

## What's holding rural businesses back?

Rural businesses contribute significantly to UK economic prosperity but are often overlooked; more could be done to support their growth and to help them flourish.



### Policy and Practice Notes

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**Given their importance to economic prosperity and well-being across the UK, it is imperative that policy makers, business leaders and support bodies recognise the contributions, needs and challenges of rural firms and ensure that their economic and spatial strategies effectively harness the potential of businesses from all places and sectors.**

## Why do rural firms matter?

Rural firms have often been a blind spot within policy and analysis yet they:

- Contribute considerably to national and regional economies and often keep pace with or exceed urban growth.
- Lie at the heart of community services and sustainability.
- Would contribute more but need full consideration within economic growth plans and policies.



## Do rural firms' performance and plans differ from urban?

In many aspects of character, activities and daily operations rural and urban firms show similarities when viewed at a high level. They achieve similar turnover performance and are more likely to report a profit than urban firms (outside of London), even after taking into account differences in the profiles of rural and urban economies. Nevertheless, closer examination identifies that:

- Regulation is identified as rural firms' main barrier, while competition is a greater concern to urban firms.
- Rural firms are less likely than urban businesses to be planning increases in staff, though just as likely to be planning to increase their workforces' skills.
- Rural firms are more likely to be exporters than urban businesses, outside of London.
- Rural firms with employees are less likely to be instituting new working practices or improving their leadership capabilities, but more likely to be planning capital investment.

## Do rural and urban firms differ in their access to, and use of, support and advice?

Rural and urban firms share many sources and needs for external advice, though only around a third of all firms seek external advice or information each year. Accountants are the leading source of advice and information for most firms. Levels of use and sources of such support often vary according to size of enterprise as well as spatial location:

- Although rural and urban firms cite financial management as a leading reason why they seek information/advice, few get this from banks or professional financial advisers.
- More rural than urban firms with no employees use business networks, trade associations, etc, but amongst English and Scottish firms with employees this source is more favoured by urban businesses.
- While urban firms without employees seek marketing advice at more than double the level of rural counterparts, rural firms are more than twice as likely to seek advice to improve business efficiency or productivity.
- More rural firms seek larger funds for capital investments in machinery and buildings, while urban businesses seek smaller amounts of external finance for regular operational or ongoing business improvements. This pattern is only partly attributable to rural areas' larger stock of farm and land-dependent businesses.

## How do businesses compare on exporting and innovation?

Very low numbers of UK firms seek advice/ information about innovation and exporting, but higher proportions of rural and urban businesses say they plan to develop new products or services. Rural firms are committed to innovation and to exporting, and show clear evidence of untapped potential. In England, for example, where in 2015 predominantly rural districts generated £237 billion GVA (matching the value of output from the country's ten leading cities outside of London):

- Rural firms are more likely than urban businesses to have introduced new or improved goods in their businesses.

- More rural than urban firms export goods and services.
- Many more rural firms report having goods or services suitable for exporting than those which currently export.

## Do rural businesses' performance and needs vary by country or by region?

At all spatial levels rural and urban firms display some similarities in performance, needs and potential, but also reveal differences, for example in barriers to running successful businesses:

- More firms without employees report difficulty obtaining finance in Scotland than those from other parts of the UK.
- Rural firms without employees in Wales and Northern Ireland are more likely to identify taxation, National Insurance, business rates and similar business charges as a major obstacle to success than elsewhere in rural UK.

Analysis by regions across England reveals:

- In **East of England** rural firms are more likely than the region's urban firms to indicate they have strong capability in developing new goods or services and have used advice for improving business efficiency/productivity.
- In the **North East** rural firms are more likely to have introduced new or improved processes, but are more likely to report obtaining finance as a barrier than the region's urban businesses.
- In the **North West** rural firms are less likely to have introduced any new or improved services or processes but are more likely to believe they had goods or services suitable for exporting.
- In the **South East** significantly higher levels of rural than urban firms have introduced goods or services new to the market, but fewer have cooperated with universities or other HEIs in this innovation process.
- In the **South West**, rural firms are more likely to see obtaining finance, taxation, rates and insurance as business barriers than urban firms, but are more likely to have exported goods and have goods or services suitable for exporting.
- In **East Midlands** significantly more rural than urban firms report staff recruitment and skills as business challenges, and have introduced markedly fewer products or services that were new to the market.
- In **West Midlands** rural firms are more likely to be planning to improve workforce's skills, to make capital investments in machinery, plant etc and are more likely to be exporters of services than the region's urban firms.
- In **Yorkshire and Humber** more rural than urban firms have introduced new or improved processes and have collaborated with universities or other HEIs in the innovation process.

## What support could be provided to encourage further rural business growth?

Given their performance and significance, the UK's rural enterprises warrant equity of attention within the nation's economic growth plans and policies. Thus, the planned UK Industrial Strategy, post-Brexit policy developments, growth strategies intended to rebalance our economies such as the Northern Powerhouse, Midlands Engine and City and Borderlands Deals, and budgets and programmes to deliver these, need to be developed at all spatial levels in ways that are as relevant, accessible and visible to rural as to city and urban areas. This might require some business policies and programmes that are specifically tailored to address significant differences in the plans, obstacles and use of support by rural and urban firms, in order to encourage rural (and urban) businesses to thrive and grow:

- Central and local government authorities, country, regional and local enterprise agencies and partnerships, and business support and representative organisations need to examine evidence of rural and urban differences and similarities and embed rural business strengths and aspirations in economic strategies, while addressing weaknesses in support mechanisms.
- Consideration should be given to providing more targeted information and advice services for rural firms wanting to develop new products or services.
- Advice, and perhaps different measures, may be needed to release the large untapped rural potential for exporting, and encourage more rural firms to sell to overseas markets.
- Appropriate and accessible training opportunities and recruitment support needs to be made available to rural employers and their staff.
- Public sector organisations also need to address wider weaknesses in some rural areas in affordable housing, transport infrastructures, education and services provision that hold back businesses' ability to recruit and retain employees.
- Effective and timely research is required that drills down below headline countrywide economic results to underpin "rural proofing" of locally and regionally differentiated approaches to economic development.



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## Project information

This Policy and Practice Note was written by Jeremy Phillipson, Roger Turner, Matthew Gorton, Sara Maioli, Robert Newbery and Oak Tiwasing. It draws on secondary analysis by Rural Enterprise UK of the BEIS UK Longitudinal Small Business Survey 2015. Rural Enterprise UK is an initiative led by Newcastle University's Centre for Rural Economy and Newcastle University Business School, working with partners in government and businesses to understand and improve the success of rural firms across the UK. It is funded by Newcastle University, the Higher Education Council for England and the Economic and Social Research Council (ES/M500513/1).

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## Further information

REUK website. <http://research.ncl.ac.uk/ruralenterpriseuk/>

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## Rural Enterprise UK

enabling business growth and knowledge exchange in an enterprising countryside

