UNIVERSITY OF NEWCASTLE UPON TYNE

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CENTRE FOR RURAL ECONOMY

THE NATURE AND NEEDS OF RURAL MICROBUSINESSES

IN THE NORTH EAST OF ENGLAND

Jeremy Phillipson
Philip Lowe
Marian Raley
Andrew Moxey

Research Report

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Department of Agricultural Economics and Food Marketing

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PREFACE

Microbusinesses, defined as those employing fewer than 10 staff, predominate in rural economies. To date, however, there has been a notable lack of information concerning their characteristics and business support needs. The research project, *Rural Microbusinesses in the North East of England,* aimed to address this gap through a major survey of the nature and needs of rural microbusinesses and through an analysis of their relationships with business support services. The study was the largest of its kind to be conducted and the first to examine the rural microbusiness population of a region.

The research engaged several members of staff within the Centre for Rural Economy including Matthew Gorton, Philip Lowe, Andrew Moxey, Jeremy Phillipson, Marian Raley and Hilary Talbot and forms part of a wider integrated research effort concerning rural microbusinesses.

The research, undertaken between 1998 and 2001, was funded through the Rural Development Programme and One NorthEast, the European Regional Development Fund (Northern Uplands Objective 5b) and the University of Newcastle. The work would not have been possible without this financial assistance, the support and co-operation of members of the research programme's consultative forum and the multitudes of microbusinesses who took time to contribute to the research.

The research concluded only a matter of weeks before the onset of the Foot and Mouth Disease (FMD) outbreak of 2001 and therefore provides a useful snapshot of the microbusiness population prior to the outbreak. The business data base which resulted from the research was to provide an invaluable tool and sampling frame for measuring the impacts of the FMD outbreak on the North East rural economy[1].

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[1] Phillipson, Lowe and Carroll (2002)

1.0 INTRODUCTION

1.1 Background

Small firms were once considered to be inefficient, scaled-down versions of larger firms. However, their flexible capacity and potential for both employment and wealth creation have led to small firms now being viewed as vital components of a modern, competitive economy (Acs *et al.*, 1996; Gray, 1998). This is reflected in government measures such as the UK Employment Action Plan and the Small Business Service which emphasise the role of small-scale enterprise as a key route to sustainable economic development. This emphasis is also found in more specifically rural policies, most notably the European Rural Development Regulation, the England Rural Development Plan, and the Rural White Paper.

Yet designing and delivering measures to encourage and support small rural businesses is hindered by a lack of information regarding the characteristics, motivations, constraints and needs of such firms. This is particularly true of the smallest firms, so-called microbusinesses (PIU, 1999). These are defined as independent firms employing less than 10 full-time staff (EC, 1996). They represent approximately 95% of all businesses within the UK, and collectively contribute upwards of 25% to national GDP and aggregate employment (DTI, 1999). Whilst agricultural economists have focused primarily on microbusinesses in one rural sector, namely farming, other business economists have focused largely on urban firms. The net result is that, whilst anecdotal evidence abounds, little objective empirical data exist regarding non-farm microbusinesses in rural areas. These businesses currently dominate the business profile of rural areas and their importance to the rural economy implies that they should be a particularly significant research focus.

1.2 Objectives

This report represents the culmination of the research project *Rural Microbusinesses in the North East of England,* undertaken between 1998 and 2001. It focused on microbusinesses in the rural areas of Durham, Northumberland and Tees Valley. The project was originally conceived in recognition of:

- a lack of information on these businesses which are known to be important to the rural economy of the region; and
- a lack of strategy for business advice to rural microbusinesses and the wish to address efficiently their business development needs.

The study aimed to collect baseline data concerning microbusinesses that could be used in different contexts and by a variety of organisations to improve the performance of microbusinesses in the rural region. The project's broad aims were therefore:

- to ascertain the nature and needs of rural microbusinesses; and
- to understand their existing relationships with business support agencies and where these relationships could be usefully developed.

1.3 Research design

The research project developed sequentially through a number of key phases. In summary there were five main lines of enquiry, including:

Firstly, an investigation of individual microbusinesses, involving:

(i) an analysis of existing literature on micro and rural businesses; and
(ii) a major regional survey of microbusinesses in rural areas; this included a sample of 483 farms and 1294 non-farms.

The main results from this strand have been presented in a separate report, *Rural Microbusinesses in the North East of England: Final Survey Results* (Raley and Moxey, 2000).

Secondly, an investigation into the provision of business support, including:

(i) study of national and local business support policies and practices; and

(ii) interviews with local deliverers of business support.

The findings from this strand of the work have been presented in a separate report, *Providing Advice and Information in Support of Rural Microbusinesses* (Lowe and Talbot, 2000).

Thirdly, an investigation into the role of rural microbusinesses in the local economy. This element of the work was conducted through a series of case studies of microbusiness communities and was funded by the University of Newcastle. The findings have been presented within the CRE Working Paper, *State Sponsored Formalisation and Transformation of Small Business Networks: Evidence from the North East of England* (Laschewski *et al*., 2001).

Fourthly, consultation with business support providers and business representatives, through:

(i) discussions within the project's consultative forum; and

(ii) dissemination of the project's findings at a major regional seminar (held on 15th November 2000 at Close House Mansion, Heddon-on-the-Wall).

Fifthly, synthesising the outcomes of the project, which is the main purpose of the present report.

1.4 Structure of report

The purpose of the present report is threefold. Firstly, to address the project's overarching objectives by highlighting the nature and needs of the rural microbusiness population and, more particularly, their pattern of contact with business support agencies. Secondly, to reflect on the consultation and dissemination facets of the research which formed an integral part of the project. Finally, based on the preceding analysis, to draw out and synthesise some key issues and conclusions.

The report therefore falls into four main sections. Section 2 draws upon the findings of the survey of microbusinesses in order to highlight their salient characteristics and needs. Section 3 then considers the question of business support, drawing upon the survey findings to identify key elements of support uptake within the microbusiness community. Section 4 reviews the consultation aspect of the work through a summation of the work of the consultative forum and a synthesis of discussions from the regional dissemination seminar. Finally section 5 draws out some conclusions from the research.

2.0 THE NATURE AND NEEDS OF RURAL MICROBUSINESSES

2.1 Introduction

This section of the report draws upon the results of the postal survey of farm and non-farm rural microbusinesses in the north east of England in order to highlight their key characteristics and needs. The research project provided a number of insights into the nature of rural microbusinesses and, more particularly, the contrasts and similarities between the farm sector and other rural sectors. Although focused on a particular region, the findings are of relevance to rural economies elsewhere in the UK. Attention is first given in Section 2.2 to a brief review of survey methodology which provides a context and background for selected findings presented in Section 2.3 and Part 3 of the report.

2.2 Survey methodology

2.2.1 Study area

The north east of England encompasses a geographically extensive rural area that has experienced significant restructuring of its primary industries in recent decades, leading to the loss of many traditional rural jobs. For example, over the period 1971-1996, employment in agriculture and fishing declined by 38% and by 83% in energy and water (Whitby *et al.*, 1999). Offsetting these losses with gains in other sectors has been hindered by both a shortage of skilled labour and a weak rural 'enterprise culture' within the region (EDAW, 1999). Nevertheless, the Regional

Economic Strategy highlights the potential role of job-creation through rural enterprise as an important means of achieving sustainable rural development in the region (ONE NorthEast, 1999).

For the purposes of this study, delimiting the rural part of the north east was achieved using an Urbanisation Index devised by staff at the Centre for Urban and Regional Development Studies (CURDS) at the University of Newcastle upon Tyne (Coombes and Raybould, 2001). Briefly, this assigns each Enumeration District a score from 0 to 100 reflecting its distance from settlements according to their size. A very high score indicates a very urban location. A very low score indicates a very rural location. The cut-off between urban and rural was set at an Index score of 35 and therefore encompassed much of County Durham, Northumberland and Tees Valley. However, unlike some other rural definitions, the use of the Urbanisation Index also allowed identification of different degrees of rurality. Hence, as Figure 2.1 shows, it was possible to differentiate between very remote rural locations, for example on the Northumberland/Cumbria border from only slightly rural locations on the urban fringe of Tyneside.

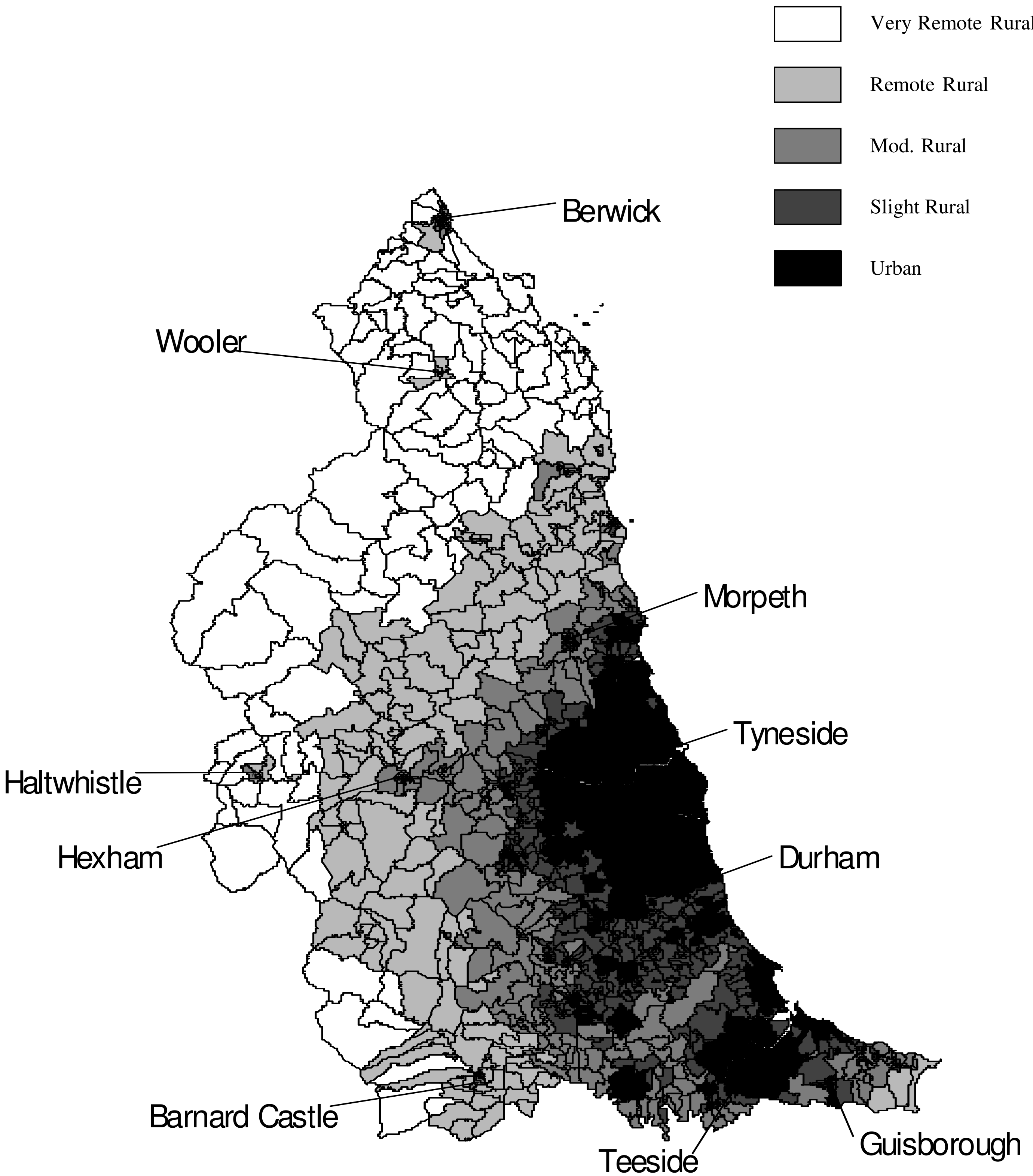
2.2.2 Survey administration

A structured questionnaire comprising approximately 100 closed-form (i.e. tick-box) questions was drafted, piloted and then mailed to 2355 farms and 5314 non-farms within the study area. Firms under the age of two years were excluded from the survey due to the additional problems and issues surrounding business start-ups

(Storey, 1994). Names and addresses of farms were obtained from the Farm Business Support Scheme operated within the Objective 5b area, plus the regional Business Link databases supplemented by the Yellow Pages. Names and addresses of non-farms were taken from the Business Link databases, supplemented by information provided by the Regional Tourist Board and Local Councils. In both cases, postcode data were used to identify firms lying within the rural study area. Questionnaires were sent out between October 1999 and February 2000, together with a covering letter explaining the purpose of the survey. A limited number of repeat-mailings to non-respondents in some parts of the study area were used in an effort to achieve better geographical coverage.

The final number of usable, returned questionnaires was 483 from farms and 1294 from non-farms, giving respectable response rates of about 20% and 24% respectively. The farm sample represents approximately 10% of the registered farm population and comparison with agricultural census data indicates that it is broadly representative of the distribution of farm sizes and types found in the study area. Unfortunately, since the population of non-farm microbusinesses in the study area is unknown, it is not possible to judge the representativeness of the sample, nor the proportion of firms captured by the survey. However, it is worth noting that one-third of the non-farm sample did not appear on either the PAYE or the VAT registered returns nor were listed at Companies House. This indicates that estimates of the population size based solely on such 'official' registers are likely to be too small.

Figure 2.1: Urbanisation index scores across the study area



2.3 Characteristics and needs of rural microbusinesses[2]

2.3.1 Breadth of activities

Table 2.1 confirms that, although agriculture remains highly visible due to its extensive land base, farming is definitely not the only economic activity in rural areas. In particular a significant number of firms are engaged in the hospitality/tourism, retail, business services (e.g. consultancy), manufacturing and construction sectors. This heterogeneity suggests that measures to encourage rural enterprise may need to be relatively flexible to respond to different situations and needs. At the very least, the traditional focus upon agriculture is clearly too partial.

Table 2.1: Classification of non-farm economic activities

Activity	*Number*	*%*
Hospitality, tourist accommodation	279	21.6
Retail	200	15.5
Business services	169	13.0
Manufacturing	140	10.8
Construction	104	8.0
Repairs	61	4.7
Agents/wholesalers etc	51	3.9
Personal services	46	3.6
Transport, communication	43	3.3
Health/Social	41	3.2
Recreation/culture	33	2.6
Training/education	31	2.4
Landbased (non-farming)	23	1.8
Animal care	19	1.5
Real estate	19	1.5
Rental	13	1.0
Grower, plants/trees	11	0.9
Other	11	0.9
Total	*1294*	*100.0*

[2] Please note that Table columns may not sum to 100% due to rounding error.

2.3.2 Embeddedness

A key factor in the contribution of rural enterprise to the sustainable development of a locality is how embedded firms are in the local economy. That is, do they sell their outputs and/or source their inputs largely locally or distantly? Alternatively, a high degree of embeddedness means that the firm is an integral part of local supply chains. A high proportion of sales in distant markets combined with a high proportion of local input expenditure indicates a high net 'export earner'. Taking a distance of 30 miles to denote local, 30-100 miles to denote regional and beyond 100 miles to denote distant markets, Figure 2.2 shows that the spatial distribution of sales varies considerably across the different sectors. Most sectors are skewed towards serving the local market, but education, manufacturing, hospitality and business services have significant markets beyond the region.

Within this distribution, it is interesting to note that businesses run by 'local' people that have never lived elsewhere sell a lower proportion of their output to distant markets than businesses run by people that have lived elsewhere (Table 2.2). To some extent, this reflects the fact that businesses run by 'locals' are predominantly in sectors such as construction and transport, which tend to service local markets. However, even taking this into account, it appears that microbusinesses run by 'non-locals' sell a relatively higher share of their output to distant markets. This perhaps reflects a difference in experience and awareness of market opportunities between the two groups.

Figure 2.2: Mean percentage of output revenue derived locally, regionally and beyond

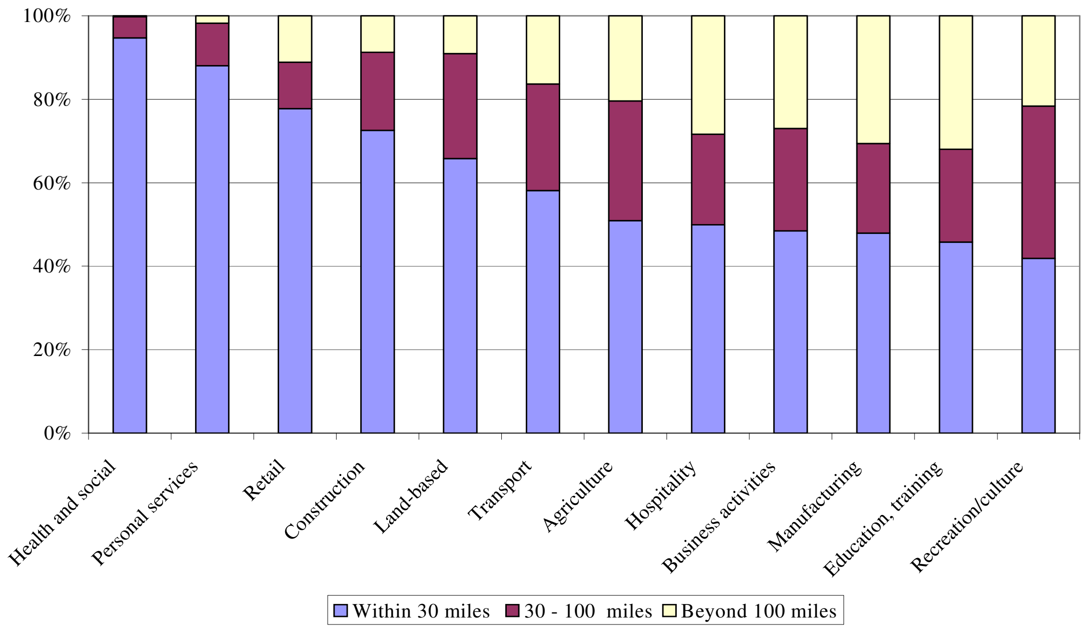


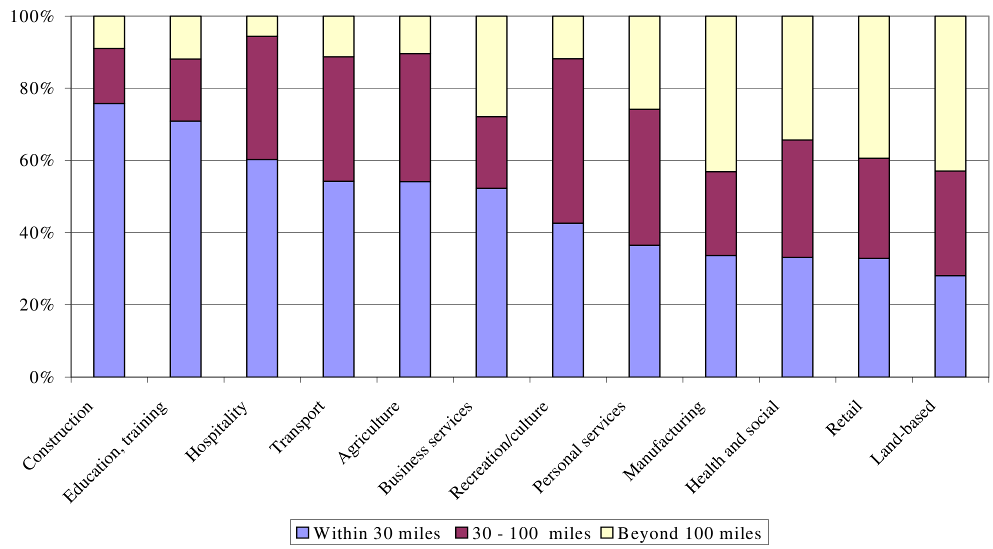
Table 2.2: Origins of business-owner operators and location of markets*

Origin	*% aggregate turnover sold within 30 miles*	*% aggregate turnover sold 30 to 100 miles*	*% aggregate turnover sold beyond 100 miles*
Always lived locally	72.9	15.6	11.5
Left area then returned	77.9	13.4	8.7
Moved into area as an adult	55.2	20.3	24.5

* The data in this table exclude hospitality/tourism sector firms, the *raison d'etre* of which is often to provide services for non-local consumers

Figure 2.3 shows that many sectors also source a significant proportion of inputs locally or regionally. In particular, construction, education and hospitality buy over 60% of inputs within 30 miles. By contrast, manufacturing, land based (non-farming) and retail firms source relatively high proportions of inputs from beyond the region.

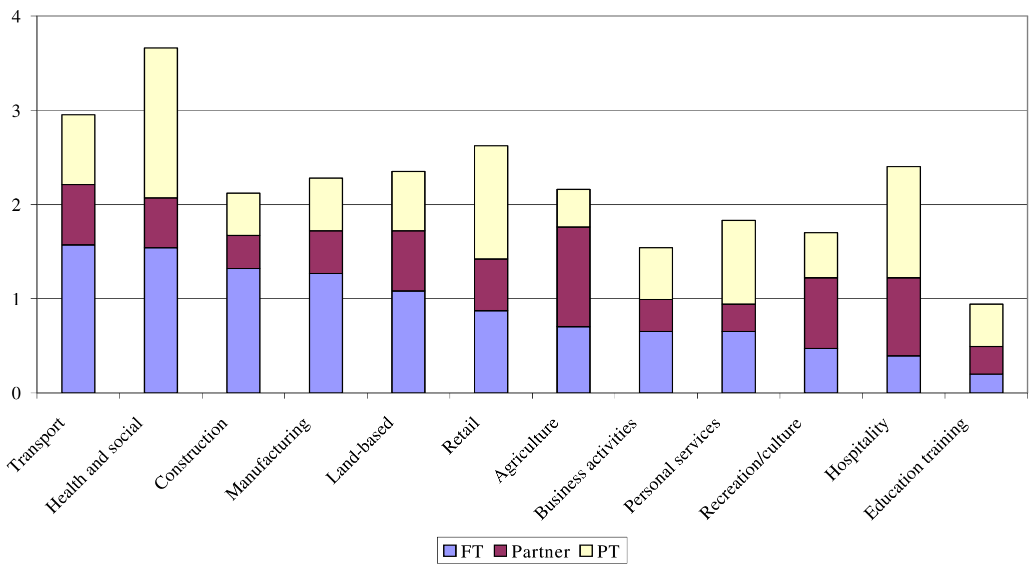
Figure 2.3: Mean percentage of input revenue derived locally regionally and beyond



2.3.3 Employment

Policy interest in microbusinesses stems partly from their capacity to generate local employment opportunities. Figure 2.4 shows that sectors differ in the form and magnitude of employment that they offer. On average, rural microbusinesses in the sample employed 0.89 full-time and 0.76 part-time employees, plus 0.56 of a spouse or other partner, in addition to the owner-operator. However, there is variation between sectors. Construction, land based, manufacturing and transport sectors all have higher than average full-time employees, and less than average part-time employees. Other sectors, notably hospitality and retailing, have higher average part-time staff and lower average full-time staff, reflecting these sectors' operating practices. The health and social services sector is unusual in having the highest average number of both full and part-time staff, reflecting the labour intensive nature of care services. Agriculture stands out in its reliance on the employment of family and non-family partners.

Figure 2.4: Mean number of employees



It is worth noting that over 61% of owner-operators reported that they worked in excess of 46 hours per week, indeed over 27% worked more than 60 hours per week. This undoubtedly contributes to the firms' flexibility and competitiveness, but indicates a certain inhibition towards further employment growth. It is likely that long working hours also hinder the uptake of business training and advice services (Bennett and Errington, 1995).

2.3.4 Form of ownership

Agriculture and hospitality are noteworthy for higher than average numbers of partners, including spouses. This reflects differences in the ownership structures of firms in different sectors, as shown in Table 2.3. Farms and hospitality firms are much more likely than other firms to be run as partnerships. Over half of non-farm microbusinesses in the sample had sole trader status, with limited company status being largely restricted to a small proportion of non-farm, non-hospitality firms.

Table 2.3: Legal form of farm and non-farm rural microbusinesses

Legal form	*% farms*	*% hospitality*	*% other RMBs*
Sole trader	29.2	53.5	58.5
Partnership	67.2	42.3	26.0
Limited Company	3.5	2.9	14.8

These differences in form of ownership reflect, at least partially, different mechanisms for the acquisition of businesses by their current owners. As Table 2.4 shows, the majority of non-farm businesses are started by the current owner, whereas over half of farms are inherited. This partly reflects the historic centrality of agricultural businesses to rural economies. In addition, it might be argued that both farming and hospitality businesses often depend on the ownership of a specific property whose uniqueness or scarcity value restricts the access of new entrants and emphasises such entrance routes as inheritance and/or family partnerships.

Table 2.4: Acquisition by current operator

Acquisition of business	*% farms*	*% other RMBs*
Started by self	13.8	69.2
Inherited*	54.4	9.5
Purchased	20.6	20.8
Combination	11.2	0.0
Other	0.0	0.5

* Includes both tenanted and freehold farms

2.3.5 Motivations and goals

It is often assumed that businesses are started and run for profit motives. However, Table 2.5 shows that, whilst important, income generation is not the only motivation. In particular, the autonomy offered by being one's own boss is a significant factor. For farms diversifying into non-agricultural activities, a desire to reduce dependency on farming was also relatively important.

Table 2.5: Motivations for running the business (scored out of 10)

Objective	*Mean score*
Gain satisfactory income	7.7
Maximise income	7.0
Flexibility of time	5.8
Provide local service	5.6
Develop own ideas	5.6
Intrinsic enjoyment	5.1
Employ local people	3.8
Employ family members	1.7
Waiting for a job	0.7

The relative importance of non-income motivations for firms has an effect on business goals. Table 2.6 reports the attitudes to business growth within the non-farm sample. Whilst almost one-third have growth objectives, wishing to increase in size, income or employment, over one-third have explicit non-growth objectives.

Table 2.6: Attitudes to business growth

	%
Wants growth	30.2
Maybe wants growth	19.9
Does not want growth	33.1
Don't know/missing data	16.8

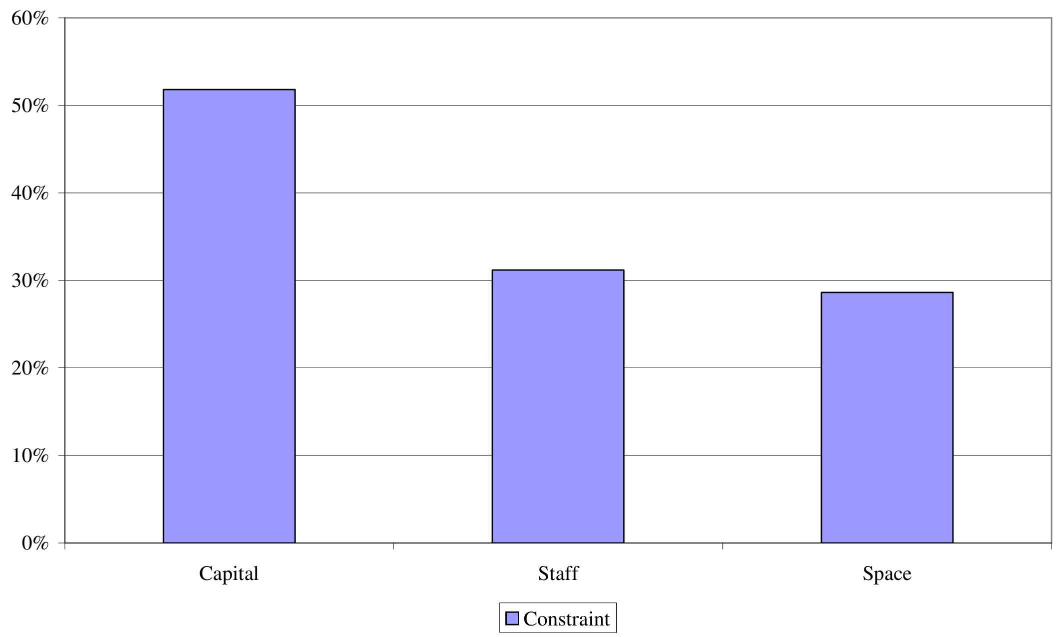
Of the firms not seeking to grow, a few are looking to terminate their business, but most are seeking to maintain a steady state. Such firms account for about a quarter of total employment within the non-farm sample. Moreover, many of them operate in highly embedded sectors such as construction and transport and may therefore serve pivotal functions in the local economy or community.

2.3.6 *Constraints*

Not all the firms seeking to grow are able to do so. Just over half of the growth-oriented firms cited lack of capital as a brake on their ambitions (Figure 2.5). This is a frequently reported problem for small firms (Storey, 1994). Capital was sought for a variety of purposes, including investment in buildings and equipment, raw materials and stock items, and to ease cash-flow problems.

There were other salient or perceived difficulties: approximately one-third of growth oriented firms cited staff or space constraints as an obstacle. Space constraints refer to both a limited scope for expansion on-site and a lack of suitable alternative premises. Labour constraints arose not only from difficulty in recruiting suitably skilled local staff but also from owner-operators' self-perception of lacking the necessary skills or inclination to recruit and manage other people. This latter factor contributes to the tendency, mentioned earlier, for owner-operators to work excessively long hours themselves rather than create additional jobs.

Figure 2.5: Constraints on growth for growth-oriented firms (excluding farms)



Farms showed a somewhat different pattern of constraints. For example, for farms seeking to diversify, a lack of own or family labour was cited as a more important constraint than lack of capital. This relates to a preference amongst farms to rely upon own or family labour rather than recruiting new staff. It also relates to the fact that farms have access to more external finance. As Table 2.7 shows, although farms and non-farms have broadly similar success rates in applying for loans and grants, the average amount received by farms is much higher.

Table 2.7: Successful application rates and mean amounts for loans and grants

	Loans		*Grants*	
	% receiving	*Mean amount*	*% receiving*	*Mean amount*
Non-farms	32.5%	£26500	8.9%	£5685
Farms	33.9%	£71779	5.1%	£13271

2.3.7 *Business support needs*

Firms were asked to identify their business support needs. The results for non-farm firms is given in Table 2.8. Computing stands out clearly as the most common need, closely followed by support concerning various elements of market extension and development. A smaller percentage of firms place importance on advice concerning staff development, training and employing staff. This lower priority given to the development of human capital is coupled to earlier findings indicating the excessive hours worked by business owners and indications that some firms are blocked in their growth by staff shortages.

Table 2.8: Areas of business support most in demand for non-farms

	% of all firms (n = 1294)
Computing	41.3
Marketing	34.2
Identifying market opportunities	33.8
Advertising	32.6
Financial management/tax	29.9
Business strategy	24.2
Staff development, training	20.3
Employing staff	19.1

Demand for business support is generally higher for firms planning expansion and growth (Table 2.9) who place particular emphasis on advice relating to marketing or the identification of market opportunities. Nevertheless, a substantial number of non-growth firms also indicated business support to be potentially of current use which reflects the need for such firms to be reactive and make changes in order to survive and maintain their business. Computing and advertising needs are the top priority of 'steady state' firms. For the declining firms, computing and financial management and tax are important which reflects the specific information demands posed upon winding down a business and the possible lead up to retirement.

Table 2.9: Demand for business support and firm trajectory

	% firms		
	Growth (n=142)	*Steady state (n=138)*	*Declining (n=117)*
Marketing	56.3	20.3	12.8
Identifying market opportunities	50.0	18.1	10.3
Computing	47.9	31.9	34.2
Advertising	47.2	24.6	15.4
Business strategy	46.5	16.7	5.1
Financial management/tax	41.5	22.5	19.7
Staff development, training	39.4	15.2	1.7
Employing staff	35.2	14.5	2.6

Declining - not interested in growth, plans to reduce activities or stop in the next 10 years (117 firms)
Steady state - not interested in growth, plans to maintain current position for the next 10 years (138 firms)
Growth - wants growth, plans substantial expansion in the next 10 years (142 firms)

It also appears that firms which have previously had experience of public business support (such as Business Link) express a greater level of business support needs. This is likely to reflect greater familiarity with the means of accessing business support and what is available. This is shown in Table 2.10 for growth firms. Here experience of support also appears to encourage a broader awareness of business support needs. For example, growth firms with previous experience of public support show higher demand for a broader range of aspects, with several types of need particularly emphasised including computing, advertising and staff development. For other types of business support needs there is less of a difference in demand in relation to owners' experience of business support, notably business strategy and the identification of market opportunities.

Table 2.10: Relationship to past use of business support

	Users of public support (%)	*Non-users of public support (%)*
Computing	56.1	29.5
Advertising	53.1	34.1
Staff development, training	43.9	29.5
Employing staff	38.8	27.3
Financial management/tax	44.9	34.1
Marketing	60.2	47.7
Identifying market opportunities	52.0	45.5
Business strategy	46.9	45.5

Demand from growth firms for business support (n=142)

Compared with the business support demands expressed for non-farms Tables 2.11 and 2.12 display a distinctive pattern of farm needs. Taken together the top advice needs are broadly similar to those of non-farms, with computing again very prominent. For all other areas of support, however, farmers expressed significantly lower demand. Most sought after were identification of market opportunities, financial management and tax and business strategy. Compared to non-farming businesses, farms ranked business strategy and financial management higher whereas advertising was placed lower. As would be expected, and in line with the non-farms, farms planning expansion display a higher demand for support. Farm owners planning to wind down their farming operations have little interest in support, even in relation to computing advice.

Table 2.11: Areas of business support most in demand for farms

	% of farms (n = 483)
Computing	44.1
Identifying market opportunities	26.7
Financial management/tax	23.6
Business strategy	22.6
Product development	14.7
Market research	14.3
Advertising	10.3
Staff development, training	9.9

Table 2.12: Demand for business support and farm trajectory

	Farm owner's plan for next 10 years (%)		
	Expand	*Maintain*	*Reduce/stop*
Computing	54.5	43.2	7.2
Identifying market opportunities	41.8	24.6	18.8
Financial management/tax	38.2	26.9	13.0
Business strategy	32.8	20.2	11.6
Product development	25.5	12.6	14.5
Staff development/training	25.5	9.7	2.8
Market research	21.8	14.1	8.7
Advertising	21.8	8.9	7.2

2.4 Overview

This section of the report has provided a selection of research findings concerning the nature and needs of rural microbusinesses in the north east of England. The rural microbusiness population embraces the whole spectrum of business sectors and displays significant heterogeneity in terms of structure, levels of embeddedness, employment creation and motivations. Furthermore, it is evident that rural microbusinesses are facing a number of specific constraints to their growth and development, most notably in relation to availability of capital. The research findings have also highlighted a number of particular business needs, identified by the businesses themselves. These needs are diverse and appear to vary with sector (most notably between farms and non-farms), future aspirations and past experience of business support.

The next section of the report turns its attention more specifically to the features of supply and uptake of business support amongst rural microbusinesses.

3.0 SUPPLY OF BUSINESS SUPPORT FOR RURAL MICROBUSINESSES

3.1 Introduction

This section of the report explores the research findings in relation to the supply of business support to microbusinesses. It begins by reviewing overall patterns of contact with support agencies (Section 3.2). Attention then turns in Sections 3.3 and 3.4 to highlighting the main users of business support in terms of their sector characteristics and the background of business owners; this reveals a complicated and differentiated pattern of uptake. Finally, in Section 3.5 attention is given to some alternative mechanisms for delivering support to rural microbusinesses.

3.2 Patterns of business support

The survey revealed considerable differentiation amongst microbusinesses in their engagement with business support services. Table 3.1 provides a snapshot of the different support providers existing in the late 1990s and shows a segregated pattern of business support for farmers compared with other rural microbusinesses. Farmers have their own dedicated support structures, such as the National Farmers Union and Country Landowners' Association, MAFF[3]/FRCA[4] and ADAS.

[3] Now DEFRA

[4] Now the Rural Development Service

Table 3.1: Sources of business support/advice approached by firms in previous 10 years

	Non-farms (%)	*Farms (%)*
Private sector (accountant, bank manager, etc.)	**45.2**	**50.9**
Business Link (BL)	**28.8**	13.3
Industry contacts	**27.6**	24.0
Training and Enterprise Council (TEC)	**21.9**	7.9
Trade/professional organisation	**20.3**	9.3
Family/friends (with specialist knowledge)	17.6	**27.1**
Local Enterprise Agency	14.6	4.6
Local Authority	13.7	9.3
Rural Development Commission (RDC)	11.8	7.5
Chamber of Trade/Commerce	6.9	1.4
Farm Holiday Bureau	-	4.8
Tourism (Tourist Board, Farm Tourism Initiative)	1.6	14.5
Agricultural consultant (excluding ADAS)	-	23.4
Farm Business Support Scheme	-	26.7*
ADAS	1.6	**48.9**
MAFF/FRCA	2.3	**53.6**
National Farmers' Union (NFU), Country Landowner's Association (CLA)	2.4	**57.1**

*% of all sample farms (scheme was only available in the Objective 5b area where 39.7% of farms had contacted it)

The sources of support presented in Table 3.1 can be classified as follows:

- *public* sources (including RDC[5], local enterprise agency, BL, TEC[6], MAFF, Farm Business Support Scheme, local authority and Tourist Board), approached by 54.3% of microbusinesses (farms and non-farms);
- *private* sources (such as accountants, bank managers, consultants and ADAS), approached by 53.6% of firms;

[5] The RDC was terminated in 1999
[6] Now the Learning and Skills Council

- *informal* sources (such as friends or family members with specialist knowledge and personal contacts in the industry), utilised by 36.2% of firms;
- *collective* sources (such as Chambers of Commerce/Trade, NFU, CLA, trade and professional organisations or the Farm Holiday Bureau) approached by 34.4%.

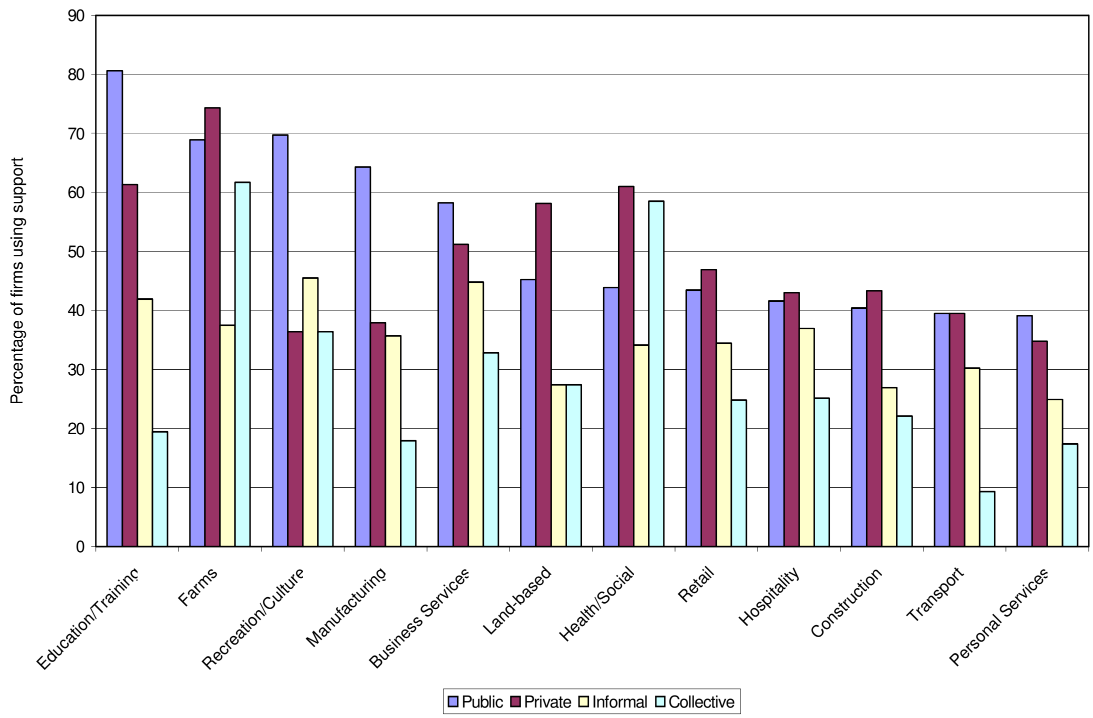
3.3 Sector characteristics

3.3.1 Variations in business support use by sector

Figure 3.1 shows the distinctive business support profiles of individual sectors. Firms in the education/training, recreation/culture, farming and manufacturing sectors stand out as being the highest users of public business support. The lowest users were firms in personal services, transport, construction and hospitality. Private sources of support are seen to be particularly important for farms, firms in education/training and health/social services, whereas this form of support was less significant for recreation/culture and personal services firms. There is much less variability over use of informal sources.

Looking at Figure 3.1, it is also possible to consider whether public sources of support are complementing, or compensating for deficiencies in, private, informal and collective provision. This, for example, appears to be the case for manufacturing firms. In contrast, firms in personal services and transport show low levels of recourse to all forms of support and the public sector has not compensated for this. Farms stand out as being comparatively well covered by all forms of support.

Figure 3.1 : Business support: variations by sector



One alternative strategy for support of small firms is to encourage collective self-help, for example by means of membership of business clubs, chambers or trade associations. This would not only help to overcome the logistical hurdle of assisting large numbers of rural firms, but may also strengthen business linkages and networks in rural areas. Collective sources of support stand out as being important for farms and health/social firms, but particularly weak in transport and personal services.

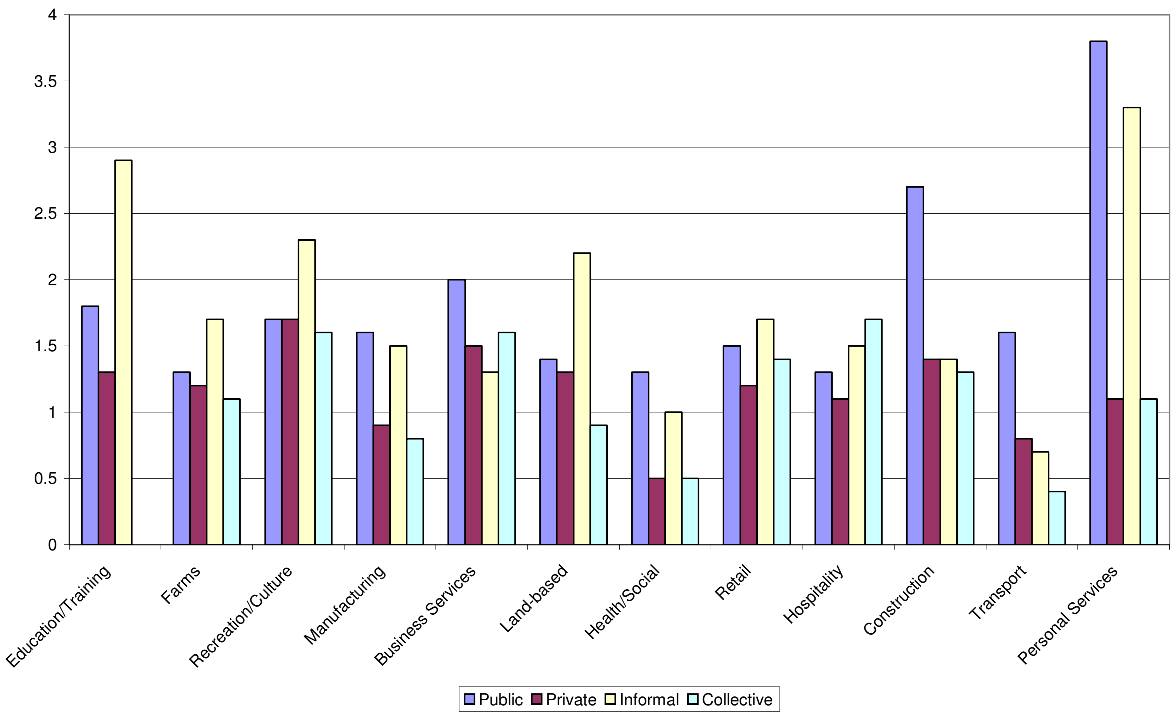
3.3.2 Variations in business support use by age of firm

It appears from Figure 3.2[7] that, in general, there is a greater chance that a firm set up or taken over by the present owner since 1990 will have approached a public support agency in the past 10 years, than for an older firm to have done so. Within this pattern, public and informal support sources are most strongly skewed to younger firms. There also appears to be significant sector variation. Several sectors, notably recreation/culture, education/training and business services display a consistent tendency towards younger firms seeking business support. For farming, there appears to be little difference between newer or older owners in their orientation towards the various sources of business support.

Figure 3.3 combines sector and age of firm characteristics to produce a map of orientation towards public business support. At the top of the figure are sectors with a generally strong level of contact with public sources. The right hand side of the figure identifies those sectors where public support has a particularly strong focus on young firms, notably personal services, construction and business services.

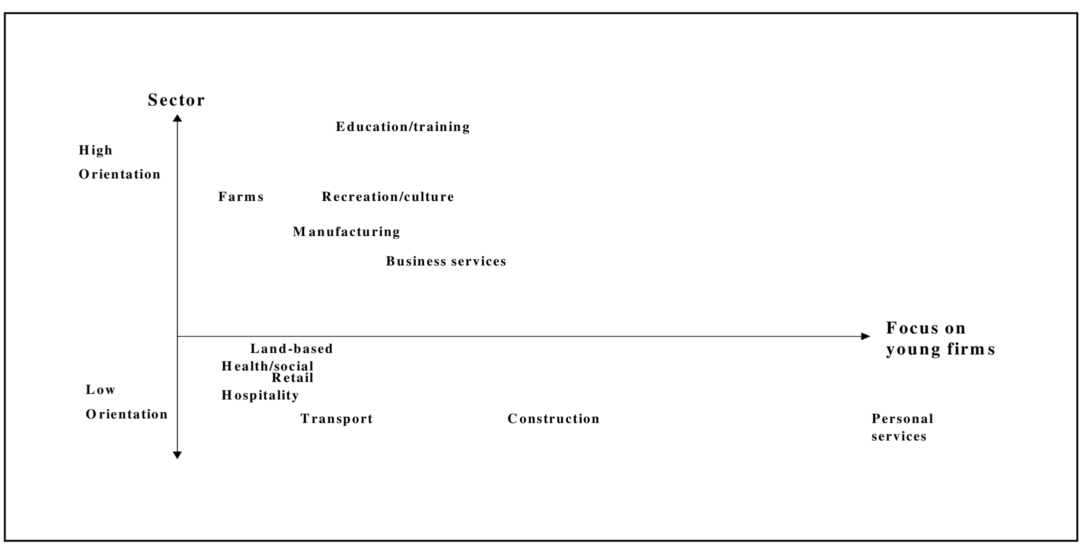
[7] The ratios represent the relative likelihood of a younger firm (set up or taken over since 1990) having had business support compared with an older firm. A ratio of 1.0 indicates no difference in likelihood, whereas a ratio of 2.0 indicates that it was twice as likely.

Figure 3.2: Ratio of percentage of newer firms[o] using business support to older firms, by source of support and by sector



[o] Newer firms are those set up or taken over by the present owner after 1989; older firms are the rest

Figure 3.3: Orientation towards public business support according to sector and age of firm



3.3.3 *Variations in business support use by location of firm*

Tables 3.2 and 3.3 highlight the effects of firm location upon contact with sources of support inside and outside designated areas. The first table highlights the impact of the Rural Development Areas originally designated by the Rural Development Commission. It seems to be the case that private, collective and informal sources of support are much stronger outside of the RDAs than inside. Only in Northumberland, though, does it seem that public provision of support is effectively targeted on the RDA, to help overcome this general bias in support. This would suggest that RDAs have not been very effective as a focusing mechanism for public support providers; this is particularly marked in Tees Valley. A more positive picture is presented in Table 3.3, which concerns Objective 5b designation, where it appears that there has been a more effective concentration of public and private business support for farms inside the designated area.

Table 3.2: Effectiveness of Rural Development Areas (non-farm)

% of firms contacting business support services

	Durham		*Northumberland*		*Tees Valley*	
Source	RDA	Non RDA	RDA	Non RDA	RDA	Non RDA
Public	43.2	45.3	53.6	51.9	41.1	49.4
Private	42.4	49.1	45.7	50.8	41.1	46.8
Informal	32.6	34.0	37.6	39.7	26.4	37.2
Collective	21.2	34.0	26.8	29.6	22.0	21.8

Table 3.3: Effectiveness of Objective 5b designation (farms)

Source	*% firms contacting business support services* *Objective 5b area*	*Non Objective 5b area*
Public	71.1	66.7
Private	77.5	68.6
Informal	41.5	30.1
Collective	60.9	64.7

3.3.4 Variations in business support by business trajectory

Table 3.4 shows a greater proportion of growth-oriented firms had contacted public sector providers compared to steady state or declining firms. This reflects the fact that expansion or growth is likely to involve new challenges where outside advice could prove helpful. It is also likely to reflect the tendency for business support agencies to target, and equip themselves to deal with, growth-oriented firms. However, the Table also reveals that almost a third of firms intending to grow had not approached public business support services during the past ten years.

Table 3.4: Variations in public business support by business trajectory

Trajectory	*% approached public support*
Declining	31.6
Steady state	40.6
Growth	69.0

Declining - not interested in growth, plans to reduce activities or stop in the next 10 years (117 firms)
Steady state - not interested in growth, plans to maintain current position for the next 10 years (138 firms)
Growth - wants growth, plans substantial expansion in the next 10 years (142 firms)

3.4 Owner's background

The origins of non-farm business owners appear to play an important role in influencing their propensity to contact business support services. Table 3.5 shows that users are typically in-migrants to a locality. In part, a bias towards in-migrants may reflect the interest of public support agencies in encouraging inward investment. However, the group with the greatest orientation towards public business support is in-migrants who had not intended setting up a business when they first moved to the area. This group would seem to have greater ability or inclination to access public sources than locals. Many appear to be those individuals in export oriented sectors who are using business support to help them access external markets.

Likewise Table 3.6 indicates that users of public support are typically those which have received further or higher education, whereas non-users have commonly completed their formal education at or below GCSE level.

The majority of business support customers will be men given that 69% of firms are male owned. There do not, however, appear to be significant gender differences in accessing business support as seen in Table 3.7. There is a slight bias in private sources towards men. Public sources of support appear to be gender-blind.

Table 3.5: Percentage of firms using public business support agencies by owner's origins

Origins of owners	*Firms (%)*
In-migrant, no intention of starting firm	58.0
In-migrant, with intention of starting firm	50.9
Always local	41.4
All firms	48.8

Table 3.6: Percentage of firms using public business support agencies by owners' education

	Non-farms		*Farms*	
Completion of education	*Users of public support (%)*	*Non-users of public support (%)*	*Users of public support (%)*	*Non-users of public support (%)*
Pre-GCSE	15.2	33.2	30.3	42.8
GCSE	16.1	17.8	16.8	21.4
A levels, BTEC, NVQs	6.4	5.8	5.8	4.1
Vocational/Professional qualification, post school	35.0	24.5	32.1	21.4
Degree	17.3	12.2	11.6	9.7
Postgraduate	10.0	6.5	3.4	0.7
Total	100	100	100	100

Table 3.7: Percentage of firms using public business support agencies by owners' gender

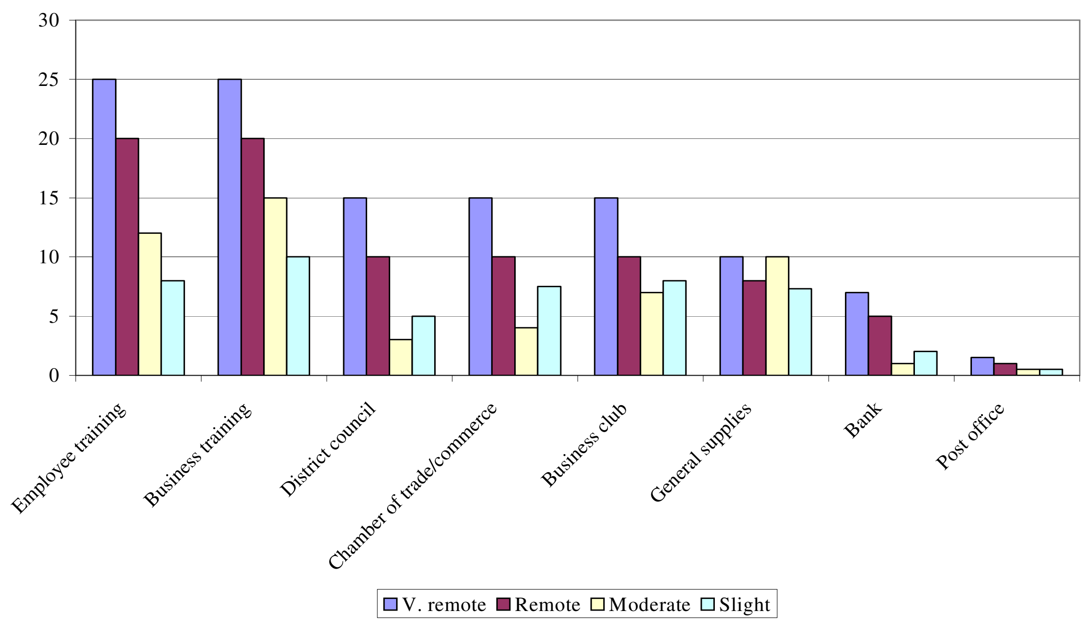
	Female owner % firms using support	*Male owner % firms using support*
Public	49.4	48.9
Private	41.7	47.4
Informal	38.9	34.9
Collective	24.8	26.0

3.5 Delivery mechanisms

The delivery of business services to rural firms has to come to grips with serving a scattered and often remote clientele. Figure 3.4

highlights the large median distances for rural firms to access business and employee training services. Other forms of support, notably business clubs and Chambers of Trade/Commerce are more geographically dispersed. Some private providers of business services, including banks but particularly post offices, are even more ubiquitous. This raises the question as to whether these alternative structures could be exploited to offer more readily accessible forms of business support.

Figure 3.4: Distance from services by degree of rurality



3.5.1 *Collective delivery of business support via local business networks*

One possibility is for a greater use of business networks in delivering business support. As part of the research the Centre for Rural Economy explored the potential of such networks and in particular the viability and prospects of local business clubs as mechanisms for delivery or mutual support.

It has been argued that business co-operation via small business networks may play an important role in the individual and collective operation of microbusinesses. Networks may provide a basis for resource sharing, information gathering and for harnessing the collective capacities of the business. At the same time, it is feasible that business networks, if harnessed, may provide an opportunity for the development of more legitimate and effective economic development and business support initiatives.

The delivery of business support on a collective basis via local business networks represents one potential avenue for encouraging the uptake of support among microbusinesses and a potentially more cost-efficient basis for delivery to a larger number of dispersed rural firms. The North East of England incorporates a wide range of networks. This includes a spread of local groups including business clubs and chambers of trade. Some are affiliated within regional umbrella networks.

Local business networks are diverse in their origins, the ways in which they approach organisational matters, membership characteristics and sector coverage, and in terms of the balance they strike between networking and more formal business development objectives. They also vary in terms of their roles and agendas. For example some local groups are heavily engaged in civic or local community development issues. Others place more emphasis on mutual support and the encouragement of business development via guest speakers or seminars. Local business networks also vary according to the extent to which they have been formally assimilated within business support or economic development initiatives.

The collective delivery of business support via rural business networks represents a novel and embryonic approach to delivering or raising awareness of business support. It does, however, pose a number of challenges and cannot be seen as a panacea. In particular, business networks appear to be less well developed within rural localities. In part this relates to a lack of critical mass of businesses to enable the development of enduring networks. As a result there may be a mismatch between where business support is lacking and the present geographical coverage of suitable networks. Nevertheless some networks exist in rural service centres in the region.

In addition, business networks display uneven capabilities and can face a number of internal challenges relating to:

- their levels of infrastructural and administrative support
- their breadth of membership in terms of the spread of business sectors (e.g. participation of farmers and other businesses in the rural hinterland) and social groups (e.g. participation of indigenous businesses) within membership
- their ability to demonstrate representative capacity given often low participation rates
- their capacity to cope with local politics, personality differences or fragmentation within the business community

- the handling of individual and collective businesses objectives and differing internal expectations and attitudes
- the availability of key people in the community to act as facilitators and mediators
- their ability to survive the departure of key individuals; networks are often temporary structures reliant on the availability of enthusiastic and active individuals and a number of key issues to trigger and maintain mobilisation

It cannot be assumed that there are coherent networks among microbusinesses, which can be exploited within business support strategies. In practice, the appearance of a single 'business community' will often consist of a heterogeneous group of actors. The potential for the collective delivery of business support may therefore be uneven.

However, a business development approach which aims to facilitate local networks, or utilise them for business support purposes, must be sensitive to the potential effects of intervention itself and a number of pitfalls. The external facilitation of local business networks by business support organisations may have a number of implications and may pose several potential dilemmas relating to a:

- loss of ownership within the business community over the network's activities and deliberations
- potential for heavy handedness or alienation should network facilitators be based externally to the community and lacking a detailed understanding or knowledge of local business and

group dynamics; furthermore, networks ‘implanted’ from above may lack informal ‘gel’ and local legitimacy

- modification of the group objectives with a potential shift in balance from civic and local interests towards business development; there may be consequent divergence between the expectations of network members and the objectives of the support agency
- modification of the network’s structures and organisation; contact with external agencies and exposure to funding regimes can often lead to greater formalisation; paradoxically the idea and strength of networking is related to informal activities and relationships
- loss of credibility following association within the public agency; business networks may be tainted by uncertainty over the future of business support agencies or by a negative image of the role and philosophy of business support services in serving rural microbusinesses

These dangers require a sensitive approach to the collective delivery of business support but benefits may still be achievable. This is most likely to be in relation to raising awareness of support services, in providing signposting to information and services or in offering a forum for basic business development, either through mutual support or guest speakers. This calls for effective relationships between business networks and business support providers, either directly, or through intermediary regional networks. The precise formulae of co-operation or regional structuring, however, should carefully protect the sense of independence and ownership within local networks and reach a delicate balance between business development and local business community objectives. To encourage an approach to collective delivery a prerequisite will often be the development and consolidation of local business networks in the first instance; here public agencies have a potential role in supporting either their administrative, structural or financial infrastructure (including the support of regional networks) or in making available local mediation, capacity building or agenda setting skills.

3.5.2 Information and communications technology (ICT)

Information and communications technology (ICT) represents an additional potential delivery mechanism for reaching rural firms. As seen in Table 3.8, just over half of the sample firms had access to the World Wide Web. Again, however, such an approach is not a panacea and provides only a partial solution. Indeed, 9% of those with access to the web were unable to use it, access is biased to knowledge-based industries and manufacturing and only 6.5% of firms have access to video conferencing facilities.

Table 3.8: Firms with access to the World Wide Web

By sector	*% firms*
Business services	78.7
Health / social	73.2
Education / training	67.7
Manufacturing	66.7
Recreation / culture	63.6
Land-based	56.5
Hospitality	56.0
Retail	46.1
Construction	37.5
Personal services	37.0
Transport	33.3
Average	

3.6 Overview

This section of the report has considered the patterning of contact between rural microbusinesses and business support organisations. Again the picture is a complex one involving multiple support sources and differing levels of contact according to sector and owner characteristics. The analysis has also highlighted two potential mediums for delivering business support including business networks and information communications technology.

4.0 CONSULTATION AND DISSEMINATION

4.1 Introduction

It was a central objective of the research to disseminate findings to key individuals and organisations within the region with an interest in the rural economy, microbusinesses and their development. The project was steered throughout its life span by a ‘consultative forum’ embracing officials of the funding organisations and other interested parties, including representatives of microbusinesses. In addition, the final stage of the research project included a major dissemination event within the region. This part of the report reviews these two elements. Section 4.2 considers the programme of consultative forum meetings as a model for applied research; and Section 4.3 synthesises the discussions and the main issues arising from the regional dissemination event.

4.2 The Consultative Forum

The consultative forum group fulfilled a number of functions and provided a forum for the early dissemination of results, the sharing of good practice and the discussion of policy options. More specifically it set out with the following objectives:

1) To ensure the research and recommendations were useful to the rural North.
2) To receive and discuss the initial findings of the research and the development of recommendations.

Figure 4.1: Review of Consultative Forums

Attendees	Jan 99	March 99	May 99	July 99	Sept 99	Nov 99	Jan 00	Feb 00	June 00	Sept 00	*Total*
RDP/RDC	2	3	1	1	1	1	1	0	1	0	11
TEC	1	0	0	0	0	0	0	0	0	0	1
Business Link	2	2	1	0	0	1	1	0	1	2	10
District council	1	1	1	0	1	2	1	1	1	1	10
Business people	3	3	2	3	2	2	3	3	1	0	22
FRCA	1	1	1	1	0	1	1	0	1	0	7
RDA	0	0	1	4	0	1	2	3	2	1	14
Other	3	2	2	2	2	1	4	2	1	2	21
CRE	3	4	4	4	6	5	5	5	5	4	45
Total	16	16	13	15	12	14	18	14	13	10	141
Content	Objectives Consultative forums Interpreting business 'success'	Literature survey Operating culture of RMBs Survey scope	Survey scope Survey design Survey topics Providers of business support	CRE response to SBS consultation Presentation on RDC	RMBs as embryonic SMEs? Family firms Non-growth firms SBS consultation	Business support for farmers Sector specific support Presentation on North'land farming Case study research	Review of PIU report Survey results	Survey results Review of structure of business support	Results from agriculture survey Presentation on Rural Develop-ment Regulation	Synthesis of results from survey Synthesis of results on business support Case study research findings Review of programme	

3) To brainstorm and share examples of ‘good practice’ in the delivery of business support.
4) To promote an interactive research tool encouraging feedback and the exchange of views and experience.

In practice the forum met on 10 occasions during the project’s life span. As shown in Figure 4.1 it played an important role in influencing the design, development and applicability of the research. In large part this was due to its broad membership composition which included individuals with an interest and expertise in rural microbusinesses.

A review of the programme at the final meeting of the consultative forum suggested that the forum had provided a useful model of action based research in encouraging interaction between the research team and the policy community. In particular, it was felt that the survey of microbusinesses had offered a valuable support to the discussions throughout the programme, and the forum itself had provided an opportunity to highlight key issues. It was acknowledged, however, that the heavy programme of meetings required a significant time commitment on behalf of the participants.

4.3 Regional dissemination event

A high profile dissemination event took place on 15th November 2000 at Close House Mansion, Heddon-on-the Wall under the heading of *Rural Microbusinesses Project: Results and Implications.* This provided a further opportunity to refine the results of the work and seek feedback. In the event, up to 60 individuals representing the key decision making and policy community in the region, attended the seminar to hear and discuss the results from the project (a full agenda and list of participants is provided in Annexes 1 and 2). This was an interactive meeting and the remainder of this section of the report turns its attention to a synthesis of the discussions and concluding keynote remarks.

4.3.1 Synthesis of discussion

Within the seminar several issues emerged from the panel discussions following presentations on the nature and needs of rural microbusinesses and business support. These can be grouped under eight main headings, including:

(i) Encouraging an enterprise culture

A key issue related to the need to encourage a cultural and attitudinal change within the rural population of the region, both within and outside the agricultural sector. If rural areas are to develop in economic terms this requires new, flexible and practical steps towards strengthening the enterprise culture. This appears to be particularly pronounced in the case of farm businesses. However, in the non-farm sector it is also significant that many in-migrants, moving into rural areas without at the time having an intention to start up a business, often turn out to be those who take up business support and look to create new businesses. The importance of 'entrepreneurialism from outside', and the ability of such individuals to spot gaps in the market, is evident. This could reflect a higher level of access to capital among this group in comparison to the 'indigenous' population. This issue raises an important question as to the means of encouraging enterprise culture in rural areas. One approach to consider might be the encouragement of partnerships between in-migrants and local people. Further attention is required to the characteristics of those individuals moving into rural areas and starting new firms. What are their backgrounds and educational skills and are they, for example, bringing with them capital or an income with which to underpin the new enterprise?

(ii) Exploring new market opportunities

There was considered to be a need to develop and support new market opportunities based, for example, upon the proactive marketing of products beyond the region. This is particularly marked in certain sectors. Farmers, for example, whose training and background are more typically oriented towards technical rather than general business skills, may need support in marketing, including assistance in identifying and entering new markets. More generally, it was considered important to explore the opportunities presented by ICT and virtual data networks in raising awareness of and developing markets for local products beyond the region.

There may also be opportunities for adding value to products within the region and increased sourcing and purchasing of locally produced goods and produce, based upon product development, novel marketing schemes, niche market exploitation, and local and regional branding. However, although these approaches present opportunities for microbusinesses it was considered they also pose their own challenges, including competition between different regional brands, the demands of identifying niche market opportunities and difficulties in opening and developing effective transport and distribution channels.

Market access was seen to represent a key issue for rural microbusinesses. This is particularly so for firms in the rural north east given its restricted geographical market and emphasises the need for these firms to adopt a more global view of the market place.

(iii) Growth versus non-growth

A large segment of the microbusiness population seemingly lacks interest in growth but this does not mean they lack demand or need for business support. Though some firms may not want to grow, they will still need to cope with and adapt to developments in the wider economy or new circumstances and technologies. Firms from across the growth/non-growth spectrum recognise this need to develop, with many, for example, expressing a demand for training in computing and IT. However, the penetration of the 'non-growth' segment by business support agencies poses challenges. It can be the case that the businesses who are in greatest need of business support are often those who don't have the time to tap into it, don't think they need it and may be in decline.

It was felt that business support agencies needed to avoid dedicating the totality of their service to a narrow range of explicitly growth-oriented businesses. The traditional approach to business support, and associated performance and monitoring criteria, have tended to lead support agencies in that direction, favouring firms that are already comparatively well covered in terms of training and support and most familiar with the means of accessing their services. This approach has been less appropriate for rural firms and insensitive to the additional time and cost issues associated with delivering support to rural areas. The challenge for support providers is to develop a more flexible service, to formulate appropriate output criteria and to address the large group of non-growth oriented businesses that may be important to the social and economic fabric of the rural community.

Shortage of capital is an important constraint on many firms aspiring to grow. This can be pronounced for certain sectors of the business population, for example tenant farmers, who are particularly prevalent in the region. This raised the question of what new opportunities could be developed for soft loans or repayment schemes for microbusinesses and the potential role of dedicated rural credit unions in building business capacity.

Where growth would entail an increase in the number of employees there were considered to be additional obstacles and fears. Many owners see themselves as being very independent and are often uneasy with the idea of expansion if it entails bringing others into the business or having to delegate decisions or tasks. Owners can be unwilling to take on the additional responsibilities and regulatory burdens associated with employing additional staff. Other businesses face space constraints upon growth and here too it is necessary to further uncover barriers and opportunities.

It is clear that growth is a complex issue for microbusinesses. It may take considerable time for owners to understand the possibilities and implications of growth for their business and to develop sufficient confidence. There can be fear about becoming over-committed as well as uncertainty about how to grow or the strength of markets on which the business will depend. Here there is a role for personal business advisers in raising the confidence of firms and supporting them through the structural changes that growth entails.

(iv) Access to business support

Delivering an accessible business support service is seen as a fundamental requirement but it can be a costly and time consuming process in the remoter areas in the region. Key issues for policy concern the location, timing and accessibility of business support services, *viz á viz* the rural microbusinesses. Further attention is required to the costs and barriers involved for both individual businesses and support agencies. It is not only a matter of distance and the associated costs and difficulties of travel but the business owners' own time constraints given their working hours. Attention is needed to opportunities which might allow more businesses to access support. Would, for example, child care facilities or relief services be a helpful aid to microbusinesses looking to access support or training? How can awareness of business support and its potential benefits be increased?

There continues to be general confusion among microfirms over the various sources of business support and there is an ongoing need for co-ordination of services. This is particularly true in relation to the interface between generic and sector specific business support. There is a need to look at new ways of encouraging improved collaboration among providers.

(v) Learning needs

The formal educational background of business owners may represent an additional factor influencing access to business support. This seems to be particularly true for farmers who, as a population, are generally less well educated in terms of formal qualifications. Here there is an additional learning issue relating to the high numbers of family members employed on farms on an extended basis and who are often not seeking training, further education, or off-farm experience. In these circumstances there is potentially a risk of perpetuating a low education environment, reinforced by the head of the family. This would suggest that training services should not be targeted solely at farmers but should extend to other members of the farm household, including farm women, to widen business and employment prospects.

(vi) ICT versus person-centred approaches to delivery

It was considered that ICT presented an opportunity for increasing access to business support services and information in rural areas by reducing the barriers posed by long travel distances and isolation. It was envisaged that this could involve the development of network structures and web connections within libraries, post offices, schools or other community facilities or the encouragement of on-line training and education which is currently undeveloped within the region. Furthermore, ICT may play an important role in raising awareness about business support opportunities generally. Computing and information technology stand out as being key areas where rural microbusinesses feel they need support. Many microbusinesses, however, do not differentiate between, and can be ambiguous or unspecific as to, the forms of support they require. Needs are likely to be wide ranging from basic skills in computing or forms of electronic communication, through to maximising the utility of ICT for the business. ICT promises specific advantages for the rural business. As well as creating a more even market place by reducing distance and size effects, it can also facilitate collaboration among isolated rural firms, providing opportunities for joint marketing or purchasing.

Computing related business support is not seen as an end in itself but a means to extending the effectiveness of, and enhancing, business capabilities. It was felt there were many aspects of training that can be introduced on the back of the expressed desire to learn computing. Seen in this way computing therefore represents a potential market leader within business support and a means of stimulating the improvement of a wide range of skills and staff development.

Though ICT and self-service on-line approaches would play an important role in the future delivery of business support, it was felt they were not a panacea and that their role should not be overemphasised to the exclusion of other approaches. A need for caution and balance was recognised in the promotion of ICT-based delivery, to avoid further widening the gap in provision of support between those currently well served, and often ICT literate, and those poorly served, and often without access to or unable to use ICT. Particular value continues to be placed upon direct 'eyeball-to-eyeball' contact with personal business advisers for teasing out the specific issues and needs of individual businesses, understanding their particular context and challenges, introducing fresh ideas, and in helping to reduce the sense of isolation felt by business owners. ICT and Personal Business Adviser (PBA) approaches are therefore not considered either/or options, but as components within a raft of approaches including other proven measures such as learning groups and mentoring schemes.

Finally, it was felt that business support had to avoid becoming too formal as to alienate the microbusiness owner. Person-centred approaches must be sensitive to the family and social context of microbusinesses as well as the complex psychology of owners. This demands not only relevant business skills of advisors but also well developed 'people' skills. Specific requirements might include, for example, how to inculcate the art of delegation (which has specific ramifications for business growth and the ability of owners to take up business support) or how to deal with issues of depression or family break up or critical incidents within a household.

(vii) Collective business development

Given that many businesses prefer to listen to the advice of other business owners, rather than official support services, there was considered to be a potential role for collective or self-help approaches to business support. For businesses based in sparsely populated rural areas, however, the prospect of having a sector or cluster-based collaboration was seen to be rather poor. This raised the question as to whether mutual support within the business community could be encouraged, or indeed business services delivered, within geographical localities, through local business networks and whether market towns could offer a potential focal point for the development of business-to-business support networks.

Linked to the discussion of collective delivery mechanisms are questions concerning the potential role of co-operatives in providing an effective model for business development and the possibilities for rural firms to adopt co-operative practices in order to increase their buying strength, mutual support and marketing potential. There was recognition, however, of the undoubted challenges facing such approaches - given a weak tradition of co-operation in the UK - and the need for greater openmindedness among microbusinesses in considering alternative ways of doing business. It was considered that co-operation could be fostered in a number of ways, including encouraging local business networks in rural areas and promoting the utilisation of the world wide web as a means of allowing businesses to increase purchasing power or pool knowledge on a collective basis.

(viii) Quality of business support

The research has not focused explicitly on the quality of business support services in helping businesses to achieve their objectives, though clearly this is a vital issue. A key requirement is that training is needs led and based upon the views of the businesses and the characteristics of the business community. The discussion highlighted the necessity for training and support providers to adhere to national qualifications and standards.

4.3.2 Keynote addresses (verbatim)

(i) David Bowles, One NorthEast Regional Development Agency

"When the Agency was created and the Regional Economic Strategy was being prepared the rural issue was a consideration. I have been reflecting in the course of this discussion on some of the issues which emerged from that process. One was that there really isn't any difference in the kind of business support you need to provide in rural areas to that which you provide in the urban areas. What this research has highlighted is that this is probably true in generic terms but it is the method of delivery that differentiates it and that is what we have got to address. It comes through very strongly that we have to find mechanisms to enable us to deliver business support in the rural community in very different ways.

The Centre for Rural Economy is to be congratulated on the production of the report. For the first time as a Regional Development Agency we have been able to respond to what is becoming a desperate plea on the part of the farming community and difficulties for other rural businesses with the closure of banks, post offices and other local services, with some practical research into how we might make an impact on the regeneration of the rural economy. This provides us with a basis to be able to do that and the Agency has got to find a way of taking it forward. I would like to look at this work in the context of some of the things that we have been talking about inside the Agency and some of the issues, activities and programmes that we need to implement to bring about a real regeneration in the rural economy. In our region the rural economy supports a significant population, albeit a small percentage of the total, but it is a large geographical component of the region, which gives it a major impact on the success of our overall economy.

I was struck firstly by the evidence of entrepreneurial incomers to the rural community who were firing up businesses, sometimes because they had moved to the area just to do this and in other instances because they had turned to setting up their own business as a way of sustaining their own lifestyle. I rather suspect there are also a lot of people who, having been made redundant, find themselves in a rural area where they have got to start a business if they are going to sustain themselves living there in the longer term.

It is on such people throughout the region that we might look to target some of our support services to achieve the kind of growth figures that we need to achieve. There is also an issue here of inward investment in the rural community. I am mindful of the fact that some time ago there was a study done in Northumberland that looked at inward investment into the rural community and there was quite a lot of work and a good deal of discussion which predates the Regional Development Agency. I think it is perhaps time to look at that again and see what the conclusions of that were and how we might implement some of them, because clearly if the region's economy as a whole is going to grow in the way we want it to in the future we are going to have to import entrepreneurs on a broad basis into the region. A number of the entrepreneurs that might come in from other parts of the UK may well be people who would rather start their business in a rural location than an urban location. We need to think of ways of attracting such entrepreneurs into our rural economy.

Turning to indigenous rural businesses, there is the pressing concern of the restructuring of agriculture. One requirement is to assist differentiation within the sector. We have been engaged in discussions recently on the promotion of organic production, for which there is clearly a demand in the North of England, which is only weakly served locally. We are considering how to put together a strategy to encourage more farmers to pursue organic methods in order to supply what is clearly a growing demand. At the moment something like 80% of all the organic products that are sold in our supermarkets come in from overseas. We should be in a position to supply that from within.

There is also the issue of how to assist the diversification of farming businesses. Somebody questioned earlier, how many bed and breakfast establishments can the farming and the rural community sustain? Not many I suspect. There must be other ways in which farms can be encouraged to diversify. I have been struck by the fact that when farmers want help to develop their business they focus on financial management and business strategy and they turn to the agricultural advisory services. It seems rather incestuous: farmers talk to farmers and they talk to farming people who get most of their advice from agricultural institutions. I know that is a broad generalisation, but it is may help to account for the low level of interest amongst farmers in business support generally. One of the challenges for what we have to do as an Agency and what the region has to do in terms of business services is to get to those farmers and encourage them to take up things like marketing, advertising, and product development and all of those kinds of mainstream business activities.

E-business has been given considerable attention this afternoon. E-business methodologies are the means by which geography is destroyed. We have a limited market here. Most small businesses in this region service a local, or the regional, economy. That is two and a half million people, compared to the South East of England. E-commerce enables us to overcome these geographic limitations and we should be encouraging more rural businesses to adopt e-business technologies. We can help them to do that, perhaps providing them with grant aid in order to get themselves off the ground, say, to help them develop their web sites. We have got to have direct intervention in order to encourage a rapid growth in take up of that kind of methodology.

From an Agency point of view we are interested at the moment in two or three areas of development. In the development of market towns we are excited by the fact that, with a larger budget, we can do more than we have done in the past. We are also interested in how to bring redundant farm buildings back into alternative uses.

A possibility that personally interests me is that, instead of just creating new business premises, which has been done very successfully in some areas, we create what I would describe as 'new economy' rural business incubators. By that I mean to encourage young people to start businesses on a low rent and initially low rates basis, but where they would have broad band communications, plus a desk and a computer, and any other equipment they need to develop their business idea. In return for all that, the person who owns the building would get a piece of the equity of the new business; and if it proves successful, then they would share in a growing asset. It seems to me that such business incubators could be a really big opportunity to develop the rural economy.

I also like the business club idea. Is there any way in which the Agency could help to encourage that kind of activity, especially if in focusing the proliferation of advice and guidance that we have heard here today? That is one of the problems confronting rural business development. There are dozens of different organisations, agencies and authorities out there delivering one kind of business service or another. The Small Business Service is going to be the key to the future and we must ensure that it brings clarity and focus to this area.

Finally, the Agency has taken the view that the North East of England needs a rural action plan[8]. One of our objectives is to work in collaboration with the Countryside Agency to develop that document. We are going to want to consult with you and to engage with you in the process of developing that plan.

(ii) Roger Turner, Senior Enterprise Policy Officer, Countryside Agency (on behalf of Margaret Clark, Director, The Countryside Agency)

I would firstly like to give our welcome to and congratulations upon this comprehensive study. CRE, and others in the University of Newcastle, have done a lot at the local and national level to improve knowledge and understanding of the rural economy. The information from this survey will help steer further research and, just as importantly for the microbusinesses of the region, will help with the formulation of policies and the delivery of support services. We at the Countryside Agency share these aims of improving information about the realities of rural enterprise and encouraging policies and programmes to attend to the needs of all rural businesses. Indeed the dialogue we have had with the Rural White Paper team about characteristics and needs of enterprise, as well as the representations on rural enterprise contained in some of

[8] Following consultation a *North East Rural Action Plan* was published by One NorthEast in June 2002.

the RDAs' reviews of business support services, confirms that the understanding is patchy and needs improvement.

The results of the questionnaire survey offers some very valuable insights into the characteristics of microbusinesses - that individually and regionally they are an important source of employment, turnover and purchasing power; that they are heavily dependent upon local markets, although also making important contributions to external markets, especially through the contribution of businesses set up by incomers; and that their owners view them as proper businesses from which they draw their main source of income. We can substantiate and confirm some of these results from a national perspective. For example, the Countryside Agency's study of the *Impact of In-migration in Rural Areas* confirmed the importance of incomers moving to rural areas and then starting up businesses which create jobs. In the five areas studied, although 81% of the self employed migrants had no additional labour in their business, the remaining 19% created 244 jobs thus averaging 2.4 FT jobs per self employed migrant.

Three of the attractions of the CRE's survey are:

- The amount of solid information that the study provides to paint an objective description of rural microbusinesses. Some of the material is new and we and many others will pour over the material and seek further analysis. However, even where it is primarily reinforcing some known characteristics it is valuable as these sometimes get lost by policy makers and commentators - for example that considerably larger numbers of businesses (and indeed employment) exist in construction, manufacturing, retailing than in land-based and tourism, which are the business sectors more regularly associated with rural areas and which therefore secure prime attention in documents such as the Regional Economic Strategies and Rural White Paper.

- Secondly, the information about business support needs, the importance of different sources and the importance of distance in the physical access to services such as banks, business suppliers and employee training services.

- Thirdly, the way in which the microbusiness survey links with the survey of business support needs and will contribute to more detailed studies of the linkages and networking of microbusinesses in the region. It is often suggested that results from in-depth, location-specific studies have limited transferability. However, studies of this quality do not suffer from this limitation. In seeking to promote and assist the revitalisation of market towns, one of the aspects upon which we wish to focus our Market Towns programme, is the linkages between a town and its hinterland. Studies such as those undertaken by CRE, not only describe some of those links but also show, from a business perspective, how they can be studied.

Turning then to the second part of the seminar, again we welcome the assessment of business support needs of rural microbusinesses. The baseline survey gives a good introduction to the issues upon which microbusinesses need advice, as well as experience of current provision. Once again as well as providing new information, the results valuably confirm, in part, what other surveys have shown, including an extensive survey of small business published by the Federation of Small Business, which repeatedly emphasise the more significant support role played by private sector advisors, family and business contacts than from publicly-funded bodies such as Business Links, local authorities etc. The Business Links/SBS need to create a culture, and structures, that build upon the significant contacts which microbusinesses have with private advisors and perhaps channel further contacts and information through them. In this way concerns which several rural business sectors have expressed about the credibility/relevance of advisors and the nature of physical access to advisors, might be overcome.

We are building a worthwhile relationship with the Small Business Service and with a number of the successful Business Links and other providers. We commented on how well the business support needs of rural business were addressed by the numerous Business Links and others, in their bids to run the Small Business Service. I know that our comments were used by the SBS selection panels, sometimes to demand greater attention to the needs of rural businesses. This relationship again confirms a clear need for more information about the needs of rural businesses. We will be able to add information about the specific needs of tourist establishments, farming and forestry businesses and soon about micro and other independent rural retailers. We are currently studying business support needs and provision for such retailers in the villages and small towns in Nottinghamshire.

Of course in this region, rural business will benefit from having in One NorthEast, an RDA which recognises the importance of the rural economy. We are just completing a review of all the RDA's Business Support Reviews. As far as understanding the needs of rural business and proposing steps to ensure rural business have access to good quality business development services and advisers, the review prepared by One NorthEast is one of the best - perhaps not surprising to people in this area, and no doubt informed by the rural experience and interest of staff and Board members of the RDA and CA. As One NorthEast are one of the partners in both the rural microbusiness research project and in the delivery of the SBS strategy in this area, this interest and experience augurs well for the encouragement of rural microbusinesses in this region.

Finally, if I can momentarily and almost heretically step outside this region to draw attention to what we see as a good objective, a sort of good minimum, for providing business support to many microbusinesses. In their Review of Business Support, SWRDA acknowledge the contribution made to the area by the so-called lifestyle businesses, most of which are microbusinesses. Whilst acknowledging that even though many do not wish to, nor could realistically be expected to grow, the review offers the proposal that the business support agencies should, "*provide 'light touch' services to the bulk of these businesses, aiming to improve and maintain business competence, rather than excellence.*" We feel sure that many microbusinesses in this area would be happy to see business support providers use this as their minimum when establishing and delivering advice, training and other support.

5.0 CONCLUSIONS

5.1 Introduction

Although agriculture is a well-researched rural sector, having been the primary focus of agricultural economists and rural sociologists for decades, microbusinesses in other rural sectors are relatively under-researched. Consequently, the present research has attempted to provide some empirical, rather than anecdotal, comparative evidence upon which to base policy deliberations and approaches to rural development. It has also gone some way in beginning to unearth the nature and needs of rural microbusinesses and the challenges posed for the delivery of business support.

The emerging picture raises many issues and questions. The research, for example, has confirmed that microbusinesses play an important role within the North East rural economy. It has been shown that they operate across a whole variety of sectors, each characterised by different spatial patterns of output and input markets and different levels of employment creation. This heterogeneity is magnified by within-sector variation in business goals according to owner-operators' profile and motivation. As such a clear challenge is presented to business support agencies and development organisations in overcoming rather stereotypical and blinkered perspectives of a rural economy based largely on tourism and farming. A whole array of small business sectors constitute the rural economy and this calls for a broader and more robust approach to rural economic development.

The research was undertaken at a time of significant change within rural economies and business support services. For the Small Business Service (SBS) in particular, the work will hopefully inform the development of business support services and approaches with respect to rural areas and microbusinesses. In this respect the findings act as a benchmark, highlighting the state of play at the outset of the SBS, and the significant challenge in developing a more inclusive and responsive service.

5.2 Being micro

It is evident that microbusinesses form the bulk of the rural economy and are an important part of the economic and social fabric of local communities. Yet they have often been overlooked by business support initiatives which have traditionally focussed their attention on larger, growth oriented firms. But such an emphasis fails to understand the central role of microbusinesses in local economic development. The research has demonstrated a highly heterogeneous microbusiness population, which delivers substantial aggregate revenue and employment to the regional economy. Microbusinesses are distinctive in terms of their operational and structural characteristics and stand out from larger SMEs. Typical features include:

A dominance of sole operators and family businesses

A significant proportion of microbusinesses are sole operator and family based enterprises:

- they often have few or no employees (typically fewer than five)
- their decision making is often informal and rests with the owners or family unit
- their business premises will often form the place of residence
- they often display an overlap of family, household and work responsibilities

Diverse goals and motivations

Important decisions about the business and its future are typically driven by a combination of income and non-income related motivations:

- priority is often given to maintaining family or personal income or providing work for family members
- quality of life, lifestyle, personal and family considerations often have an important bearing upon business development choices
- emphasis is often placed upon the importance of flexibility and independence of business lifestyle
- microfirm owners do not necessarily aspire to a growth in profit or employees, though those aspiring to growth are often faced by common impediments, notably a lack of capital

The centrality of the business owner

The owners of microbusinesses typically represent the backbone and character of their enterprises:

- they may not necessarily have formal business qualifications or training
- they are required to tackle a wide spectrum of business tasks, from accounting to personnel
- they usually have a strong sense of independence and may not be used to or inclined to seek external public support
- they display diverse backgrounds and range of experience which affects their approach to business

Resilient enterprises

Rural microbusinesses show characteristics suggestive of cost minimisation, adaptability and resilience:

- self-exploitation through working long hours
- utilisation of spouse, family, part-time or casual labour on a flexible basis and often at below-market rates
- recourse to multiple income sources and earners within the family; the microbusiness will often form part of a composite pluriactive household income; for farms this is emerging through diversification and off farm employment strategies

- reduced costs by reducing management and personnel demands and using the home as business premises

Restricted in-house resources

Though microbusinesses display a certain resilience, they paradoxically can also be vulnerable enterprises given the limited capital, time and labour resources available to them and given their long working hours. This may have several implications in terms of:

- their opportunities for participation in business networking activities
- their ability to cope with disproportionately high regulatory and compliance demands
- their capacity to withstand critical incidents within the business or family life cycle
- their capacity to access business support and information

In summary, microbusinesses would appear to display a number of distinguishing features which suggest the need for a tailored approach to business support provision. It is also important to acknowledge considerable internal diversity amongst microbusinesses in terms of sector and organisation. In particular the prevailing definition of microenterprise - as consisting of firms with fewer than 10 FTEs - incorporates a considerable spectrum of forms of business organisation. Firms with 1 or 2 employees are likely to face significantly different constraints, challenges and issues compared to those with 8 or 9.

5.3 Being rural

It was not an explicit intention of the research to provide a direct comparison of rural and urban microfirms. In practice, it may be that there are fewer differences between urban and rural microbusinesses than between, say, micro and larger SMEs. Many of the characteristics and needs of microbusinesses, notably their lack of in-house resources or capital, are likely to be similar whether firms are located in an urban or a rural area. There are also likely to be common challenges in delivering business support in reaching and targeting large numbers of scattered businesses. Furthermore, the complexity of the microbusiness population, in terms of its internal diversity and demands, is likely to be repeated in an urban setting. It follows that the findings from the work can hopefully contribute to more effective approaches to support the microbusiness population across-the-board.

Though there may be similarities, there are also elements which appear to be more pronounced in rural areas. Indeed, microbusiness is itself a particularly rural issue given the dominance of these businesses in the rural context. It follows that dealing effectively with microbusinesses *per se* is a major issue for rural areas. Being rural, however, adds an additional factor - one of a range of contextual features - which needs to be taken into account in delivering business support. Several issues are of significance:

- 'Steady state' microbusinesses will often take on added importance in rural areas in supporting the economic and social fabric. They may play a key role in local service provision, in supporting community well being, in local economic linkages and in the development of a broad economic base for rural communities. Some businesses will be strategically placed in the local economy and there may be few alternatives should they fail.

- Population sparsity and distance have a profound impact on the operation of the rural microbusiness, influencing management time and travel costs and distance from basic services (such as banks, commercial training and business support providers).

- Sparsity of business population creates challenges in developing or utilising sector based networks or clusters and tends to restrict opportunities for geographically based networks.

- ICT-based approaches are not a universal solution to the problem of overcoming distance in rural areas given the poorer development of ICT infrastructure and the limited access of many firms to the internet.

- Firms in rural areas often face constrained local markets. Thus transcending local markets will be a key stage in firm development for the microbusiness. In growth terms, microbusinesses can be constrained by a restricted local private customer base.

- Rural microbusinesses face particular challenges associated with the restricted local availability of skilled staff.

The 'agriculture effect' is also a key issue in the rural context. It is arguable that non-farming rural microbusinesses have faced the additional challenge of being set alongside the traditionally well supported agricultural sector. Conventionally, rural areas have been synonymous with agriculture, and policies are only slowly shifting to recognise explicitly the importance of other sectors. In contrast, no single sector has dominated in urban areas to quite the same extent in terms of public profile or level of government intervention.

Paradoxically, public intervention in agriculture may have also hindered the development of farms as rural businesses. In an era of guaranteed markets and publicly funded technical advice, agriculture undoubtedly became very efficient at producing standard commodities. It is perhaps unsurprising that farmers perceive less need than other microbusinesses for advice on topics such as business strategy and marketing: being successful has depended mainly on producing undifferentiated products at low cost which in turn required specific, technical advice rather than generic business advice. In contrast, non-farm microbusinesses - more accustomed to operating in more overtly competitive markets - perceive a greater need for generic business advice. Given that farms now face greater levels of market competition as agricultural support is withdrawn and they are encouraged to diversify and become more entrepreneurial, there is therefore a considerable policy challenge in encouraging farmers to pay greater attention to general as well as technical business issues.

Perhaps the most significant issue of rural distinctiveness concerns the additional challenges and efforts associated with delivering support services to rural businesses given their sparsity and the numbers of firms involved. Undoubtedly the geography of support delivery is complicated and includes hard-to-reach localities in both urban and rural areas. This ultimately muddies a simplified view of rural areas as being less well served. However, that does not diminish the clear problems facing remote rural firms in accessing business support nor the challenges for business support outlets in making services available to them. In pursuing the SBS's objective of making support available to all firms it is difficult to deny the case that rural areas include 'hard-to-reach' customers. It has been argued that the penetration of business support provision into rural areas poses significant financial and practical challenges (CLA, 1997). That is, it is easier (and cheaper) to support 10 urban microbusinesses than 10 rural microbusinesses due to the greater propinquity of the former. Remote rural firms may also be less inclined to seek out support given their remoteness from support services.

These issues raise the question as to whether or not public provision of support services can be structured to encompass all firms equally. This is an important issue in rural areas where continuing structural change in traditional sectors is placing the onus on other sectors to generate economic activity. This in itself calls for concerted attention and planning. It also requires a rethink of existing delivery mechanisms and the encouragement of novel approaches to delivery.

5.4 Scope of business support

In the past, public business support has often been targeted at larger SMEs, which were growth oriented. This approach was geared to addressing the objective of enterprise growth *per se*, within the budgetary constraints and the performance and revenue raising requirements of business support services. It remains to be seen whether the SBS and developments within the business support framework will continue the tradition of attempting to 'spot winners' - or alternatively those specifically disadvantaged - or whether its embrace will be more encompassing.

In some ways the conventional approach to business support reflects the fact that firms planning to expand do have a greater perceived need for business support in the first place. However, the research results indicate that this represents only one-third of microbusinesses. Indeed, one-third of businesses are explicitly not interested in growth. Whilst it may be tempting to target support at growth-oriented firms, firms with no expansion plans do represent a significant proportion of employment within rural microbusinesses. Moreover, in a dynamic competitive economy, even firms not interested in growth need to adapt to changing market conditions. It has often been stated that there is no 'stand still' position for the small business and that neglecting to consider strategic and marketing issues may lead to business failure. Furthermore, many 'steady state' businesses are concentrated in highly embedded sectors such as construction and transport serving local markets. If such businesses were to fail, this could contribute to a weakening of the economic and social cohesion of a locality. There are many firms which, despite lacking growth potential, are of considerable value, due to the essential local service they provide (e.g. bus service, village shop), their significant contribution to local employment, or their strong local economic linkages.

It follows that public provision of support and advice may need to address firms with a wider range of business goals and that definitions of business success and ‘eligibility’ criteria for support provision may need to extend beyond considerations of employment and profit growth to include stability and role within the local economy. This would call for a flexible package of monitoring criteria for local business support organisations, sensitive to rural development objectives.

The patterning of contact between rural microbusinesses and public business support organisations appears to be somewhat skewed. Table 5.1 highlights the tendency for support to be oriented towards certain sectors of business and groups of business owners. There is currently a large segment of the business population which remains untouched by it. However, rather than concentrating support resources on businesses already familiar with and benefiting from these services, business support could be opened up to a wider spectrum of enterprises that could also benefit. The research has shown that many non-users of business support, including non-growth oriented firms, do identify specific business support needs. It has also revealed that, even amongst the growth oriented businesses, there is a significant proportion which has not been in contact within public support. Many of these firms identify particular constraints upon their growth relating to employment and space issues and, most commonly, lack of capital.

Table 5.1: Typical characteristics of users and non-users of generic public business support

Users	Non-Users
More likely to be: • In education/training, recreation/culture, manufacturing, business services • More export oriented sectors • Active in distant markets • Younger firms • Young (below 45) owners • Owners with more years of formal education • In-migrants • Solo operators/non-family partners • Owner not over-stretched	More likely to be: • In personal services, construction, transport, hospitality, retail, farming • Less export oriented sectors • More tied to local markets • Older firms • Older (above 45) owners • Owners with fewer years of formal education • Locals • Family partners/family labour • Over-stretched owner (working in excess of 80 hours per week)

5.5 Delivery of business support

There are differences within the business population in terms of demand for business support services and some firms appear more oriented to support than others. It may in practice be very difficult for business support services to target support where there is no apparent demand. However, the reasons for a low level of demand within certain segments of the business population may potentially be manifold and may not simply reflect a lack of need or interest - though undoubtedly many businesses will simply be unreceptive to support. The awareness of support services among microbusinesses can be poor and this represents a major challenge for support initiatives. A lack of in-house resources, awareness, confidence and time may also be important in restricting their ability to utilise support. The effort required to benefit from business support may require high levels of time commitment, but owner managers may have limited spare capacity for business development. In addition, many business owners may see themselves as not qualifying for support or may be turned off by what they see as an alien ethos (i.e. geared to big businesses) or lack of practical relevance to their business. Finally, a strong independent work ethic means that many microbusinesses may not necessarily be enthusiastic about accessing formal information services and may be more reliant on either informal or private support or upon muddling through on their own.

In general, there would appear to be a need for more proactive promotion of business support and its benefits to a wider community of potential customers and to further understand and overcome the various barriers to uptake. A key issue is whether business support is sensitive to the characteristics of the microbusiness. There is a need to engage with microfirms at their own level, to demonstrate the clear benefits of support to the businesses which will justify their efforts and commitment, and to tailor the service to fit in with their time and locational constraints. The design of business support initiatives for the microbusiness community requires an understanding of their specific context and problems, and identifying their main needs and opportunities. In general, there would appear to be a need for a repackaging of business support and a more tailored approach based on a number of elements.

Target population and the tailoring of service provision

Extending the scope of business support to include a wide client base of rural microbusinesses would undoubtedly have capacity and resource implications, requiring a balance of delivery approaches and funding mechanisms, together with a prioritisation of services. Consideration could be given to a prioritisation according to local development objectives or the development of specific rural support projects. In other instances 'light touch' approaches may be appropriate to embrace a larger proportion of the business community. In general, there is a need for an improved understanding of the sociological barriers to accessing support and particular attention or targeted initiatives may be required in order to reach underrepresented sectors and groups of owners.

Significant effort may be required in winning the acceptance of microbusinesses without previous contact with support agencies. Here the style of the approach will be important in overcoming an intimidating image of 'big business' in the support offered or the common perception of business support as involving a 'business plan mentality'. Microbusiness owners may often prefer a more informal and unstructured approach and one which recognises they are busy people. Many may be unable to leave their business unattended suggesting that wherever possible business support should be delivered on site. A service tailored to the needs of the microbusiness would also require advisers with experience or understanding of microfirms and strong interpersonal qualities. It would be important to seek the views of microbusiness owners themselves in terms of the support and training they would find useful and the most appropriate means of delivering it.

It is important that support agencies offer advice in areas of relevance to the microbusiness. The research has highlighted a number of areas which are of particular significance. Firstly, despite their small size, microbusinesses create significant employment opportunities in rural areas. However, further employment creation appears to be hindered in part by owner-operators' self-perceptions of lacking the necessary skills to recruit and manage additional staff. Many owner-operators opt instead to work excessively long hours. The overall tendency seems to be for explicit development of human capital to be a lesser priority for microbusinesses and this would indicate a potential role for advice and management training. Secondly, for rural firms, there is a particular need for support relating to sourcing strategies and accessing distant markets. Finally, many microbusinesses see a need for support relating to the use of computing. This could provide a potentially important market leader for business support, opening up other business services to the microfirm.

Signposting and co-ordination

It is the case that the framework of public and private business support provision often appears fragmented, uncoordinated and uncertain. A major challenge remains in developing effective signposting and co-ordination of provision embracing the breadth of funding opportunities and support organisations. This would also call for more effective partnership working in the development of services that have a rural dimension and a need for closer co-operation and understanding between generic and sector specific providers of business support. It is clear that generic business support services will be unable to offer many aspects of sector specific and technical business advice and this calls for generic providers to be able to draw upon and signpost businesses to expert support. Generic providers also need to consider their approach to support delivery to different business sectors in order to overcome current unevenness in patterns of uptake.

The farm sector stands out as being a key area in which there is need for effective synergy of approach. To date technical advice has dominated the sector and providers of generic advice have often seen farms as falling beyond their remit. Business support providers face a major task in overcoming this legacy of support provision, on the one hand in encouraging uptake of generic support among farmers who may be suspicious of non-farm business advisers and, on the other hand, in encouraging business support providers to deliver support to them. In this respect it will be important to learn the lessons from the recently established Farm Business Advice Service.

The survey has also demonstrated a complex interaction between support sources and the importance of private professional sources of business support. This would suggest that it will be important to initiate effective co-operation and lines of communication between public and private forms of business support.

Rural delivery

Given the logistical challenge in delivering support to hard-to-reach rural areas there would appear to be a need for novel approaches and methods of delivery. Here ICT based delivery represents an important opportunity for encouraging added penetration and in surpassing distance barriers. However, challenges remain regarding a lack of coverage of this technology in rural areas generally, together with a widespread lack of appreciation of its real utility.

ICT can therefore only play a partial role in business support delivery and cannot substitute for the importance of building face-to-face, personal relationships between business advisers and firms. It will be important to adopt a broad package of approaches to delivering business support in the rural context. Collective delivery of business support, for example building on the collective strengths of the microbusiness community through the engagement of their representative associations and networks, has been highlighted as one potential option. Collective methods not only offer more cost efficient approaches, they also serve to draw upon mutual support within the business community. Cross-sectoral and geographically based approaches to collective delivery, such as through the engagement and encouragement of local business clubs, offers one possible approach, though clearly this represents a sensitive and challenging process.

Ultimately, it may not be feasible for the spokes of business support to extend to the placement of business support outlets in many rural areas. Nevertheless attention needs to be given to the extension of services into the rural domain. In addition to ICT or collective delivery approaches there is potentially a range of other mechanisms which might be explored such as rural business mentoring, relief service provision, mobile rural services, rural surgeries or the part time placement of business support within rural service centres. Here there is a particular need to accumulate and draw upon existing good practice within the framework of business support.

Monitoring and performance

Finally, the research has highlighted the need for sensitive monitoring mechanisms which reflect the characteristics and role of rural microbusinesses and allow consideration of the level of service delivery in rural areas. Conventional measurement of the performance of support has often relied heavily upon criteria referring to individual firm growth. Coupled with a tendency by support agencies to concentrate on larger firms, this has served to shift large numbers of enterprises to the margins of the support framework. This would suggest the need for a package of measures which more effectively reflects the nature of microbusinesses, at both an individual enterprise and collective level, recognising their key role within the rural economy and allowing for the tailoring of services to local economic circumstances and development priorities. More generally this would entail a shift in emphasis away from the individual firm towards monitoring criteria which relate to broad local development objectives and the performance of the local economy.

There is also a major resource issue and closer attention is required to the overall costing strategy for delivering business support in rural areas. On the one hand, support agencies are facing an increasing challenge in generating their own internal resources. On the other hand, the rural microbusiness population offer limited resource generation capacity and often entail greater costs in delivering support. This is likely to lead to a skewing of business support away from rural microbusinesses.

5.6 Overview

It is clearly a significant challenge to uncover meaningful data concerning the nature and needs of specific sectors of the economy which can be used as a basis on which to develop policy. This seems to be particularly true in a rural context. Nevertheless the current research has gone a significant way to providing empirical evidence for an important segment of the business profile where previously there had been very little and where assumptions concerning the sector had tended to be anecdotal in substance.

Effectively addressing the specificity and complexity of the rural microbusiness profile represents a challenge to policy makers, business support providers and analysts alike and further empirical studies are needed to improve understanding of how best to encourage and support rural enterprise in all of its various guises. By better understanding this complexity, the research has attempted to provide a starting point in the process of tailoring business support approaches to the particular demands and needs of the rural microbusiness.

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ANNEXE 1

Rural Microbusinesses Project: Results and Implications

Agenda

15th November 2000, 2.00 – 5.00 p.m.

Close House Mansion, Heddon-on-the-Wall

1315 – 1400	*Buffet Lunch*
Chair	Miles Middleton (Board Member, One NorthEast)
1400 – 1410	*Introduction*
1410 – 1515	*The Nature and Needs of Rural Microbusinesses*

Dr Andrew Moxey (Centre for Rural Economy)

Followed by panel discussion:

Mark Robertson

Northumberland Cheese Company Ltd; Member of Northumberland SBS steering group

Doug Scott

Chief Executive, Tyneside Economic Development Company Ltd

Paul Slaughter

Director of TEEM Multimedia; Chairman of the Northumberland division of the North East Chamber of

Commerce; Board Member of the Northumberland Strategic Partnership

1515 – 1535	*Tea*
1535 – 1640	*The Nature and Needs of Business Support*

Professor Philip Lowe (Centre for Rural Economy)

Followed by panel discussion:

Bob Dobbie

Regional Director of GO-NE

Olivia Grant

Chief Executive Tyneside TEC; Chair of County Durham Learning and Skills Council

Phil Hughes

Farmer; Manager of Teesdale Citizens Advice Bureau; One NorthEast board member

1640 – 1700	*Summing Up*

David Bowles (One NorthEast)

Roger Turner (Countryside Agency)

1700	*Close*

ANNEXE 2

Rural Microbusinesses Project: Results and Implications

List of Participants

Anderson, Jim	Government Office for the North East
Ashby, John	Durham County Council
Atherton, Andrew	Foundation for SME Development
Baines, Susan	Dept of Sociology and Social Policy, University of Newcastle
Barber, Stephen	North East Regional Assembly
Bateman, Glyn	Countryside Agency
Becker, Hugh	Teesdale Traditional Taverns
Bone, Tony	Research Assistant, European Parliament
Bowles, David	One NorthEast
Brough, David	Secretary, Northumberland SBS Steering Group
Brown, Ian	Lee Moor Farm
Buchanan, Keith	Countryside Agency
Carroll, Terry	Centre for Rural Economy, University of Newcastle
Chapman, Terry	North East Federation of Small Businesses
Clark, Margaret	Countryside Agency Director
Corbett, Malcolm	National Farmers' Union
Cranswick, Dawn	Project North East
Darlington, Jim	Government Office for the North East
Dawson, Sue	One NorthEast
Dean, Andy	Tynedale District Council
Dobbie, Bob	Government Office for the North East
Gorton, Matthew	Centre for Rural Economy, University of Newcastle
Grainger, Samantha	Northern Arts
Grant, Olivia	Tyneside TEC
Hamilton, John	Northumberland County Council

Haslam, Antony	Country Landowners Association
Hughes, Ken	Teesdale District Council
Hughes, Phil	One NorthEast Board Member
Kelly, Paul	Tynedale District Councillor
Kitchen, Bryan	Redcar and Cleveland Borough Council
Laverick, David	The Prince's Trust
Lowe, Philip	Centre for Rural Economy, University of Newcastle
Marshall, Susan	Northumbria Tourist Board
Martin, Diana	North East Chamber of Commerce
Mashiter, Judith	Middleton Plus
Mason, David	One NorthEast
McGregor, Peter	Confederation of Microbusinesses
Middleton, Miles	One NorthEast Board Member
Milgate, Lesley	One NorthEast
Mitchell, Paul	North Pennines Leader Programme
Moffit, John	Tynedale farmer and businessman
Moss, Andrew	Ward Hadaway
Moxey, Andrew	Centre for Rural Economy, University of Newcastle
Pendlebury, Bob	Durham County Councillor
Phillipson, Jeremy	Centre for Rural Economy, University of Newcastle
Pittis, Janice	Business Development Manager, University of
Newcastle	
Raley, Marian	Centre for Rural Economy, University of Newcastle
Robertson, Mark	Northumberland SBS Steering Group
Scott, Doug	Tyneside Economic Development Company Ltd
Seaman, Tony	Teesdale District Council
Slaughter, Paul	TEEM Multimedia
Smith, Mike	Farming and Rural Conservation Agency
Talbot, Hilary	Centre for Rural Economy, University of Newcastle
Taylor, Graham	Northumberland National Park
Turner, Roger	Countryside Agency
Vallance, Leigh	Durham Rural Community Council
Warents, Arnold	Confederation of Microbusinesses
Wignall, Peter	Northumberland Business Link