

State of the Art Review

Supporting rural businesses

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Non-technical abstract

This review offers a concise overview of rural business support research from an academic viewpoint. As the concept of 'rural business' is ill-defined, this review differentiates 'rural business' - the business that is integrated into the rural socio-economic context via suppliers, staff and networks, from a business that is simply located in the rural without those links. 'Rural business support' denotes services provided to all rural businesses, that serve rural communities and beyond, from land-based to service businesses, although the rural economy is becoming less reliant on land-based businesses. Existing business support research findings implicitly claim general applicability, yet, are conducted nearly always in urban contexts. Hence, little research exists that identifies what is distinctive about rural business support and what is similar to services provided in urban contexts. Specific challenges business located in the rural face include the effect of fewer business and lower population densities, which reduce the abilities for rural businesses to access skilled workers and customers, and more limited infrastructure in terms of public transport and broadband.

Market failure applies both to rural and urban areas. Market failure denotes the condition when markets do not allocate resources efficiently, for example, due to lack of information, and many rural businesses struggle to access quality business support. Market failure in business support is most obvious in those rural areas where many bank branches have closed, only few business services remain and public business support services have difficulties in accessing remote locations, due to the higher cost of visiting. Integrated policies for rural economic development need to recognise the inter-dependencies between rural (embedded) businesses and communities. The review addresses research findings on business support excluding specialist advice to farms and large rural estates.

Summary

Rural business support as a distinctive entity exists for those businesses that are land-based (farm businesses, large estates, businesses relating to fishing etc.). These businesses, particularly in agriculture, have had a different history of business support. However, for those businesses that are not land-based, such as creative and service industries (including retail and hospitality), rural business support is a misnomer. Instead, rural businesses have been supplied with support policies and programmes largely developed within the mainstream of business support policies, thus, relying on the sensitivity of those advisers and other support agents who interact with rural businesses to take account of situational differences between the rural economy and the urban.

Changes are occurring in the structure of businesses in rural areas. The rural economy is becoming less reliant on land-based businesses. Persistent differences exist between rural and urban firms in the UK, rural areas are more reliant on small firms for their economic wellbeing. Rural firms face key infrastructure and human capital constraints. In addition, potential differences exist between the behaviour of small firm managers who are heavily embedded in their rural environment, emphasising local relationships above other considerations. The role of in-migrant businesses in rural areas has increased making rural areas more service-based. Finally, for over 20 years, there have been calls for 'integrated rural development'. This integrated approach requires local organisations to enable and lead legitimate, cohesive and durable programmes to develop local businesses. Two findings from the review are significant. One, mechanisms that foster greater flows of information between rural stakeholders are to be welcomed; and two, local authorities would benefit from supporting innovative grassroots policies.

Background

Business support consists of both financial ('hard') support to small firms in the form of loans and grants and non-financial 'soft' support including one-to-one advisory services help for collaboration, incubators training and facilitated action learning in groups (Mole, 2021; Wren and Storey 2002). Some insights from the general business advice literature also apply to the rural sector. Advice seeking denotes 'the pursuit of recommendations from others either inside or outside the organization on the best course of action to take when faced with important strategic decisions' (Alexiev et al. 2020 p. 2). Delivery agents can be third sector or trade organisations, public sector bodies or private sector providers. The insight that 'advice' giving and taking is an interactive relational process has been highlighted more recently and needs further attention (Arshed et al. 2021, Quinn et al. 2021). The wide range of providers is often difficult to find and navigate for clients, conceptualised as 'market failure' (Storey 2003). Particular to the rural market are agricultural advisers, those specialising in agricultural production and estate management (McFadden and Gorman 2016).

Whilst specialist rural advice has supported the 15.2% of registered businesses in rural areas in England that are land-based, agricultural, forestry and fishing businesses (Scott 2020), this review is not discussing their findings in detail. Farm businesses, a particular type of rurally embedded businesses, are comparatively well researched. They have had a separate policy regime and related business support programmes (Mole et al. 2022; Phillipson et al. 2004). Large land estates are often supported by specialist land agents with particular expertise, that is supported by close-knit adviser networks in the delivery. This expert interaction and the related advice makes this advisor group more effective than traditional general business advice (Proctor et al. 2012).

Three different issues confound our understanding of rural business support. First, what we know about 'rural business support' is predominantly about businesses located in the rural. Surveys often simply use postcodes to establish a business location and hence report on business behaviour showing up 'in the rural'. By contrast, researchers have defined 'rural businesses' as embedded in their rural location, where local embeddedness refers to the nature, depth and extent of local ties into the local environment (Jack and Anderson 2002); this reflects the entrepreneur as a purposeful agent within a socio-

economic environment (Kalantaridis and Bika 2006). Embedded means integrated into the rural economy through suppliers, staff and network engagement (Bosworth and Turner 2018). Moreover, a subset of rural businesses are land-based businesses, including agriculture and some tourism enterprises. In this review, we refer to 'rural business' as both locally embedded businesses (1) and businesses in the rural (2).

Secondly, existing business advice research has an implicit urban focus and seems to imply that findings are also relevant for rural businesses (Bosworth and Turner 2018), and in other cases, research seeks the distinctiveness of rural businesses, assuming that they are mostly 'different' (Phillipson et al. 2019), using urban firms as the norm. 'Difference' by default is mostly applicable to land-based businesses (tourism, leisure, agricultural production businesses) but not to the increasing service economy in the rural.

Thirdly, the policy narrative across Europe applies a 'deficit lens', where rural businesses seem to suffer from trading from an underdeveloped location (Bosworth and Turner 2018; House of Lords 2019; Stathopoulou, Psaltopoulos and Skuras 2004): lacking infrastructure and technology, digital connectivity, and suitably skilled staff. Fewer rural businesses proportionally take business support suggesting an implicit assumption about the need for improvement (Kujala et al. 2021). This view might result from academic statements using urban businesses as the norm. Nonetheless, the case for rural business support depends on the average differences between urban and rural firms as Anderson, Tyler and McCallion (2005 p. 520) suggest: 'to assist the articulation of a dedicated rural business support policy by assessing the constraints and opportunities that face rural businesses relative to their more urban counterparts...'

The problem that seems to be socially constructed in parts of the academic and policy literature is that 'the' rural businesses need different and more support than businesses in urban contexts. Effects from this representation of the 'problem' may include a perception of low quality of rural businesses and rural business support and a conception that all rural locations seemingly have a productivity issue.

Evidence

Nonetheless, the nature of small firms in rural areas differs systematically from those in urban areas. The context for doing business is different in rural areas, meaning that population and business density are lower than in urban areas, which affects local markets and as a consequence the support and advice. On average, rural firms are smaller (Dunne, Toyoshima and Byrd 2021; Phillipson et al. 2019; Smallbone et al. 2003), and located further away from centres of support. Rural firms face key infrastructure and human capital constraints (Lee and Cowling 2015; Morris et al. 2022; Tiwasing 2021), in addition potential differences exist between the behaviour of small firm managers who are heavily embedded in their rural environment, emphasising local relationships above other considerations (Beckmann et al. 2021). Fewer rural firms adopt digital technology, due to the limited access to and lack of broadband capacity: 42% of businesses in England raised this issue as a major obstacle for business development, compared to 31% for urban firms (Wishart and Roper 2021). Recent research addresses the inextricable link of community and economic networks of rural (locally embedded) businesses (Bosworth and Turner 2018) and through the lens of rural entrepreneurial places investigates how doing

business is shaped and limited by these local spatial and social conditions (Munoz and Kimmitt 2019). Overall, this makes rural areas more reliant on small firms for their economic wellbeing.

A phenomenon, accelerated by the effect of Covid-19, which highlights the issues around knowledge and embeddedness, is in-migration of city professionals (Halliday and Coombes, 1995; Bosworth and Finke 2020). In-migration increases the number of rural businesses (Fotopoulos and Storey 2019): These businesses by ex-urbanites are often not locally embedded, but bring regional or inter-/national contacts for managing and developing their businesses (Fortunato 2014; Kalantaridis, Bika and Millard 2019; Kalantaridis and Bika 2011). A mixture of life-style and opportunity motivated (Fortunato 2014), in-migrant business owners 'pipelines' of knowledge can make a significant difference to the rural economy but often require good contacts between in-migrant and local businesses (Atterton 2007).

Whilst general advice is often delivered in rural areas, networks may be facilitated too. This role of context needs to be more deeply integrated into general business advice. Hence, the advice needs to start early on to support businesses in finding non-local markets and consider exporting (Phillipson et al. 2019; Mole et. al. 2022). Nonetheless, recent evidence concerns group-based support. Group-based support programmes, taking advantage of group dynamics and managed trust relationships between businesses for peer learning and fostering business networks (Phillipson et al. 2016; Quinn et al. 2021), benefit from the significant role of the adviser and intermediaries. Research shows that their advisers' role as facilitators of learning and exchange between businesses is needed in addition to their general and subject expertise (finance, marketing, strategy etc.) (Quinn et al. 2021).

Recent approaches not only to rural economic development have highlighted the essential role of ecosystems as external enablers for business development. Whilst the links between rural businesses in embeddedness make the entrepreneurial ecosystem approach appropriate, the evidence on rural entrepreneurial ecosystems is largely theoretical (see Miles and Morrison 2020). The NICRE research survey confirmed accountants as the most popular source of advice for both rural and urban firms with 28.5% of firms taking advice taking it from their accountant. The second most popular form of advice was from government sources; but significantly more urban (25.2%) than rural firms (19.4%) took this advice ($\chi^2 = 4.854$, $Pr = 0.028$). Proportionally more rural business (4.5%) relied on family and friends than urban businesses (1.6%) ($\chi^2 = 5.392$, $Pr = 0.020$) (NICRE, 2022). Both urban and rural firms sought advice on similar issues, most popular was advice on financial issues (36.9%) followed by business growth (16.3% of those who sought advice), then health and safety (12.3%), regulation (12.3%) and efficiency (11.5%) (NICRE, 2022). Nonetheless, this research recognises the importance of rural stakeholders such as local authorities and the role of advisers for successful business (programme) development (Arshed et al. 2021, House of Lords 2019, Quinn et al. 2021).

Sustainable rural development requires sufficient infrastructure to support the entrepreneurial activities of businesses located in rural areas. NICRE surveyed rural and urban firms on their views on the state of rural infrastructure (NICRE, 2022). More rural than urban firms judge broadband quality, transport infrastructure and public transport as poor or very poor when compared to urban firms (see Table 1). Time and again rural firms

believe their infrastructure lags behind their urban counterparts; moreover, rural businesses located in villages, hamlets and isolated dwellings expressed greater frustration.

Table 1 Views on rural infrastructure

Rural infrastructure element	Rural firms in %	Urban firms in %
Broadband quality - poor or very poor	34	20
Transport infrastructure - poor or very poor	36	19
Public transport - poor or very poor	57	21

Source: NICRE, 2022

To address the challenges of poorer infrastructure and entrepreneurship promotion, research in Finland highlighted the policy approach of rural local authorities (Kujala et al. 2021). Policy approaches need to have legitimacy, cohesion and durability (Kujala et al. 2021) to be successful. The decision makers and their initiatives need legitimacy, that is to be regarded as credible, competent and valid by the target business audiences, so that offers are taken up by the targeted businesses. Business support programme design recommendations include the need to co-create business support interventions with target beneficiaries from the start and to ensure that design adjusts the adviser roles for approved delivery mechanisms to their skills set (King et al. 2019; McFadden and Gorman 2016; Quinn et al. 2021). Policy approaches need to have coherent leadership that is locally recognised, visible to the local business community. At the same time, programmes need to be durable, not here today, gone tomorrow. These three elements suggest a local bottom-up policy approach drawing on local coalitions of interest in contrast to impositions from central authorities. These integrated, inclusive approaches to rural development recognise the interrelationships between rural businesses and rural communities (Smallbone, Baldock and North 2003) that characterise rural (embedded) businesses. This important role of the local community in local enterprise is recognised in Levelling Up (HM Government 2022; NICRE 2021).

Nonetheless, local action can be enabled with relatively small amounts of money if attention is paid to capabilities and well-developed links and networks with enabling local authorities (European Commission et al. 2022; Kujala et al. 2021). Advisers as front-line staff are in a position to learn what works and need to be more consulted and impactful for developing rural business policy to harness the insights gained (Kujala et al. 2021; Lipsky 2010; Mole 2002). Hence, advisor training highlights the need to focus on their interpersonal skills and capabilities for group facilitation (King et al. 2019; McFadden and Gorman 2016; Quinn et al. 2021) in addition to subject expertise from marketing to exporting or finance. Not new are arguments for linking rural business networks with those with access to finance (Kalantaridis and Bika 2006; Meccheri and Pelloni 2006).

Final overview

The rural economy is changing with regards to the contribution different industry sectors make to the economy. In some ways, these developments align the rural economy more with the urban at least in terms of the sectoral distribution, with greater numbers of services businesses dominating the economy. Nonetheless, specific rural challenges remain as fewer business and lower population densities reduce the abilities for rural businesses to access skilled workers and customers; similarly, infrastructure constraints reinforce a digital divide. At the same time, the embeddedness and strong ties of some businesses within rural areas offer both a problem and a potential for networking approaches to develop local SMEs. The problem is associated with the tendency for rural areas to be isolated and overembedded (Bosworth and Atterton 2012, Atterton 2007, Uzzi 1997); the potential is to enable greater information to flow through rural business networks through mechanisms as diverse as rural hubs (Merrell et al. 2022) and facilitating the interaction of in-migrants with local entrepreneurship (Kalantaridis et al. 2019) including peer support (Hill et al., 2022; Quinn et al. 2021). Programmes have facilitated collective action through bottom-up programmes through local area groups, but the restrictive nature of the choice of business support solutions, which can be funded, can impair the very innovation that the programme intended to foster (European Commission et al. 2022; Kujala et al., 2021).

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