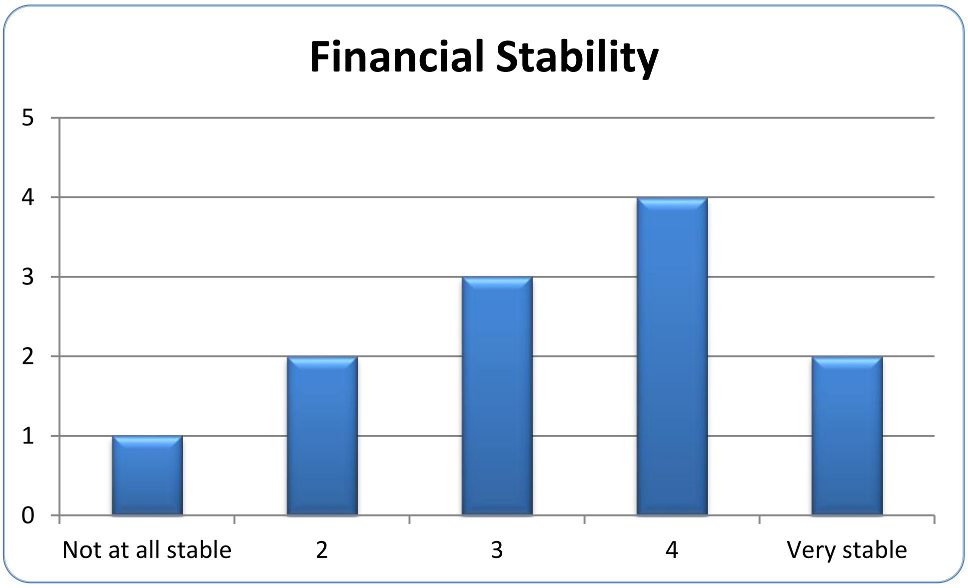


Figure 5.3 – Financial Stability of Hub

A number of hubs relied on income from other properties to cross-subsidise the hub in question. In the case of not-for-profit hub owners this was from other project funding. In the case of private owners the hub was subsidised by other properties in the owner's portfolio.

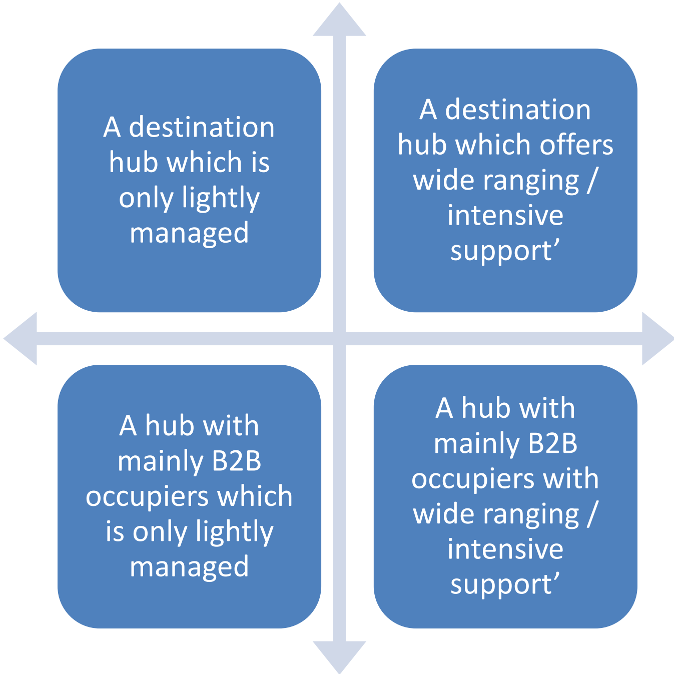
Part of the reason for the instability was a combination of lower demand from tenants and higher overheads as a result of increases in utility bills and insurance premiums. The average time taken to re-let a vacant unit was 32 weeks. A number of hubs reported having units vacant for more than a year. In terms of the number of units currently vacant across all 12 hubs interviewed there were 19 vacant units. The largest number of vacant units was 9 with only one hub being completely full.

6 A typology of rural business hubs

6.1 A typology framework

From the analysis outlined above there seem to be two dimensions which can be used to differentiate between the various hubs. The first dimension relates to whether the hub offers support and assistance to the hub occupiers. This is not a particularly novel method of differentiating between hubs and has been used in a number of studies (for example the NESTA review of business incubators [Lee et al., 2011]). This dimension seeks to classify hubs on a continuum between those which offer no or minimal support and services at one end of the scale. At the opposite end would be hubs which provide a very high level of support and assistance and actively manage the tenant mix within the hub. The second dimension is more novel and is more appropriate to the mix of hubs to be found in the rural North East. This dimension relates to the nature of the market for the goods and services produced by the hub. At one end of the scale are those hubs which require customers to visit the hub and purchase the goods and services directly from the hub occupiers. These hubs tend to be occupied by businesses from the creative and craft industries as well as services such as a café or restaurant. These hubs tend to work as a destination in their own right. As well as the hub occupiers themselves they will often have additional attractions for example a gallery space, historic attraction or other public attraction. These could be termed 'Honeypot Hubs'. At the opposite end of this dimension are those hubs which entirely service distant, non-local markets. Business to business selling is the main business structure with business being conducted remotely or through visits to clients. These hubs tend to be occupied by knowledge intensive businesses. These could be termed 'Hive Hubs'.

Figure 6.1: Four way typology of Rural Growth Hubs

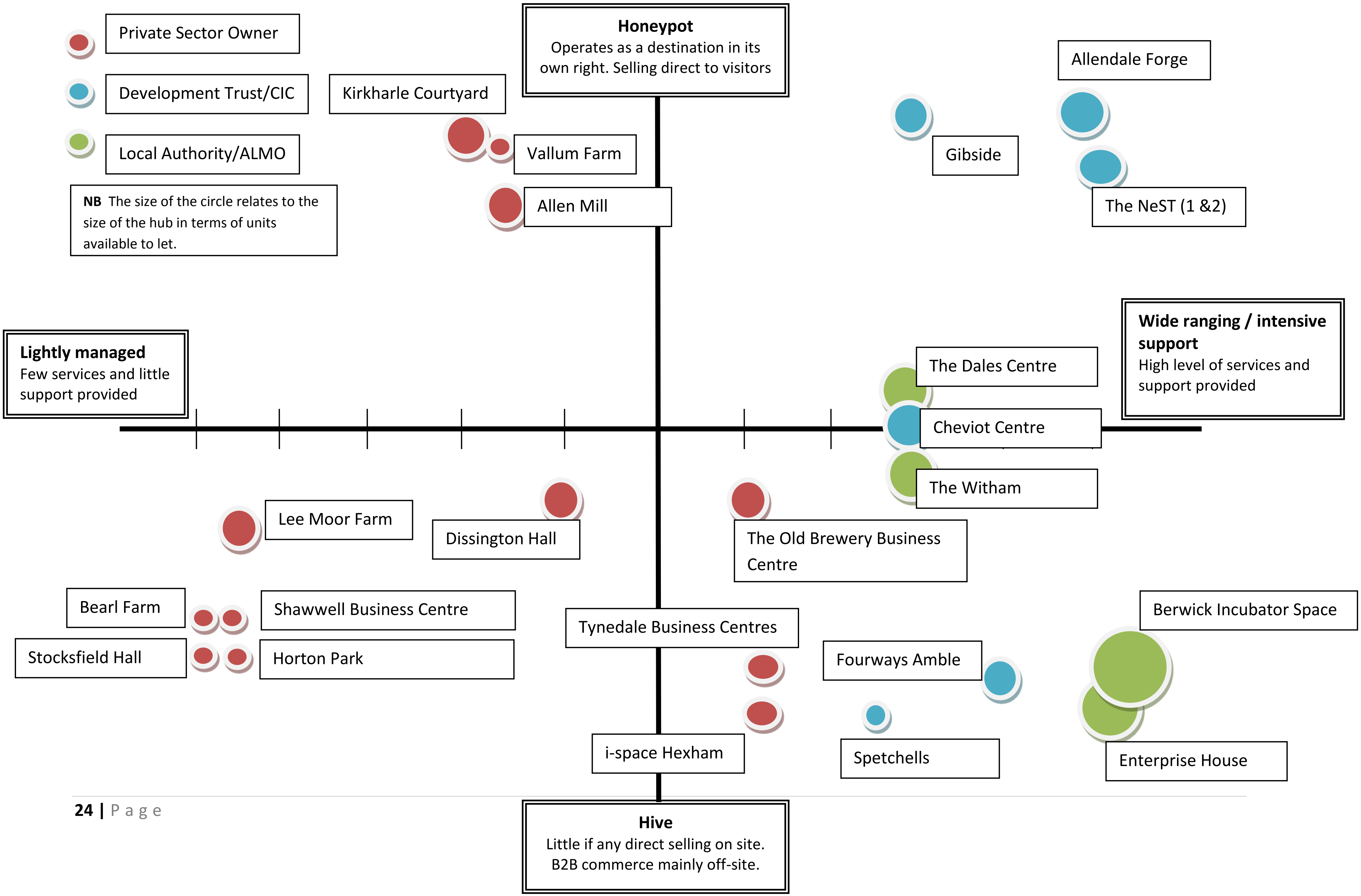


6.2 Mapping Rural North East Hubs

Figure 6.2 attempts to place the existing rural North East hubs within the rural enterprise hubs typology framework developed earlier.

NB: The typology map of enterprise hubs in the north east is intended to be a tool for understanding the scope and diversity of the various hubs. The position of the various hubs within the typology has been done by interpreting the interviews with hub owners/managers and has been subject to some stakeholder consultation. Inevitably with this type of exercise there will be debate as to the precise location of a particular hub. This is part and parcel of the process of understanding the nature of enterprise hubs in the rural north east. Over the period of the research the typology has been amended and updated and hopefully this will continue:

Figure 6.2 - Typology of North East Rural Business Hubs



A number of patterns emerge from this analysis. The first is that the right hand side of the chart is dominated by Local Authority and Third Sector hubs. Only two private sector hubs make it into this half. In fact the owner of i-space confirmed they were thinking of stopping the additional services they did provide, such as reception and telephone cover, as it was becoming too expensive. This raises important questions about market failure and future support via limited and shrinking public sector funds.

This pattern seems to suggest it is difficult for a private sector operated hub to offer a wide range of services let alone any form of support programme and still make a profit. The public and not-for-profit hubs are able to draw in funding for support and services for their occupiers that may not be available to private sector hubs. In accordance with the methodology outlined in section 4.4 the hubs contained within the left hand side of the typology could not be considered enterprise hubs. They do not offer sufficient additionality for their occupiers. This is not say that they are not a valuable part of the overall business premises resource in the area. They may for example offer valuable grow-on space for businesses that have expanded or moved to a new phase of their business life. On the other hand, they do little to actively encourage knowledge flows and networking.

With a typology developed it is now possible to map the north east enterprise hub network onto the RGN area and identify any gaps in that coverage. Figure 6.3 shows the current enterprise hubs included as the sample for this research project mapped geographically. In addition to the information incorporated into the typology diagram, additional information is shown for each enterprise hub. The nature of the enterprise hub in terms of where it is located within the typology is shown by the number in the centre of the circle:

1. Hive Business Cluster
2. Hive Business Enterprise Hub
3. Honeypot Cluster
4. Honeypot Enterprise Hub

The hub map shows the distribution of the various hubs according to the typology. The map also uses the same system of colours to identify the status of the hub owner.

Figure 6.3 Geographical spread of current enterprise hubs

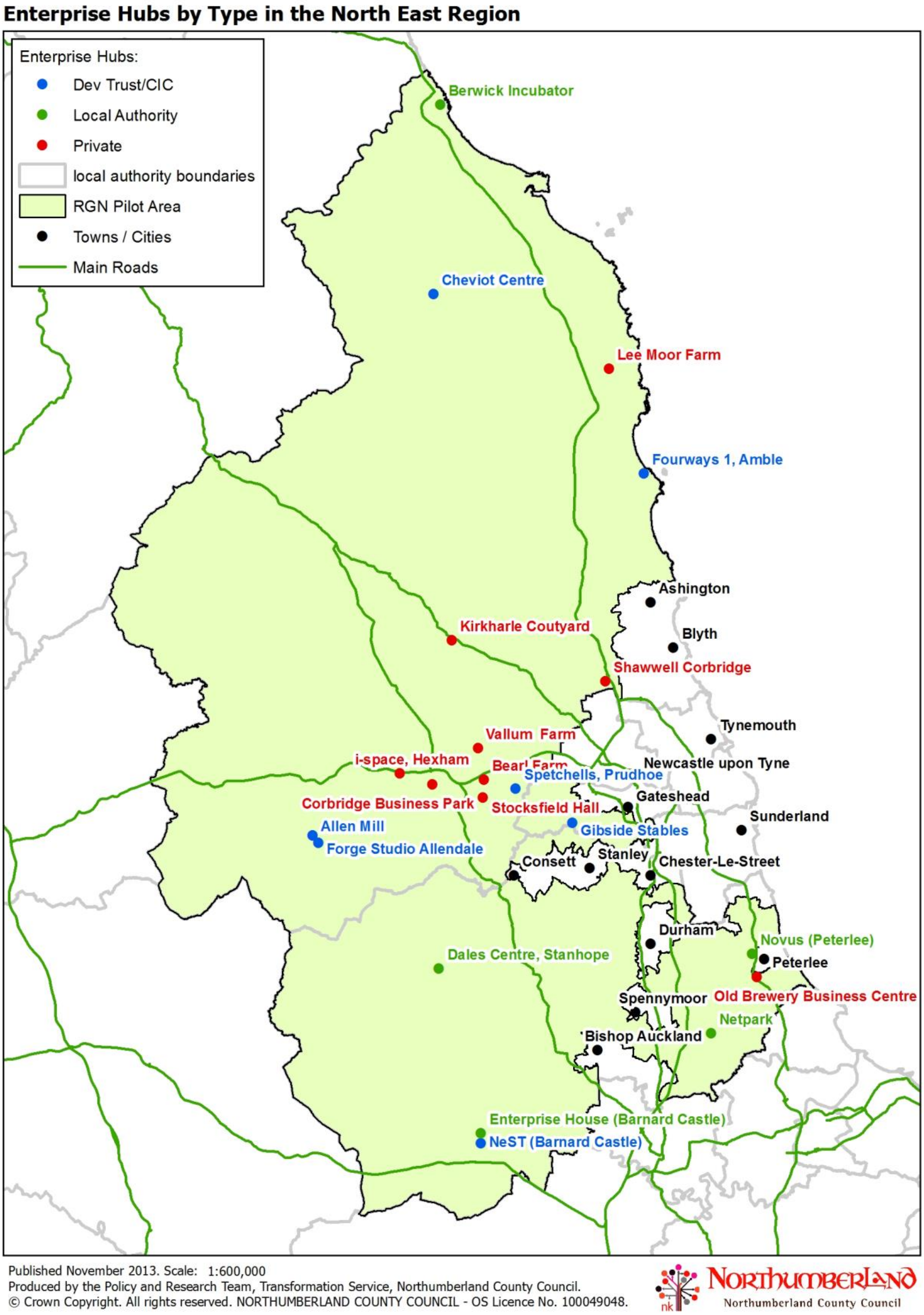


Figure 6.3 shows there is a spread of enterprise hubs across the RGN area. There is also a degree of diversity across with the RGN area with a variety of hubs in all areas. This reflects the ad hoc nature of their development to date. The development of rural hubs in the north east is a result of a variety of factors, for example, availability of property and access to finance for development of hubs. The RGN programme offers an opportunity to develop a more coherent network of enterprise hubs across the region. This could be through the development of new hubs in areas which perhaps lack a particular type, i.e. honeypot or hive. This raises the question of the best approach to hub development in areas where there is less provision.

The current RGN programme also offers an opportunity to strengthen the existing network. This could be through enabling existing hubs to develop their facilities, for example through providing smart work spaces or a shared commercial kitchen. This would allow hubs to diversify their product and be more resilient in times of economic uncertainty.

6.3 Testing the hub typology with stakeholders

Following the development of the north east enterprise hub typology, the typology and the map of existing enterprise hubs in the north east was presented to a number of stakeholder groups. This was aimed at testing the typology and place given to each hub within the typology with stakeholders who had day to day experience of managing and occupying the hubs. The typology and map was presented at the following events:

- 21st May 2013 MICROPOL UK Seminar event at Linden Country Club. International stakeholders with an interest in rural economic development
- 17th June 2013 Northern Rural Network/Rural Growth Network/ NEFRAN event in Hexham. Mainly public and third sector stakeholders with some business stakeholders.
- 26th June 2013 Institute for Local Governance, Teesside University. Academic and policy practitioners.
- 24th July 2013 Enterprise Hub Round Table, Newcastle University. A focus group of hub owners and managers.
- 20th September 2013 Enterprise Hub Round Table, Gateshead. A focus group of hub owners and managers

At all the events there has been broad approval for the typology as an effective way of thinking about the diversity and distinctive needs of the enterprise hubs in the rural north east. The two axis of differentiation, levels of support versus honey pot & hive were also felt by stakeholders to be a suitable way of thinking about the differing goals and challenges each type of hub faces.

The events also assisted in developing a clear understanding of how enterprise hubs in rural areas differ from those in the urban centres and how the two can be linked together. In general it was felt that there needed to be a range of hub types across the region. However at this stage it was not clear whether the network of hubs was in any way operating as a network or just a series of isolated hubs.

This analysis of the goals and challenges faced by the different hub types was further developed within the enterprise hubs round table. Honey pot hubs face specific challenges around gaining access to markets. Many of the businesses in a honey pot hub have a diverse income stream. This includes direct sales to visitors to the hub, online sales through the internet and sales at events such as farmers markets and trade shows. Support needs to be centred on the hub, making it an attractive destination for visitors. There also needs to be support for the distance selling strategies of the businesses. One particular problem for micro-businesses in honey pot hubs is managing work/life balance. Most visits tend to be at the weekend or in the summer holiday. This can put a strain on business owners with family commitments. One way to overcome this problem is to have a shared retail outlet. This allows businesses to share responsibility for the peak trade times. It allows other economies of scale such as a shared merchant terminal which allows business to accept credit card payments. There is evidence of this working well in some of the existing honey pot hubs, in particular the NeST in Barnard Castle and Allendale Forge Studios.

Hive hub occupiers face a completely different set of issues. These businesses are more reliant on business networks and shared intelligence to generate sales. Hive hub occupiers are more likely to be involved in tendering for contracts both in the public and private sector. The knowledge and support required in relation to hive hubs will therefore centre on helping hive occupiers to bridge knowledge networks to gain access to extra-local markets. There may also be a need to develop soft skills around collaboration to win larger tenders.

7 Investigating the view of Hub Occupiers.

7.1 Overview of methodology and limitations of research

To complement the hub owner/manager research, a survey of hub occupiers was carried out between 10th June and 1st August. A data set of 111 businesses was compiled using Post Office, Companies House and other public databases in relation to the business occupiers of the 18 hubs identified in the first round of research. In the end a total of 21 completed surveys were received which represents a response rate of 19%. The low response rate and low overall numbers of results have meant that it has not been possible to analyse the data with respect to the individual hubs. The analysis has been carried out, therefore, on the sample as a whole.

At least one business was surveyed in 12 of the 22 business hubs covered by this research project. Some of the hubs which were included in the research, Alnwick for example, were unoccupied at the time of the research. In relation to other hubs, difficulty in coordinating responses and absence of businesses on holiday or work related travel prevented surveys being completed.

7.2 Some key characteristics of the businesses surveyed

As an analytical strategy and a way of checking the validity of the results from the hub occupier survey some of the key results will be compared to the findings of the Rural Business Survey (Atterton & Affleck, 2009). This large survey gives a good overview of the characteristics of rural businesses in the north east of England. By comparing the results of the hub occupier survey to the results from the Rural Business Survey it is possible to see if hub occupiers differ from the general rural businesses population. If they do differ it will be possible to investigate how they differ and the implications for the business support being offered to hub occupiers.

The first characteristic to be investigated is the age of the business. As can be seen from table 7.1 there are significantly more businesses in the 0-2 year's category within the hub sample.

Table 7.1 Age of business

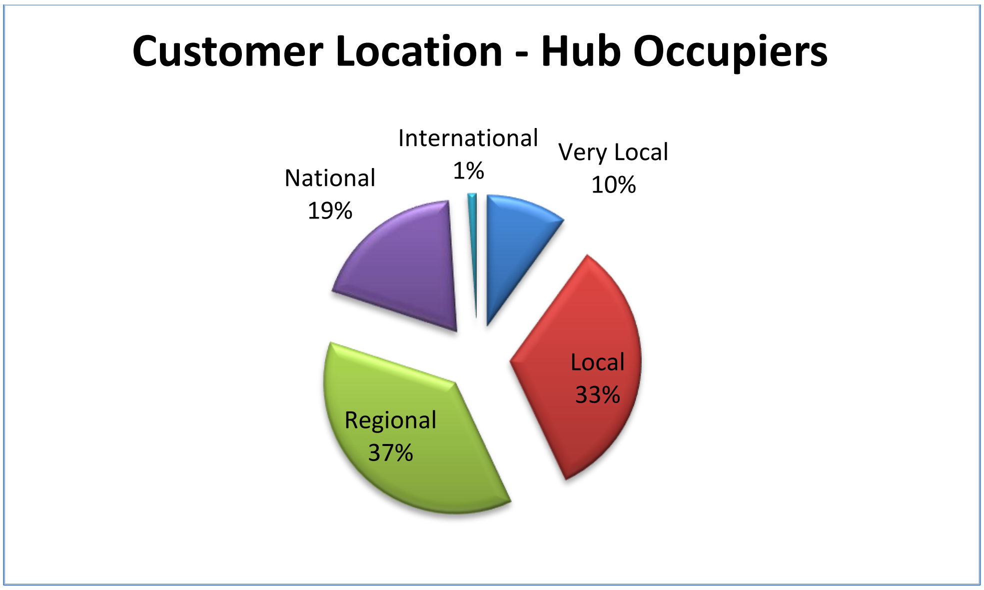
	Rural Business Survey (2009)		Hub Occupier Survey (2013)
0 - 2 years	8%		41%
Over 2 - 5 years	16%		6%
Over 5 - 10 years	20%		29%
Over 10 - 20 years	20%		12%
Over 20 - 50 years	25%		12%
Over 50 years	11%		0%

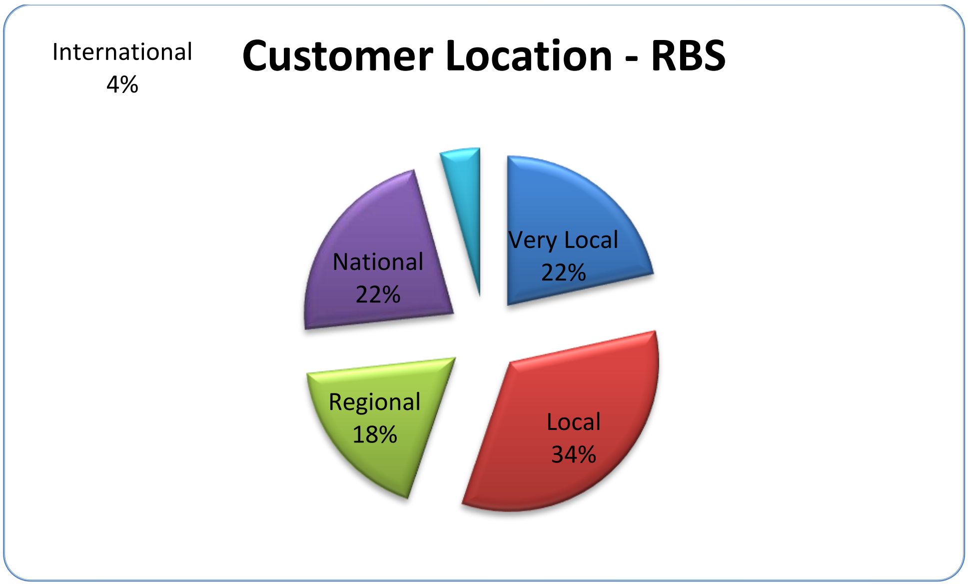
It is not surprising that there is a bias towards younger businesses in the hub occupier sample given the explicit aim of some of the hubs to promote start-up businesses.

The next characteristic covered in the survey is employment. The average number of full time employees for hub occupiers was 4.6 which contrasts with approximately 4.5 employees within the businesses surveyed by the Rural Business Survey. For part-time employees the average number was 1.06 compared to 2 part-time employees within the Rural Business Survey. These figures are not significantly different and therefore it does not seem that hub businesses create more or fewer jobs than rural businesses in general.

One aspect of the hub occupiers' business which was different from the rural business population as a whole was their customer base. This related to both the location of their customers and the type of customer (see Fig 7.1 and 7.2).

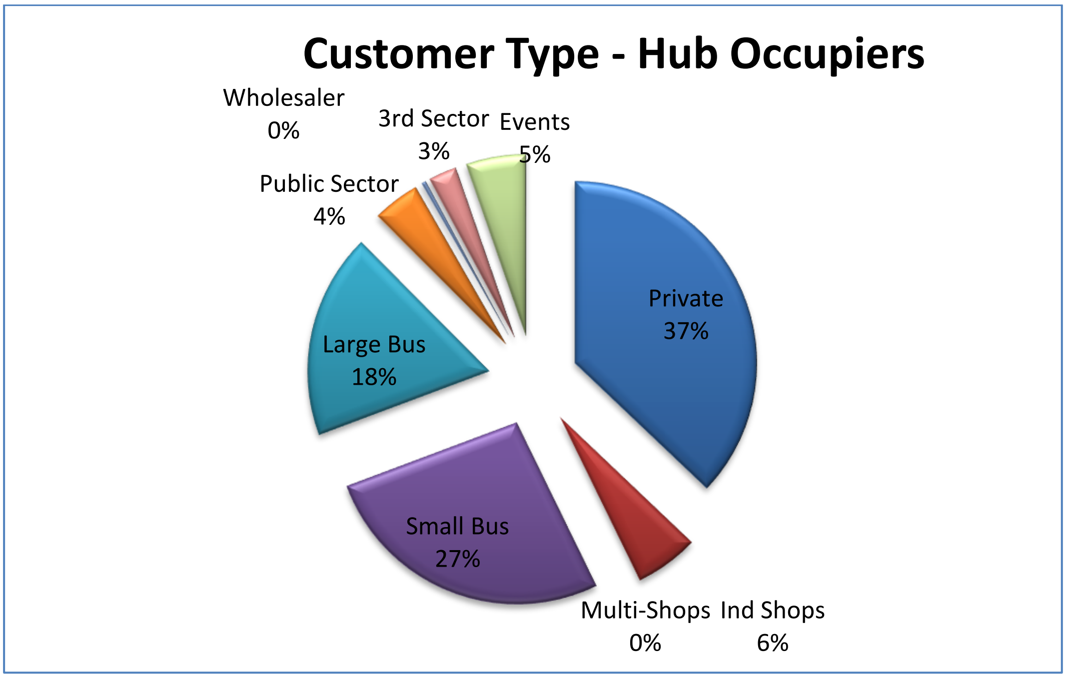
Figure 7.1 – Customer location





As can be seem from figure 7.1 hub occupiers have a similar number of customers locally and nationally to the overall rural business population. Where they differ is in relation to the very local and regional markets. Hub occupiers have fewer very local customers. This may be a function of their location. Some of the hubs used in the survey are in sparsely populated areas of the region, with few local customers. This may also explain the higher number of regional customers.

Figure 7.2 – Customer Type



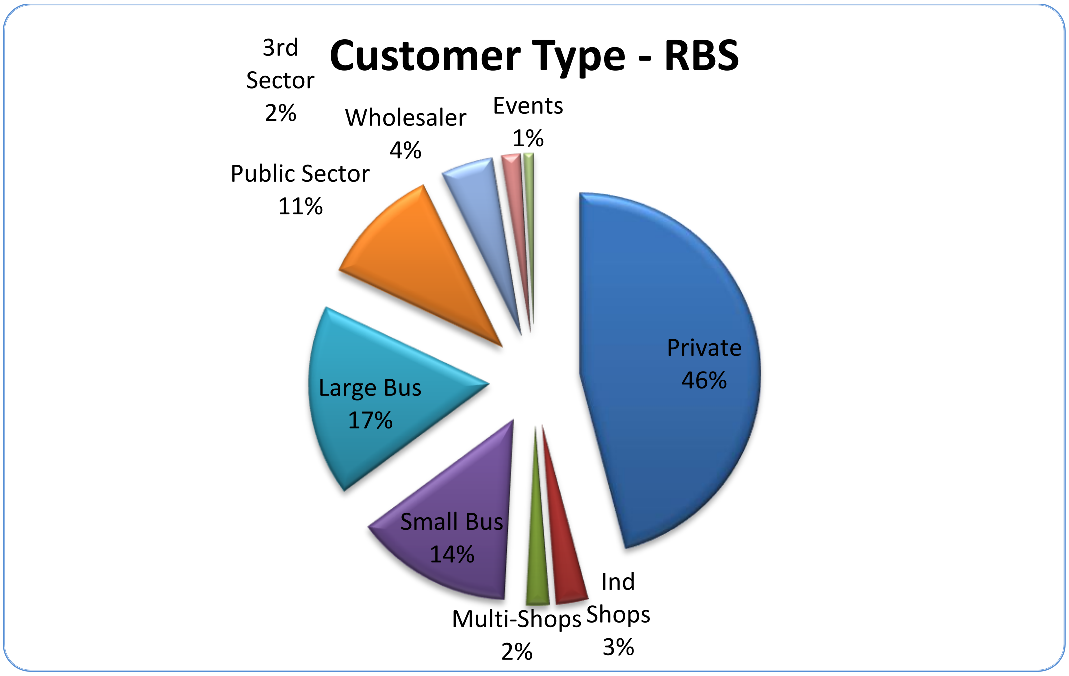


Figure 7.2 shows the difference in the types of customers the two groups of businesses engage with. The Rural Business Survey results show rural businesses predominately generate a much higher proportion of their sales from private customers than businesses operating from hubs; 46% and 21% respectively. The only commonality between the two groups is the level of sales to large businesses, which for both account for 17% of sales.

Businesses in the hubs sample have a much more even spread of sales outlets. Another significant difference between the two samples is that hub occupiers generate more sales from shops, small businesses and events (trade fairs, craft markets etc.). This seems to show hub occupiers have a greater diversity in terms of the avenues through which they can generate sales. They are not restricted to just one option. Anecdotal evidence from the hub occupiers interviewed for the survey suggests this is a deliberate strategy on their part to diversify their sales and hence gain a greater degree of resilience. For example, businesses in the creative sector talked about having direct sales through their premises in the hub but also about taking part in trade events and having an e-commerce option to help get them survive outside the summer season. The difference in the sales to the public sector between the two groups may be a result of the economic crisis and cut backs to public sector budgets. The RBS survey was conducted in 2008/09 just as the recession was starting to bite. The hub occupier survey was conducted some 4 years later, after at least one round of substantial public sector budget cuts.

7.3 Barriers to growth in rural businesses

The next section of the survey of hub occupiers sought to investigate some of the barriers to growth experienced by rural businesses. Previous research has shown a number of aspects of the rural economy which can potentially limit rural businesses ability to expand. These range from broadband availability and speed (Talbert & Gillespie, 2007); to availability of commercial property (Taylor, 2008); to a pool of skilled workers, particularly in relation to knowledge intensive sectors (Mahroum et al., 2007) and the availability of finance (Turner, 2010 & CRC, 2013).

The first of these issues covered by the survey was that of broadband availability and speed. All bar one of the hubs surveyed had broadband available to their occupiers. However, the capacity and speeds differed substantially. The slowest speed were less than the government minimum of 2mbs with the fastest available being more than 50mbs.

Figure 7.3 – Broadband satisfaction

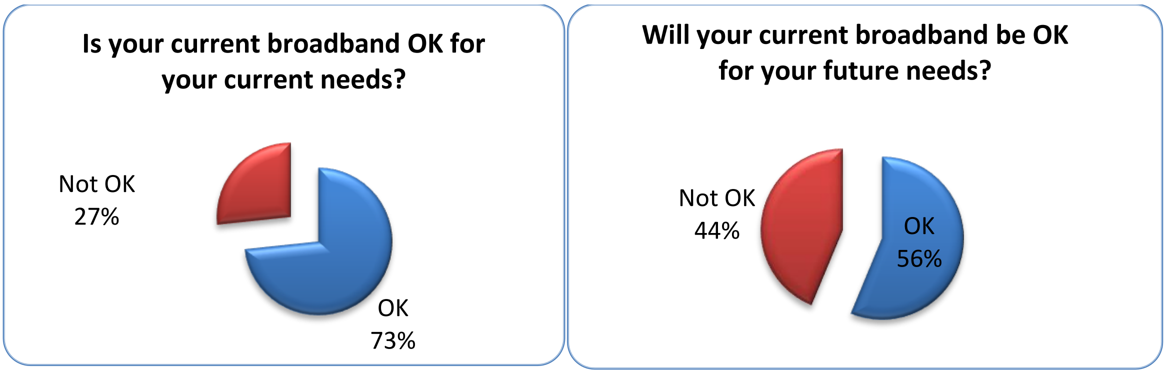
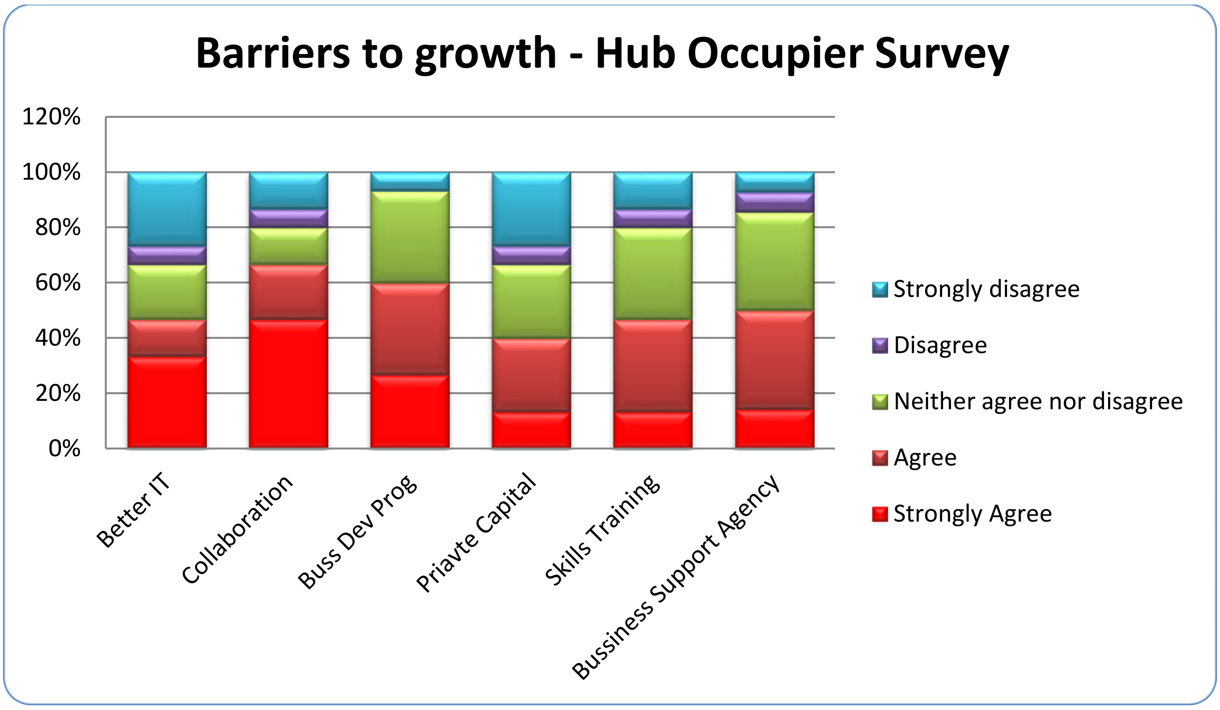


Figure 7.3 shows how satisfied those with broadband connectivity are with their connection now and whether they feel it will be sufficient for their needs in the near future. Just under three quarters of the businesses surveyed considered that their broadband speed was acceptable for their current needs. When asked to consider the future just over half considered their current broadband service would be acceptable. These figures are slightly lower than the satisfaction rates reported in the Rural Business Survey which were 81.6% for current use and 64.8% for future requirements. This suggests that as the way businesses use the web changes the demand for broadband speed and capacity will increase. There is no data available as to the average speeds available to the participants in the RBS survey so it's impossible to say whether the decrease in satisfaction is related to changes in technological requirements or as a result of poor availability of broadband in rural areas.

The next section of the survey covered general barriers to growth in rural areas as evidenced by previous studies into rural economic development (Commission for Rural Communities, 2008). This dealt with 6 areas of business activity and support and again provided an opportunity to compare the results of the hub occupier survey responses given in the Rural Business Survey:

Figure 7.4 Barriers to growth



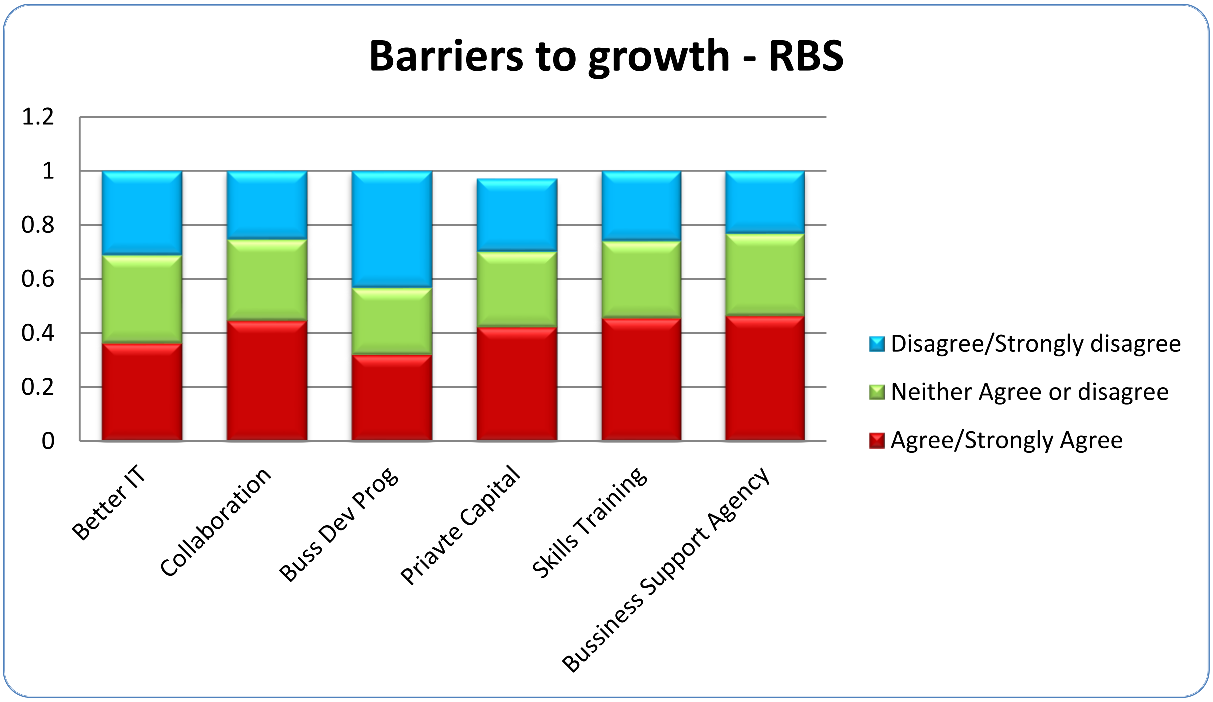


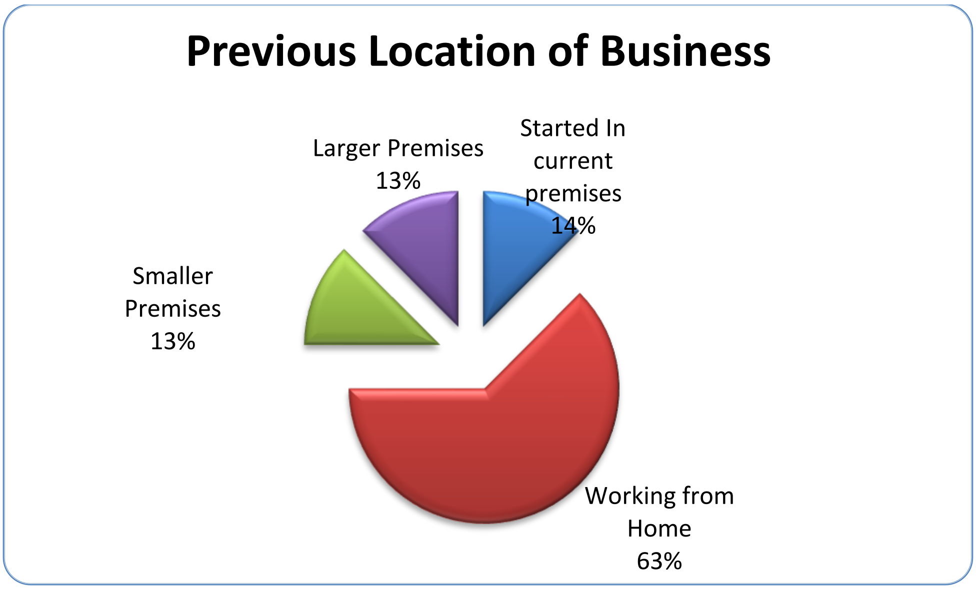
Figure 7.4 sets out the overall picture of the responses given in the two surveys. Across the two surveys there is a consistent pattern with the statement 'working in collaboration with other local businesses will help my business to grow' having the highest levels of agreement in both surveys. The one element that is notably different between the two surveys is in relation to the statement 'better access and adjustment to national and regional business development programmes and grant funding will help my business to grow'. This had the lowest levels of agreement as shown by the RBS businesses but has the second highest overall score by the hub occupiers. This may show a greater willingness of hub occupiers to engage with business support programmes.

7.4 The decision to move to the hub

The final section of the hub occupier survey investigated why businesses chose to move to an enterprise hub and what sort of relationships they have with other hub occupiers. The average period of occupation was 3 ½ years which the longest period of occupation being 16 years.

Figure 7.5 provides a breakdown of where the business was located prior to its occupation of the hub premises.

Figure 7.5 Previous location of business



Nearly two thirds of businesses in the hub occupier's survey had previously been working from home prior to taking space in the enterprise hub. This suggests home-based businesses are a significant source of demand for rural enterprise hubs. A previous report into home-working in the region (Tribal, 2010) showed that home-based businesses are much more likely to be owned by a female entrepreneur (53%) as against male entrepreneurs (37%). Research at Harper Adams University College has investigated some of the reasons why women are more likely to have home based businesses and the particular challenges that they have in growing and sustaining their businesses.

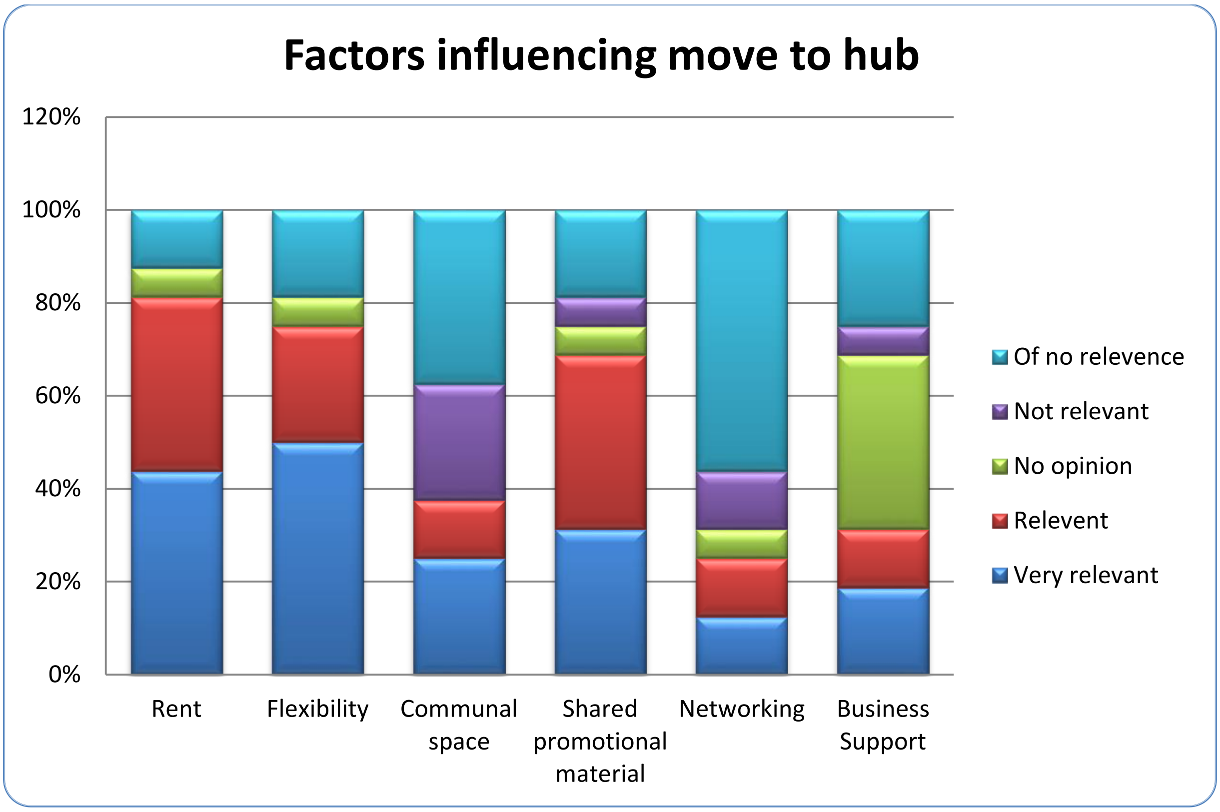
Having established where hub occupiers moved from, the survey then asked hub occupiers what the main factors were influencing their decision to move to the hub. As can be seen from figure 7.6, rent and flexibility where the two most prominent factors affecting the decision to move to the hub. Given the majority of hub occupiers surveyed had moved from home, this is not surprising.

What is surprising given the responses in relation to the barriers to growth question outlined above is that very few hub occupiers indicated that gaining access to networking opportunities was a relevant factor in relation to their decision to relocate to the hub. One explanation for this is that networking opportunities only became a relevant factor once they have settled into the hub, rather than an anticipated advantage and thus a factor influencing their decision to locate to a hub.

Similarly communal space was not felt to be a relevant factor in the decision to move to a hub but shared promotional material was. This was mainly the response from those businesses occupying honeypot hubs (Kirkharle and Allendale Forge for example).

The final factor, 'the opportunity to access business support and mentoring advice' split opinion three ways. A third said it was relevant, a third said it was not relevant and the final third had no strong feelings about it either way. This may also be a function of the availability of business support within the hubs surveyed as opposed to a function of the business decision making process. Only one third of the hubs surveyed offered business support once a business took up space within the hub.

Figure 7.6 Factors influencing move to hub

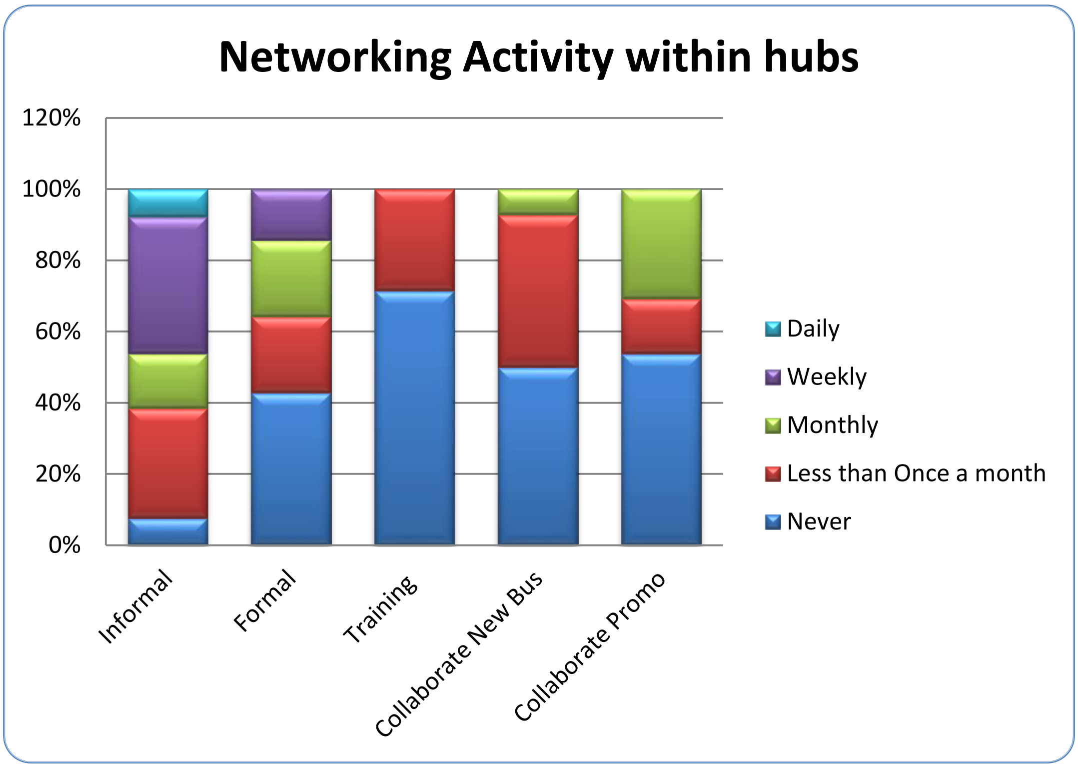


Given that rent levels and flexibility seem to dominate decision making by businesses when choosing to move into a hub in makes sense to ensure these are as attractive as possible. Once a business has been established within the hub, it will then be open to support in relation to other aspects of business development. This two-step approach may have better results than trying to cover all these elements in one go.

7.5 Networking activity of hub occupiers

The final aspect of the hub occupier survey investigated the extent to which hub occupiers interact with each other and with the wider business community. Figure 7.7 shows the frequency of interaction in relation to a variety of situations.

Figure 7.7 Networking activity within hubs



The most frequent form of interaction is informal networking. This is the more social form of interaction, for example sharing a coffee or meeting informally in the shared spaces. Just under half of the respondents undertook this form of interaction at least once a week. The next most frequent interaction is of a more formal nature. This related to business breakfasts or seminars. This type of interaction happened either monthly or weekly in around a third of cases. The least frequent form of interaction within the hubs was to undertake training or mentoring. In a minority of cases it was reported that this type of interaction happened once a month. The last two questions related to collaboration. Respondents were asked about collaboration either to bid for new business or to promote the hub. Only 7% of respondents confirmed they had undertaken networking activity to enable collaboration to win new businesses. Again comparing this response with the barriers to growth response, there is an opportunity to tap into a latent desire on the part of the occupiers to collaborate to win new business.

In terms of collaboration to promote the hub, 31% of hub occupiers confirmed they collaborated with other businesses in the hub. This probably related to the proportion of respondents who occupied a honeypot hub.

One interesting comment made in relation to networking activity by hub occupiers within certain privately owned enterprise hubs was that they felt networking was discouraged by the hub owner. The reason for this was a perceived fear that should the hub occupiers become a unified force, the hub owner would lose some of their commercial advantage when it came to negotiating the terms of any rental agreement. For example, if one tenant found out another tenant had much more favourable terms on the lease they may seek to renegotiate the lease terms or move away at the earliest opportunity. This problem may be overcome as a result of the introduction of a common set of standards for rural enterprise hubs in the north east. This would reduce a potential area of conflict between the tenant and landlords within enterprise hubs. There would naturally be variation in the rental terms to reflect location and services etc. but most other aspects of the letting agreement could be standardised.

8 Conclusions and summary of recommendations

8.1 Conclusions

This research project has been carried out to help inform the next phase of the RGN programme. Its aim has been to provide a baseline of evidence as to the extent and nature of enterprise hubs in the rural north east. The research that has been carried out, supported by existing research by the Centre for Rural Economy, has resulted in a comprehensive picture of rural enterprise hubs in the north east.

The research project aimed to produce a typology of rural enterprise hubs. The literature review and surveys carried out as part of this work resulted in the typology set out in section 6. This four-fold typology was then presented to a range of stakeholders from both the private and public sector to test whether or not the typology had validity and is so was a useful practical device for thinking about rural enterprise hubs. The feedback from stakeholders has been positive. The typology has been found to be a good representation of the diversity of hubs across the region. Furthermore, the four-fold typology of enterprise hubs has enabled stakeholders to differentiate between the various hubs and in particular between the needs of the various hubs.

The final phase of the research has focused on to the hub occupiers. These are the businesses that will actually deliver the rural economic growth sought by the RGN programme. The results of the survey of hub occupiers has reinforced some previous research findings but also highlighted some interesting new issues for hub occupiers. In the 4 years since the last comprehensive Rural Business Survey was undertaken the barriers to growth for rural businesses have not changed a great deal. However, one barrier which has become more of an issue for rural businesses is that of collaboration between business to win new business and gain access to new markets. This is one barrier which enterprise hubs are ideally placed to overcome. The mere physical presence of a number of businesses in one location will begin to overcome some of those problems of isolation, lack of capacity and skills.

The various elements of this research project have been drawn together in the following section to provide 4 specific recommendations for the next phase of the RGN project.

8.2 Summary of Recommendations

It has been clear from talking to hub owners and managers from across the region that there is a need, and an appetite for, a network of enterprise hubs. This would be a way of sharing formal and informal knowledge and experience of managing hubs. There are also opportunities to derive benefits of scale from such a network. By sharing knowledge the services offered to businesses in the region could be improved. Greater flexibility and mobility between hubs could be facilitated. Some of the barriers to growth could be removed.

Recommendation 1 – Steps should be taken to develop a north east network of enterprise hubs, connecting not only the rural hubs covered in this research, but also potentially those based in the urban centres. The NE Hub Network would be able to:

- Share best practice and provide a means of discussing experiences of running and managing hubs;
- be a key information and knowledge resource;
- Develop a more coherent network of enterprise hubs which can offer a variety of business space suitable for a range of business sizes at whatever stage of their life they are at;
- Develop a legal bundle which would include precedent agreements to develop flexible letting agreements;
- Investigate the possibility to offer a hub membership service to all hub occupiers to allow access to facilities and services across the north east.
- Investigate the possibility of organising joint events both for hub occupiers and external events to promote the hubs and businesses within the hubs.
- Connect enterprise hubs within urban areas with the newly established network of rural enterprise hubs;
- Develop a greater understanding of the number and location of business hubs in the region many of which are operating in splendid isolation at the present time.

There is an opportunity presented by the changes taking place in the regional governance structures, the development of the LEP and formation of the combined authority, to place rural business development prominently within national or European economic growth planning. The enterprise hubs offer a concrete example of rural economic development and its potential to enhance regional economic development by linking urban and rural economic activity. A network of hubs would be more prominent at the regional scale providing an efficient vehicle for interaction between hubs and the regional/sub-regional governance structures. This would potentially increase the capacity of the rural business hub community to shape future policy and strategy in the north east.

Recommendation 2 – Future economic development policies in the region, for example the forthcoming NELEP Economic Growth Strategy, should be mapped on to the existing and potential hub infrastructure. In particular this should focus on the contribution rural areas can and do make to the key sectors, digital, media & creative arts as well as the more traditional heritage and tourism sectors.

Recommendation 3 – Investigate opportunities to generate more demand for vacant units and flexible workspace in the existing hubs. This could be through joint marketing via the NE Hub Network (see recommendation 1) or developing a signposting service which helps businesses find the right type of space in the right hub in their area. It could include making it more attractive for home based businesses to relocate to business hubs by making the first step to renting commercial business space as easy as possible through providing:

- Greater flexibility in terms of tenure and offing more added value for potential tenants.
- Access to relevant business advice and training.
- Networking opportunities both for social and business interactions to overcome some of the isolation felt by home based businesses.

Such work could also include the more effective marketing of 'grow-on' space for businesses that need more capacity or have graduated from a hub which limits their period of occupation.

Recommendation 4 –Investigate options for expanding the network of enterprise hubs with the north east while taking steps to strengthen the existing enterprise hubs in the region to enable them to be more resilient in the face of continuing economic uncertainty.

The RGN programme offers a unique strategic opportunity to develop and strengthen the network of rural enterprise hubs in the north east. Up until now the development of hubs has been ad hoc and piecemeal. This has resulted in a good supply in some areas whilst other locations have more limited provision.

The hub owner/manager survey highlighted the perceived risk of oversupply of hub space in the region. At least one hub manager interviewed made it clear they did not want any more capacity in their immediate locality. There are, however, some potential gaps in provision. Furthermore, if these are well planned and given a specific focus, i.e. to target home-based businesses, they could actually grow the overall market rather than displacing businesses from existing hubs.

Recommendation 5 – Develop a bespoke Hub Business Support Programme within the RGN general business support programme. Hubs are businesses in their own right and deal with B2B commerce. The support programme will seek to support hub owners and managers to develop their hubs by developing networking opportunities, developing or promoting the best practice material (i.e. common letting terms). In addition, a Rural Enterprise Development Officer could be recruited or assigned to focus on the challenges faced by the various hubs occupiers. In particular:

- Helping the honey pot hub occupiers develop the widest range of marketing opportunities; help with ecommerce, attending trade fairs and events.
- Helping to establish better on-site shared retailing facilities.
- Helping hive hubs foster more collaborative approaches to winning new businesses.
- Developing hive occupier's skills in bidding for work and developing the management systems required when bidding for larger contracts.

The work could also include a role in helping to develop and foster the North East Enterprise Hubs Network.

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[i] KIBS have been defined as businesses that have knowledge as the primary input and output resource. This can be contrasted with a KIS which uses knowledge as an input resource but may then produce a physical product as an output (Sissons, 2011)

[ii] The 12 hubs were:

1 Berwick Workspace;
2 Wooler Workspace;
3 The NeST, Barnard Castle;
4 i-space, Hexham;
5 Allendale Forge;
6 Enterprise House, Barnard Castle;
7 Tynedale Business Centre;
8 Horton Park; Blagdon Estate
9 The Dales Centre, Stanhope;
10 Shawwell Business Centre, nr Corbridge;
11 Lee Moor Farm;
12 Fourways, Amble

Other hubs investigate but not interviewed were:

13 Kirkharle Courtyard
14 Vallum Farm
15 Allen Mill
16 Netpark
17 NOVUS
18 Spetchells
19 Bearl Farm
20 Old Brewery Business Centre
21 Stocksfield Hall
22 Gibside Stables