

# **Entrepreneurial In-Migrants and Economic Development in Rural England**

**A thesis presented for the degree of  
Doctor of Philosophy at Newcastle University**

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## **Declaration**

I confirm that the work undertaken and recorded in this thesis is my own and that it has not been submitted in any previous degree application. All quoted material is clearly distinguished by quotation marks and sources of information are acknowledged.

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**Date:** ..... 19<sup>th</sup> February 2009 .....

## **Abstract**

Rural England is changing both socially and economically. A key trend of recent decades has been counterurbanisation – the movement of people from urban to more rural areas. Rural research has tended to focus on the implications of counterurbanisation for local rural people, rural services and lifestyles. Counterurbanisation has brought new people to rural areas, but also new wealth, ideas and business activity. With neo-endogenous approaches to rural development gaining prominence in advanced economies, this thesis focuses on in-migrant microbusiness owners as locally embedded individuals with extra-local connections.

New analysis of an existing database of almost 1,300 microbusinesses in the rural North East was conducted to contrast the characteristics and economic contributions of businesses with local and in-migrant owners. This data was supplemented by in-depth personal interviews with a sample of 40 microbusiness owners, allowing questions about individuals' motivations and networks of relations to be explored further.

Over half of rural microbusinesses in the North East are owned by in-migrants – defined as having moved at least 30 miles into their current rural locality during adult life. The research has found that, on average, in-migrant business owners have higher academic qualifications, are quicker to adopt new technologies and are more likely to use business advice organisations. They are also more likely to pursue business growth and they conduct more trade beyond the local region than local business owners.

There is little difference in the number of staff employed by microbusinesses owned by locals or in-migrants. Microbusinesses with local owners also have slightly higher turnovers so it is important to recognise the value of all types of rural businesses. However, the data shows that microbusinesses owned by in-migrants account for 6% of full-time jobs in the rural economy of the North East and their stronger growth orientation implies that they will continue to be vital components of modern rural economies.

Over time, in-migrants become embedded into their local communities, recognising the importance of local networks and relations for both business and personal needs. In some cases conscious, purposive actions are taken but valuable networks are also created passively, from the informal interactions of daily life. Local knowledge and the ability to trust and co-operate with local people are both valuable. Through this co-operation and integration, local people and businesses also benefit from exchanges of knowledge and opportunities.

The thesis argues that what it terms “*commercial counterurbanisation*” is leading to the emergence of a diverse range of business activity in rural areas. With strong local and extra-local connections, these businesses are stimulating sustainable rural development which is, in large part, compensating for the decline in traditional rural economic activities.

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**Contents**

**1. Introduction and Research Questions**

1.1 Research Context..... 1

1.2 Aims of the Research..... 3

1.3 Research Questions and Thesis Outline..... 4

**2. Neo Endogenous Development, Counterurbanisation and Rural Economies**

2.1 Introduction..... 6

2.2 Local Development in Rural Areas: Towards a Neo-Endogenous Approach..... 8

    2.2.1 Exogenous Development..... 8

    2.2.2 Critique of Exogenous Development..... 10

    2.2.3 Endogenous Development..... 12

    2.2.4 Critique of Endogenous Development..... 14

    2.2.5 Neo-Endogenous Development..... 17

    2.2.6 Summary..... 19

2.3 In-migrants and Businesses in Rural Areas..... 21

    2.3.1 The Rural Economy – An Overview..... 21

    2.3.2 Small Firms in the Rural Economy..... 23

    2.3.3 Counterurbanisation and its Geography..... 26

    2.3.4 Employment and Business as a Driver of Counterurbanisation..... 30

    2.3.5 In-migrant Business Owners as a Driver of Rural Development..... 32

    2.3.6 Summary - Rural Business and Neo-endogenous Rural Development..... 36

**3. Business Networks, Embeddedness and Social Capital in the Rural Economy**

3.1 Introduction..... 38

3.2 The Role of Networks for Business and Rural Development..... 39

3.3 The Network Society..... 42

3.4 Evolving Conceptions of Embeddedness..... 44

3.5 Local Embeddedness..... 48

3.6 Social Capital..... 52

3.7 Networks of Strong and Weak Relations..... 60

3.8 Formulating a Typology of Relations..... 65

3.9 Conclusions..... 69

**4. Research Approaches and Methods**

4.1 Introduction..... 70

4.2 Re-examining the Research Questions in light of the Literature Review..... 70

    Research Question 1: How do the characteristics of in-migrant businesses compare to those owned by indigenous people?

    Research Question 2: What is the contribution of in-migrant businesses to local rural economies and how does this compare to indigenous businesses?

    Research Question 3: To what extent do in-migrant business owners participate in local networks and enable the transfer of knowledge, expertise and trade within the local economy?

    4.2.1 Extrapolating Sub-Questions..... 76

4.3 Researching Rural Businesses and Entrepreneurship.....79

4.4 The Rural Microbusiness Survey in the North East..... 83

    4.4.1 Analysis of the Survey Data..... 87

4.5 Qualitative Methods..... 90

    4.5.1 Interview Sampling..... 93

    4.5.2 Interview Structure..... 97

    4.5.3 Analysis of Interviews..... 101

4.6 Summary..... 103

**5. The Characteristics of Rural Microbusinesses and their Owners**

5.1 Introduction..... 104

5.2 The Diverse Personal Histories of Business Owners..... 107

5.3 Education and Work Experience..... 110

5.4 Age of Rural Business Owners..... 117

5.5 Female Entrepreneurship..... 120

5.6 Business Location..... 122

5.7 Conclusions..... 125

**6. Microbusinesses and the Local Rural Economy**

6.1 Introduction..... 127

6.2 Comparing the Size and Turnover Levels of Rural Microbusinesses..... 129

6.3 Business Plans and Attitudes Towards Growth..... 134

    6.3.1 Why are some business owners more or less growth oriented?..... 136

    6.3.2 Achieving Growth through Innovation or Diversification..... 139

6.4	Employment Creation in Rural Microbusinesses.....	143
6.4.1	Aggregating Employment Creation in the North East.....	149
6.4.2	The Characteristics of Rural Jobs.....	151
6.5	In-migration and the Local Economic Structure.....	155
6.6	Trade and Local Multipliers.....	158
6.7	Conclusions – Unfulfilled Growth Potential in the Rural Economy?.....	162
<b>7.</b>	<b>The Business and Social Relations of Rural Microbusiness Owners</b>	
7.1	Introduction.....	164
7.2	“The Local” in the Motivations of Business Owners.....	165
7.3	Independence and Interdependence among Rural Business Owners.....	172
7.4	Where do Business Owners go for Advice?.....	178
7.5	The Reasons for Participation in Formal and Informal Networks.....	184
7.6	Knowledge Exchange in the Development of Rural Businesses.....	193
7.6.1	Business Start-up.....	195
7.6.2	Developing New Trade and Markets.....	196
7.6.3	Staff Recruitment.....	198
7.7	Summary.....	202
<b>8.</b>	<b>Conclusions</b>	
8.1	Introduction.....	205
8.2	Summarising the characteristics of local and in-migrant microbusiness owners and their impact within the local economy.....	206
8.3	The network patterns and relations of microbusiness owners.....	209
8.4	Reconceptualising Counterurbanisation.....	214
8.5	Advancing theories of Neo-Endogenous Development.....	216
8.6	Policy Implications for Rural Businesses and Rural Development.....	220
8.7	Implications for Future Research.....	222
	<b>References.....</b>	<b>224</b>

## Appendices

- i) Interview Schedule and Self-completion Questionnaire
- ii) A summary of the characteristics of the businesses and business owners that participated in the interviews

## **List of Figures**

<b>Figure 2.1</b>	The ongoing trend of counterurbanisation.....	27
<b>Figure 2.2</b>	A graph illustrating the impact of a new firm on the local economy.....	33
<b>Figure 3.1</b>	Defining a typology of relations.....	66
<b>Figure 3.2</b>	A typology of relations and associated exchanges.....	67
<b>Figure 3.3</b>	Categorising strong and weak, purposive and passive relations.....	68
<b>Figure 4.1</b>	Expanding the research questions.....	77-78
<b>Figure 4.2</b>	A Map of the North East Region of England, highlighting the most rural areas according to the classification of local authorities districts.....	85
<b>Figure 4.3</b>	Summary of available data from the rural microbusiness survey.....	88
<b>Figure 4.4</b>	The sampling frame used to select the 40 interviewees.....	94
<b>Figure 4.5</b>	The percentage of firms in each business sector in the microbusiness survey.....	95
<b>Figure 5.1</b>	Comparing the growth aspirations and job creation of younger and older business owners.....	118
<b>Figure 5.2</b>	Comparing the origins and sex of rural microbusiness owners.....	121
<b>Figure 5.3</b>	The location of unplanned start-ups, planned start-ups and local businesses.....	123
<b>Figure 6.1</b>	Comparing the average annual turnovers of (i) all local and in-migrant owned microbusinesses and (ii) excluding those with no employees.....	130
<b>Figure 6.2</b>	Comparing the average annual turnovers across the principal business sectors.....	131
<b>Figure 6.3</b>	Comparing the average annual turnovers of local and in-migrant microbusinesses, excluding those in the hospitality sector.....	132
<b>Figure 6.4</b>	The turnover levels of firms owned by each category of business owner.....	132
<b>Figure 6.5</b>	Comparing the age and average turnovers of firms.....	133
<b>Figure 6.6</b>	Attitudes towards growth among in-migrant and local business owners.....	135
<b>Figure 6.7</b>	Origin of microbusiness owners and their attitudes towards growth.....	136
<b>Figure 6.8</b>	A graph comparing the mean number of jobs between locally owned businesses, planned start-ups and unplanned start-ups.....	147
<b>Figure 6.9</b>	A graph contrasting the employment profile of microbusinesses with different categories of owner.....	149
<b>Figure 6.10</b>	The destination of sales and origin of supplies for microbusinesses with local and in-migrant owners.....	159
<b>Figure 7.1</b>	The geography of critical incidents among local and in-migrant business owners.....	194

## **List of Tables**

<b>Table 5.1</b>	Comparing the stages at which local and in-migrant business owners completed their formal education.....	111
<b>Table 5.2</b>	The percentage of local, return and in-migrants leaving school before A-levels and the percentage attaining degrees.....	113
<b>Table 5.3</b>	Comparing attitudes towards using business support.....	114
<b>Table 5.4</b>	Comparing the age of local and in-migrant business owners.....	117
<b>Table 6.1</b>	Comparing the years when locals and in-migrants began running their businesses.....	128
<b>Table 6.2</b>	Comparing the years in which businesses in different sectors were established.....	129
<b>Table 6.3</b>	The 10 year plans of business owners of different origins.....	134
<b>Table 6.4</b>	The mean number of full-time jobs provided by firms in each sector in the rural North East (excluding firms with no employees and excluding the business owner) .....	145
<b>Table 6.5</b>	Comparing the mean number of full-time and part-time jobs in business owned by local people and in-migrants.....	146
<b>Table 6.6</b>	Comparing the mean number of full-time and part-time jobs in locally owned businesses, planned start-ups and unplanned start-ups.....	146
<b>Table 6.7</b>	Comparing the job creation of local and in-migrant business owners in different business sectors.....	148
<b>Table 6.8</b>	The employment creation of different categories of rural microbusinesses.....	151
<b>Table 6.9</b>	The sectoral split of businesses with local and in-migrant owners.....	155
<b>Table 6.10</b>	The annual turnover of local and in-migrant firms in each sector.....	156
<b>Table 6.11</b>	The mean number of full-time jobs provided by local and in-migrant business owners in each of the 4 main business sectors.....	157
<b>Table 7.1</b>	The motivations for running a rural microbusiness.....	165
<b>Table 7.2</b>	The percentage of each type of business owner that has sought different forms of business advice.....	179
<b>Table 8.1</b>	The principles of exogenous and endogenous development.....	216

## **Glossary**

<b>ANOVA</b>	Analysis of Variance
<b>BSE</b>	Bovine Spongiform Encephalopathy
<b>CRC</b>	Commission for Rural Communities
<b>DEFRA</b>	Department for Environment, Food and Rural Affairs
<b>DETR</b>	Department of Environment Transport and the Regions
<b>DTI</b>	Department of Trade and Industry
<b>EU</b>	European Union
<b>GEM</b>	Global Entrepreneurship Monitor
<b>GVA</b>	Gross Value Added
<b>IPPR</b>	Institute for Public Policy Research
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>OED</b>	Oxford English Dictionary
<b>ONS</b>	Office for National Statistics
<b>OPDM</b>	Office of the Deputy Prime Minister
<b>NESTA</b>	National Endowment for Science, Technology and the Arts
<b>PAYE</b>	Pay As You Earn
<b>PPS</b>	Planning Policy Statement
<b>PIU</b>	Performance and Innovation Unit
<b>SBS</b>	Small Business Service
<b>SME</b>	Small and Medium Sized Enterprise
<b>VAT</b>	Value Added Tax
<b>WTO</b>	World Trade Organisation

# ~ Chapter 1 ~

## Introduction

### **1.1 Research Context**

Rural England is changing both socially and economically. Of course, this has been true for generations (see Williams 1973) but contemporary changes have an added dimension as the increasingly urbanised culture and the growing mobility of individuals brings new opportunities and threats to traditional rural activities. The ongoing trend of counterurbanisation is both evidence for and cause of this change. Not only are people moving into rural areas, they are bringing with them additional wealth, new business ventures, different knowledge and experiences and new demands for goods and services. As well as these attributes, however, there may be conflict caused by housing pressures or cultural differences. In this context, the social and economic characteristics of intra-national rural in-migration (hereafter referred to as in-migration) provide an important area of research in the field of rural development.

The most recent white paper on the future of Britain's countryside (reviewed by Defra in 2004) offered the following vision:

"A **living** countryside, with thriving rural communities and access to high quality public services; a **working** countryside, with a diverse economy giving high and stable levels of employment; a **protected** countryside in which the environment is sustained and enhanced, and which all can enjoy; a **vibrant** countryside which can shape its own future and with its voice heard by Government at all levels" (DETR 2000, original emphasis).

At the European level, agricultural support has also shifted away from production subsidies towards environmental payments. Defra's Rural Development Programme for England (Defra 2007) recognises the vulnerability of agricultural incomes, related to external influences such as disease or weather and the corresponding potential for wider employment of land and other rural resources. The strength and diversity of rural economies combined with the reform of CAP subsidies are both seen to offer new opportunities for income generation in rural economies.

With agriculture losing both economic and political dominance in rural areas, the vision of a living, working, protected and vibrant countryside takes on a critical importance. If it is true that “rural” has a deep cultural and psychological significance in human life (Schama 1996; Brace 2003) and productivity-driven agriculture can no longer be the primary caretaker of all aspects of rurality, the new communities that are evolving across rural England must take on certain responsibilities to simultaneously protect and develop their environments. For this to be sustainable requires social and economic activity that can generate essential resources and support and deliver key services that enable rural communities to prosper collectively and not just as groups of individuals existing as part of a broader, urban-dominated society.

The number of small firms in rural England is increasing (Defra 2005; CRC 2007) and with advanced communications, the potential for diversity among types of firms is greater than ever before. Although an increasing number of activities can be described as footloose, this does not imply that they will choose rural locations. Logic suggests that there must be economic, social or environmental advantages that lead business owners to make the location choices they do and, although rurality may be a factor for many in-migrant entrepreneurs (Townroe & Mallalieu 1993), we cannot assume that “rural” is always a primary motivation or that the reasons behind the choice are uniform. Once these firms are established in rural areas, they are creating new jobs, marketing new goods and services and altering the balance of rural economies but the extent of these changes are relatively under-researched.

With primary industries in decline in many parts of rural England, an increasingly diverse mix of rural businesses provides a valuable basis for research into rural development. The new Rural Development Programme for England (Defra 2007) is recognising this with a significant share of funding directed towards micro-enterprises (One NorthEast 2008). The Countryside Agency reported that “self employment is a significant feature of rural areas – the 2001 Census shows the level at 11%, compared with 8.5% in urban England, although in some rural areas it describes around ¼ of the workforce.” However, they also added the caveat that “many self employed are on very low incomes, especially women, with one in six struggling on household incomes of less than the poverty line” (Countryside Agency 2003, p4).

With this in mind, we need to better understand the characteristics of rural businesses, the nature of the jobs provided and the potential for growth, both within businesses and throughout the wider rural economy. Household surveys have demonstrated that in-migrants are making significant contributions to local rural economies (Stockdale & Findlay 2004; Stockdale 2006; Kalantaridis & Bika 2006a) but much less research has taken the business unit as its main focus. Some have studied networking patterns or the characteristics of rural firms in terms of size, growth, employment or sector, (North & Smallbone 2000; Raley &

Moxey 2000; Phillipson *et al* 2001; Atterton 2005) but none has placed in-migration as the key variable from which to conduct a holistic assessment of the contributions that in-migrants and their businesses make to rural economies.

The recent paper, *Deprivation in Rural Areas* (CRC 2008b) demonstrates that rural areas are still facing significant social and economic challenges, especially in the North East region. This research seeks to enhance the understanding of neo-endogenous rural development which is thought to offer a sustainable alternative to previous exogenous and endogenous approaches. In-migration is a pervasive trend but a new focus on the economic merits of rural in-migration can offer a new perspective on the role of in-migrants in today's rural economy.

## **1.2 Aims of the Research**

This thesis focuses on the creation and ownership of rural businesses and seeks to explore the impact of in-migrants as business owners and how they compare or contrast with local business owners. While many in-migrants who work outside of rural areas will contribute to local communities in different ways, it is considered that rural business formation has an added dimension because these businesses are not only economic entities but they form part of the fabric of rural life. As well as providing incomes to the business owner, these businesses are creating jobs, providing services to rural people, utilising local resources and adding vitality to rural communities.

In this research it is hypothesised that in-migrants make both direct and indirect contributions to rural economies. **The first aim of the research is to compare the characteristics of businesses owned by local people and those owned by in-migrants.** This will include aspects of individuals' backgrounds, their family status, their motivations for self-employment and their reasons for choosing a rural location. **The second, and related, aim is then to identify the economic contribution made by in-migrants establishing new enterprise in rural economies and compare this to local businesses.** Rates of business formation and employment creation along with income generation and aspirations for growth are vital components. The involvement of businesses in local trade, either as consumers or suppliers will also have important consequences for local multiplier effects. Such data will allow businesses run by local people and in-migrants to be contrasted and additionally, data on the origins, destinations, age and sector of the businesses and their owners will allow further analysis to enable a greater understanding of the fabric of modern rural economies.

Although less tangible, indirect contributions may also be highly significant. **The third aim is to investigate the extent to which, by virtue of their social and business connections, in-migrants introduce and disseminate new knowledge and skills, both in terms of education and training as well as life, work, and managerial experience.** It is hypothesised that they can provide links to wider markets and wider opportunities for both themselves and other local businesses. In each case, the spread of such information will depend not only on the nature of in-migrants and their extensive connections but also on their local integration, which may vary enormously depending upon their location, type of business and personal characteristics.

### **1.3 Research Questions and Thesis Outline**

To address the three aims, three research questions were carefully designed in order to guide the design and implementation of the research. These core research questions are listed below and, in the light of the literature review, Chapter 4 will develop these with the addition of sub-questions that will enable an appropriate methodological approach towards providing the best answers.

- *How do the characteristics of in-migrants and their businesses compare to those of indigenous business owners?*
- *How are in-migrants adding to the economic vitality of rural economies through their business activities?*
- *To what extent do in-migrant business owners participate in local networks and enable the transfer of information and trade within the local economy?*

These questions are also used as the themes for Chapters 5, 6 and 7 respectively wherein the characteristics, economic impact and business and social relations of local and in-migrant business owners are compared and contrasted. The final chapter then attempts to draw together the findings from all aspects of the research to assess the overall impact of in-migration in rural economies and establish the extent to which “commercial counterurbanisation” might be posited as a new phenomenon. Within this concluding chapter, the implications for neo-endogenous theories of rural development and the implications for rural policy that seeks to stimulate a living, working, protected and vibrant countryside are then discussed.

The following two chapters begin with a look back through the theoretical history of rural development in Section 2.2 before moving on to describe the trend of counterurbanisation and the patterns of economic activity in rural areas in Section 2.3. Chapter 3 then provides a review of the literature on business networks, embeddedness and social capital as these are critical to the understanding of Neo-Endogenous Development theories as well as to the analysis of business behaviour. Such concepts are especially relevant for studying the integration between local and extra-local actors and the potential for in-migrants to act as social bridges between the different spheres.

As well as introducing the concept of “commercial counterurbanisation”, this thesis explores the implications of entrepreneurial in-migrants for neo-endogenous theories of rural development and concludes that their diverse work experiences and their extensive networks can enhance rural economies. If these individuals also become embedded into rural communities, the advantages may spread to other businesses and local individuals either through new local trade, the awareness of opportunities outside the local area, access to new resources or the creation of new employment or new innovations. Rather than thinking of the perils of counterurbanisation, this new approach provides a more positive framework for investigating the relationship between sustainable rural living and inward migration to rural areas.

## ~ Chapter 2 ~

### **Neo Endogenous Development, Counterurbanisation and Rural Economies**

#### **2.1 Introduction**

The focus of this research is the role of rural in-migrant business owners in local social change and economic development. It is hypothesised that in-migrants can make both direct and indirect contributions to rural economies. They can add to new business formation, employment creation and growth as well as provide links to wider markets and wider opportunities for both themselves and other local businesses. To address these hypotheses, it is vital to understand the processes that influence the behaviour of both local and in-migrant business owners in terms of their motivations for establishing businesses, their trading patterns, their business and social relations and the personal attributes that each individual can offer.

This focus on in-migration challenges the traditional view of counterurbanisation as a principally negative phenomenon. Those with a “destructive modernist” perspective, fearful of the impact of technological progress upon social behaviour and lifestyles, see counterurbanisation as a threat to an established rural way of life. It has been accused of leading to increased property prices that disadvantage indigenous residents (Gilligan 1987; Hamnett 1992) creating the need for “affordable housing that can help villages retain and attract young people to work and live there” (Knight 2005). The Taylor Report (2008) directly links the 800,000 people that have moved from cities to the countryside over the past decade with young families being priced out of the market for rural homes. Other criticisms of counterurbanisation include a potential reduction in the viability of services (Divoudi & Wishardt 2004) and the loss of a sense of community (Bell 1994).

Migration, however, is one of the spread effects associated with regional development (Slee 1994, p187) and recent research has highlighted the potential economic benefits that in-migrants can bring. Stockdale & Findlay (2004) presented in-migration as potentially “a catalyst for economic regeneration” based on the job creation of in-migrant owned businesses and survey analysis in Northumberland found that in-migrant business owners are responsible for providing more employment than agriculture (Bosworth 2006). In the light of

these new outlooks, greater attention is being given to the possibility of attracting in-migrant entrepreneurs as drivers of local economic development (Countryside Agency 2003; One NorthEast 2006). Rather than being associated with “destructive modernism”, counterurbanisation might then be viewed in a more progressive light.

This idea is prescient in the context of changing perspectives on rural development, which has seen a shift from exogenous to endogenous theories. This progression has led to a new concept of Neo-Endogenous Development and its emergence is examined in Section 2 of this chapter. At the heart of the idea of Neo-Endogenous Development is the need to embrace “extra-local” factors while retaining control locally (Ray 2001, p4). From the literature it seems that two attributes are required for this to be possible; firstly interaction with the “extra-local” and secondly the internal structure and resources to realise development locally.

The first of these attributes requires networks that link people and businesses to others outside the immediate locality. These networks may take many forms and perform different roles but without them, the resources and opportunities available from “extra-local” factors will be missed and the threats from outside will not be recognised. With technological advances, networks can now traverse increasingly global dimensions (Castells 1996) but equally, local networks with more personal connections can contain denser flows of information. The local dimension, however, still requires wider global, national or regional linkages in order to access the wealth of new opportunities and information that exists beyond their immediate boundaries. In-migrants are expected to have different networks of personal and business contacts and offer the potential for new knowledge, innovation and opportunities to be introduced into rural areas. The ongoing trend of counterurbanisation and the contribution that in-migrants are making in rural economies are therefore examined in Section 3.

The second attribute concerns the ability of a locality to host Neo-Endogenous Development and this requires certain resources. There are the more tangible resources of income, raw materials, people and technology but in addition to these, a local economy requires actors to work together to maximise economic potential. Local networks provide the structure for these actors to co-operate and mobilise resources. Murdoch (2000 & 2006) has placed significant emphasis on the role of networks in rural development. He suggests Castells’ work on *The Network Society* (1996) neglects rural areas and challenges this by describing “constellations of networks that can now be found in the contemporary countryside” (Murdoch 2006, p172). Chapter 3 will proceed to explore the literature on networks, both their various typologies and their economic significance. It will then consider the importance of “embeddedness” and “social capital”, two concepts that have been used to explain the social underpinnings of networks.

A commonly cited problem with each of these attributes, and particularly social capital (Coleman 1990, p317-318; Totterman & Sten 2005, p490), is that their various components and their intangible and dynamic characteristics render them difficult to assess. The review will therefore seek to provide methodological guidance for research that will seek to establish how rural businesses, and particularly those owned by rural in-migrants, become integrated into their local economies and the extent to which they are able to stimulate local Neo-Endogenous Development through their varied networks.

## **2.2 Local Development in Rural Areas: Towards a Neo-Endogenous Approach**

As rural economies have undergone a period of re-structuring, rural economists and sociologists have been seeking new ways of conceptualising rural development. Van Der Ploeg (1995) stressed the need for a development theory that goes “beyond modernisation” and Lowe *et al* (1995, p87) explained the need to look “beyond exogenous and endogenous theories of development” recognising the dichotomy to be unhelpful. They proposed “an approach to the analysis of rural development that instead stresses the interplay between local and external forces in the control of development processes” (*ibid*). The notion of Neo-Endogenous Development captures aspects of both exogenous and endogenous approaches. Ray (2001) provides the definition: “*Endogenous-based development in which extra-local factors are recognised and regarded as essential but which retains belief in the potential of local areas to shape their future*” (p4). Its distinctive contribution is the focus on the *interplay* between “local” and “external” and this has coincided with a growth in research concerning networks, embeddedness and social capital – the theoretical tools we can use to investigate this interplay. Firstly though, it is useful to explore the history of exogenous and endogenous approaches.

### **2.2.1 Exogenous Development**

Exogenous development theories involve state-centred approaches to overcoming the negative attributes associated with disadvantaged or peripheral areas. Throughout the period of industrialisation urban areas were seen as the dynamic heartlands of economic development drawing labour away from rural areas. As well as providing this labour, the function of rural areas was to provide food and primary products to fuel the expanding urban economy. With industrialisation remaining at the heart of this way of thinking, the key principles centred on economies of scale and concentration (Ward *et al* 2005). The post-war drive for agricultural self-sufficiency left the legacy of a strong agriculture focus for rural policy. This was where rural areas held a comparative advantage so primary industry became the focus for inward rural investment. Improving agricultural productivity was also seen to be essential to free resources for other forms of economic development.

The economic arguments for exogenous development were strengthened by Solow and Swan's growth function. This explained that *ceteris paribus* growth in a closed economy required "technological progress" to increase the capital/labour ratio and that this "technological progress" was an external factor requiring exogenous investment (Vazquez-Barquero 2006). From a more modern regional development perspective, this model overlooks two essential factors. Firstly new social and economic theories argue that growth can occur from innovation and learning and developing human and social capital *within* groups (see Chapter 3) and secondly regions do not function as closed economies.

In the 1950s, the assumption of a closed economy was reversed and there was a strong belief that regional economies could grow fastest by way of export-led models. North (1955, p246) cited examples such as the Pacific North West of America in the mid-nineteenth century which overcame a very small domestic (regional) market by exporting agricultural produce, gold and timber. These exports could be either inter-regional or international. Export-led growth remains a valid economic development approach but relies on the revenues being translated into tangible benefits within the region. This requires the "trickle-down" (Hirschman 1958) or "backwash" (Myrdal 1957) of income to other local businesses and individuals through trade and/or payments in return for factors of production. In a broader sense, the notions of trickle-down or backwash could also apply to other forms of capital such as the development of education and training to improve human capital among the workforce or the development of local institutions to foster social capital.

In an economic sense the disadvantages for many rural areas include a low human, financial and structural resource base, high transaction costs associated with distance and low indigenous demand. Slee (1994) describes traditional sectors in rural areas being viewed as "subservient to the capitalist core", their communities living an "undignified, stagnatory and vegetative life" (p186). Such views left little hope that development could occur from within and to correct this, peripheral areas were thought to need rural development "transplanted" into them (Terluin 2003, p332) resulting in policies becoming externally determined.

An example of such a policy was the Cassa per il Mezzogiorno which sought to improve living standards in southern Italy in the 1950s with a combination of land reform and an export-led "growth pole" strategy (Nagle 1997). State investment in large steel and chemical plants boosted the economic base of the less advantaged regions but these industries lacked the capacity to generate lasting linkages to other economic activity in the local regions. Without such linkages, the economic benefits were not realised by other actors in the region.

In the Republic of Ireland, an exogenous approach to rural development policies saw around half of the advance factory floor space being built in the eleven western rural counties around Galway and Shannon airport. This led to an increase in manufacturing employment in the

region of approximately 45%, which was substantially higher than the rest of Ireland (Woods 2005, p147). These “growth pole” strategies were also employed in the Highlands and Islands of Scotland and parts of rural Wales but the job-creation is criticised for being dependent upon external investment without nurturing growth from within the endogenous rural economy (*ibid*, p148).

A more recent example from Setubal in Portugal in the mid 1990s (Hudson 2002) saw European funding providing incentives for the development of one of Europe’s biggest car plants generating 3,000 jobs. Local infrastructure was improved and a further 1,500 jobs were created in the immediate region and a further 5,000 across Portugal were attributed to this investment<sup>1</sup>. Although this was more successfully integrated with both the local and national economy, the initial period of development remained heavily reliant on one externally controlled plant and one industry. Here in the UK, we have seen the impact of large car-plants closing. Barnes *et al* (2003, p2) discuss the vulnerability associated with foreign ownership extending beyond the assembly line of those factories into component suppliers and related industries in the local economy. It is therefore important to ensure that there is not an over-reliance on too few businesses, but equally the successes have demonstrated the potential for wider economic development based around external investment.

In summary, exogenous development attempts to address the failings of rural areas with policies based on industrialisation and economies of scale. Because rural areas did not have the same resources as urban areas, external intervention was thought to be required to encourage more optimal employment of capital and resources in these disadvantaged areas. The need to improve the resource base of peripheral areas is still an important focus of development policies but the resources in question and the methods employed have become the subject of wider debate.

### **2.2.2 Critique of Exogenous Development**

Exogenous development policies were successful in creating jobs in several peripheral regions but, as the previous examples demonstrate, these outcomes were often at a direct cost to national governments. As well as cost, other criticisms of these policies relate to the sustainability of their outcomes for the rural areas being supported. Lowe *et al* (1998) present four criticisms of exogenous approaches to rural development, namely that they promote *dependent development*, *distorted development*, *destructive development* and *dictated development*. The first of these criticisms concerns the reliance on continued subsidies and a lack of local control over key decisions. Direct investment or other types of investment incentives can offset transaction costs and a focus on exporting beyond the region can

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<sup>1</sup> Further figures available at: [www.stacey.peak-media.co.uk/Year10/A3EconomicWorld/A3-6EconomicIndustry-TNC&LEDCs/Setubal.doc](http://www.stacey.peak-media.co.uk/Year10/A3EconomicWorld/A3-6EconomicIndustry-TNC&LEDCs/Setubal.doc)

negate the problem of low demand but each of these involves a degree of external dependence. The policy-makers or business owners providing the investment are based elsewhere and the business managers have other motivations aside from local development. The issue of external control and the consequent vulnerability is enhanced where there are few local resources employed in production.

In the example of the Mezzogiorno, new factories were processing materials to add value but the raw materials were imported from other regions so this again failed to provide a link with the local area (Nagle 1997). The only local resources used were land and labour so the only "trickle-down" came through rent and wages, not through trade with other local enterprises. There may also have been an improvement in human capital, although the skills learned in such industries were considered to be less transferable and unlikely to stimulate the creation of new businesses. Amin (1993, p2) used the phrase "cathedrals in the desert" to describe these growth pole investments. Even where linkages could be formed between new firms and the pre-existing structure, there is a danger that the local economy will be skewed by the dominance of these larger plants controlled by exogenous management. This is similar to the criticism of *distorted development* which Lowe *et al* (1998, p9) describe as having "boosting single sectors, selected settlements and certain types of business but left others behind and neglected the non-economic aspects of rural life."

Exogenous development is also described as *destructive development* because it can erase the cultural and environmental differences of rural areas (Lowe *et al* 1998). Combined with the fact that exogenous approaches were associated with "*dictated development* devised by external experts and planners" (*ibid*, p10), it becomes clear that there is little recognition of the value of local resources and local identities. Economies of scale and peripherality are concepts drawn from urban-centred economic theory and tend to overlook the local nuances that can provide alternative bases for rural development.

Export-led policy leaves the local economy vulnerable to fluctuations in wider markets, and this is even more acute if there is a narrow range of exports. Moreover, if control is held by actors outside of the local area, local people would be powerless to predict or address such threats. Export-led development is not necessarily flawed but a greater awareness has emerged of the need for this development to involve local resources and a degree of local control. This can enable the economic benefits of development to be realised more broadly with local involvement both reducing the risks caused by a lack of local control and creating more opportunities for the trickle-down of income, new skills and ideas to more people.

Such criticisms of exogenous development policy saw a shift towards a focus on development created *within* the region. Early efforts to modernise rural services and agriculture often intensified the flow of labour out of rural areas as there were few other rurally-based jobs that

could employ the surplus labour created by increased productivity (Lowe *et al* 1995). This resulted in pressure for external support to provide employment in the short term but the vulnerability of exogenous support that encouraged firms to relocate into rural areas was highlighted during the recession of the late 1970s when branch plants were often the first to be sacrificed. Given the criticisms of exogenous development creating an over-dependence on external factors (Lowe *et al* 1998) with no local entrepreneurial base (Slee 1994) there came a realisation that development must be rooted in the intrinsic assets and values of the local area.

In some respects, the rationale behind exogenous development policy still holds sway although its application is somewhat different. In addressing the “problem” of rural development, Lowe *et al* explained that among proponents of exogenous models of development “it was widely believed that stagnant regions needed to be connected to dynamic centres and expanding sectors” (1995, p89). This rhetoric holds true today but the best means of generating that connectivity for a sustainable local economy remain open to debate. A current “buzzword” in economic development policy is the idea of a “city region”, which although moving the focus of policy to a more localised domain, retains the belief that rural areas are peripheral to the core city region and “reinforces out-of-date notions of geographical centrality and hierarchies” (Ward 2006, p6). An alternative perspective is that as a reaction to the shortcomings of exogenous development, focus should shift wholesale to local initiatives, local capacity building and local enterprise – endogenous development (Lowe 2003).

### **2.2.3 Endogenous Development**

Endogenous development was considered more sustainable as it would be shaped by people and businesses within the area and its success would be based on local resources making it more connected with local communities. Rather than focusing on addressing negative characteristics of peripherality, this new approach sought to build on the positive attributes that existed in each area. Lowe uses the term “valorising the differences” (2003, p7) to highlight the potential advantages in rural areas as a contrast to ideas of overcoming these differences. The end goal of development was the same but the key actors and the new optimistic rhetoric were very different, explicitly seeking to avoid earlier criticisms of dependency, destruction, distortion and dictation associated with exogenous models.

Local participation is itself thought to be positive for rural areas. As well as allowing individuals to develop personal skills and new contacts, participation harnesses local people’s resources resulting in measures that are “more likely to address local needs and be better adapted to local circumstances” (Lowe *et al* 1998, p19). It then follows that building the capacity for local people to participate will contribute to development. Midgley (1986),

however, discovered that government support for community participation in social development resulted in a diminution of community involvement. This led Lowe *et al* to conclude that “the only appropriate response is the empowerment of marginal and poor communities by giving them control over the resources needed to manage their own livelihoods” (1998, p14). In endogenous approaches, where local people are agents in the development process making the most of local resources, participation then “becomes both a means and an end of rural development” (*ibid*, p16).

Endogenous approaches to local rural development in official policy can be traced back to the Commission of the European Communities (1988). In *The Future of Rural Society*, it is argued that development policy must be “geared to local requirements and initiatives, particularly at the level of small and medium-sized enterprises, and must place particular emphasis on making the most of local potential”. It proceeds to explain that “local rural development does not mean merely working along existing lines. It means making the most of all the advantages that a particular local area has: space and landscape beauty, high quality agricultural and forestry products specific to the area, gastronomic specialities, cultural and craft traditions, architectural and artistic heritage, innovatory ideas, availability of labour, industries and services already existing, all to be exploited with regional capital and human resources, with what is lacking in the way of capital and co-ordination, consultancy and planning services brought in from outside” (p48). The comparative advantage held by agriculture is still recognised but the potential for other advantages is also emphasised.

Ray (2003) describes endogenous development firstly as being territorial not sectoral. He proceeds to say, “second, economic and other development activity are reoriented to valorise and exploit local resources – physical and human – and thereby to retain as many of the resultant benefits within the local area. Third development is contextualised by focusing on the needs, capacities and perspectives of local people” (pp2-3). Ward *et al* (2005) substantiate this view explaining that “the endogenous model sees local resource endowments – climate, land fertility and environmental quality – and the specific characteristics of human and cultural capital, as providing the fundamental conditions for long-term rural development” (p5).

A further aim of endogenous development is to reconnect economic activity with the locality and local resources. Iacoponi *et al* (1993) explain how exogenous approaches tend “to extract resources and to shape environment according to external goals” while “the challenge of endogenous approaches is to build markets whose characteristics help producers to ‘reconstruct locality’” (p41). As traditional rural industries were in decline, the importance of retaining linkages between the old socio-economic structure and the new forms of development was vital in enabling local areas to have some control over their future and avoid

the dangers of “destructive development” (Lowe *et al* 1998, p10) associated with exogenous approaches.

Picchi (1994) gives a detailed account of successful endogenous development in Emilia-Romagna in Northern Italy. A ceramics industry that was built to serve local needs and used local clay deposits developed into international markets, a mechanical industry established to serve local farmers and a textile industry developed out of domestic activities. One strength of the region was that strong linkages were maintained with the farming sector allowing particular innovations to develop locally. This success, however, is only one example. The endogenous development that took place in Emilia-Romagna critically depended on “the agricultural sector for the provision of the capital and manpower needed to create non-agricultural enterprises...the ability of rural workers to extend their skills, networks and management capacities...and the desire for self-employment” (Picchi 1994, pp195-196). Being in the north of Italy would also have provided better access to markets that were less accessible in the previous Mezzogiorno example.

In a modern global economy, endogenous development seeks to address the need to create a diverse economy based on local resources, local initiative and local enterprise. By building local capacity, development could be more sustainable and less susceptible to external decision-making. This locally focussed approach has changed the way that policy-makers view peripheral areas but while the autonomous approach of endogenous development may be an ideal, some authors argue that “it is not a practical proposition in contemporary Europe” (Ward *et al* 2005, p5).

#### **2.2.4 Critique of Endogenous Development**

By putting the local area rather than the bigger economic picture at the heart of development policy, endogenous development offers the potential to improve the utilisation of rural resources and to target the specific disadvantages associated with different rural areas. Ward & McNicholas (1998) explain that European and British rural policy see bottom-up models having the capacity to “empower local communities to define their own needs and prioritise development schemes and projects” (p29). People may work together and develop skills and knowledge through “defining” and “prioritising” but the problem remains that there still needs to be some other stimulus to encourage entrepreneurial behaviour. “Defining” and “prioritising” alone does not equate to development. In some cases the stimulus is also needed to overcome apathy and engage people at the outset (Murdoch 2000, p412).

Bryden (1998) advocates the potential of immobile resources for creating competitive advantage. In a global economy with highly mobile flows of information, goods and services, skilled labour and capital, less mobile attributes that are held within the people and

community are thought to hold the key to unlocking endogenous development potential. These immobile resources include social capital, cultural capital and environmental capital (Terluin 2003, p332). One of the main criticisms of endogenous development is that not every peripheral area has the necessary resource-base upon which development can be built, a situation exacerbated by the fact that peripheral rural areas tending to lose their higher educated young people (Stockdale 2003). Capital, manpower, skills and entrepreneurship may all need to be improved through other means if the local area cannot generate them endogenously. Lowe *et al* (1995) recognise that "if endogenous development has any meaning it must refer to a local developmental potential which state agencies may be able to stimulate and channel, but which exists independently of them" (p92). The recognition of area-based resources, and especially those that can be held in the people and community, combined with the acceptance of a need for external stimulation sows the seeds for ideas of Neo-Endogenous Development.

Other critics of endogenous development highlight the fact that the better-off or more vocal sections of peripheral economies will be more able to access support and funding and this could actually increase local marginalisation (Shucksmith 2000). As with exogenous development though, if the benefits accruing to the local economy "trickle down" to the more marginalised groups, this will still produce a positive outcome. Arguably, endogenous development approaches have greater potential to do this as the drivers of this development are relatively closer to the marginalised groups and the nature of the development is based upon local attributes which should be more accessible to all groups in their local areas.

Shortall (2004) argues that a lack of clarity in policy has led to "muddled initiatives where social development is funded as a means to achieve economic development" (p111) but without appropriate timescales for the development of social capital to realise economic benefits. Also, some groups involved in social or community development projects saw the project as an end in itself with few participants subsequently feeling able to build on their experiences and take on new challenges. These were bottom-up initiatives seeking to nurture capacity building from within but the failing was the external decisions that determined timescales and funding and gave out the wrong messages about the capacity-building process. In her conclusions, Shortall recognises that grassroots partnerships did not emerge, resulting in power struggles between different interest groups (*ibid*, p120) that obstructed community-led and community-focused development. This highlights how even the most endogenous approaches depend upon some external influences so effective development requires approaches that enable these external factors to be managed in such a way that effective control can be retained locally.

Slee (1994, p192) recognises that "the potential success of endogenous development strategies lie less in their ability to resist...processes [of capitalism] than to work with them".

He cites soft tourism, local foods and crafts as examples of local responses to broader changes in demand where an interventionist approach would not have been so successful. Rather than see endogenous approaches as a retreat from capitalist pressures to avoid the uncertainties that were attached to exogenous development, Slee was fully aware of the need to recognise opportunities at a much broader level. Snowden (2003, p245) acknowledges that purely endogenous approaches run the risk of fostering "introspective embeddedness", where close-knit local networks become a barrier to expansion. Wider market information and opportunities may be neglected due to strong ties and obligations within traditional social groupings. The difficulty for endogenous development remains that these opportunities will not be evenly available throughout rural areas so new ways of identifying, creating and exploiting opportunities need to be found. This is where the flow of people and knowledge, new sources of human and social capital as well as financial resources could enhance rural development, so long as local social and economic networks are receptive to these stimuli (Stockdale & Findlay 2004; Kalantaridis & Bika 2006a; Bosworth 2006).

Endogenous development fails to address any of the problems associated with peripherality. Optimistic rhetoric is all very well but transaction costs remain higher (Hodge & Monk, 1991; North & Smallbone 2000) and indigenous demand lower than in more competitive regions. A stronger community sharing knowledge, trade and skills can partly offset this disadvantage but communities that are not in peripheral areas could equally develop stronger local networks. In rural areas, peripherality may allow these communities to become stronger because of fewer external contacts but then there is a danger that external influences and opportunities are overlooked due to an overly localistic focus. Many of the causes of rural change originate from outside the rural area altogether (Cloke 1996, p435) so endogenous development risks underplaying this fact. Rural areas will always remain susceptible to external changes unless they are linked into wider economies as well as the local society and economy.

With an increasing awareness of the differentiated nature of the countryside (Murdoch *et al* 2003), policy must be flexible and allow local areas to determine their own futures but this cannot be achieved in isolation from wider influences. The most peripheral areas are often the least likely to have the intrinsic resources upon which to base endogenous development so specific external inputs must still be encouraged. In contrast to exogenous development, however, these are not "transplanted" into the local economy, rather they are targeted to aid the development of the broader economy "through" the locality (Lowe *et al* 1995), emphasising the importance of joined up networks and the distinct characteristics of local development.

### **2.2.5 Neo-Endogenous Development**

*“Endogenous-based development in which extra-local factors are recognised and regarded as essential but which retains belief in the potential of local areas to shape their future” (Ray 2001, p4).*

In the light of criticisms of earlier approaches towards rural development, Ray was not alone in seeking an alternative middle way. Referring to endogenous and exogenous development, Murdoch (2000) asks “why do we have to choose?... We should expect that combinations of both will, or should, be the norm” (p408). Putnam (2000, p413) adds that “we should avoid false debates” such as “top-down versus bottom-up”. More recently the focus has shifted on to the interplay between endogenous and exogenous forces. In proposing a “mixed exogenous/endogenous development approach”, Terluin (2003, p333) recognises that rural development is “a complex mesh of networks in which resources are mobilized and in which the control of the process consists of an interplay between local and external forces.”

New approaches to development that combine exogenous and endogenous factors do not lie purely in the domain of rural studies. As far back as 1987, a Moroccan researcher advocated a shift from exogenous to endogenous development in relation to education and particularly that of women. Belhachmi (1987, p485) spoke of “a new people-oriented approach” and “linking educational projects with other parts of the infrastructure”. This showed an awareness of the need for both external intervention and linkages beyond the immediate community in which endogenous development occurs. Rather than a territorial focus, a “people-oriented approach” recognised that social interactions and human capital could be at the heart of development, similar to the current thinking associated with Neo-Endogenous Development.

The three main strands of Neo-Endogenous Development are that: *“firstly, development should be re-oriented so as to valorise and exploit local territorial resources – physical and socio-cultural – with the objective of retaining as much as possible of the resultant benefit within the area concerned. Secondly, development is defined by the needs, capacities and perspectives of local actors; popular participation is a key principle and modus operandi. Thirdly, development should be tackled in a holistic manner, dealing directly with the interrelationships between economic, socio-cultural and physical wellbeing”* (Lowe 2003, p11). These points clearly address the author’s earlier criticisms of exogenous approaches; following these three principles Neo-Endogenous Development is not dependent, distorted, destructive or dictated. The focus on local people and local needs carries over from endogenous approaches but the potential exists for extra-local factors to be involved.

In relation to extra-local factors, Lowe calls for the decentralisation of government interventions and an approach where local territorial partnerships assume responsibility for

the implementation of development initiatives. Each of these would bring the external policy makers and local actors closer together to build an institutional capacity with the ability to mobilise internal resources and to be aware of and cope with external forces. Lowe draws the comparison with “institutional thickness” (Amin & Thrift 1994) where stronger local connectivity of actors and institutions can enable other networks to be more easily brought together. In turn, “dense local networks are important for local cohesion, minimising transaction costs, and building up and retaining territorial capital” (Lowe 2003, p12).

Ward *et al* (2005, p5) move slightly further away from endogenous approaches by placing the focus of Neo-Endogenous Development on “the dynamic interactions between local areas and their wider political, institutional, trading and natural environments”. Such interaction, however, can only materialise through diverse social interactions so the importance of a “people-oriented approach” remains. Thinking back to Ray’s definition and the belief that local areas can shape their own futures, it is human actors that are the vehicle through which this “shaping” can be achieved. Ward *et al* (*ibid*) reiterate that “building a local institutional capacity able both to mobilise internal resources and to cope with the external forces acting on a region...[requires]...the participation of local actors in internal and external development processes”. A modern approach to rural development must embrace the notion of a rural economy as “a complex, dynamic system, open to the exchange of people, goods, services, information and so on” (Allanson *et al* 1994, p2).

Clark (2005, p476), writing from an agricultural background, sees Neo-Endogenous Development being about the mobilisation of territorial assets in building competitive advantage. Cabus & Vanhaverbeke (2003) add that the territorial focus is “on levels smaller than the national or regional scale” (pp2-3). As with purely endogenous approaches, territorial assets and local resources are critical but it requires local actors to take advantage and develop these resources. Neo-Endogenous Development extends this idea to recognise that potential should not be restricted by the internal capacity of that locality. As Ray (2003, pp2-3) explains, “an array of extra-local players is also recognised as able to make essential contributions. These extra-local players include central government and its agencies, Local Authorities, regional and national voluntary organisations, transnational networks, international bodies such as the European Commission and the WTO, and consumers (categorised by niche)”. In this thesis, the potential of in-migrants to mobilise territorial assets and local resources and to provide access to other forms of extra-local networks is a central focus.

It is not only providing access to networks but more importantly it is about the flows contained within those networks. Ray (2001, pp88-89) describes the importance of creating connections between localities and then working together and sharing experiences and expertise. Connections alone or connections with unsuitable or irrelevant actors will not

further the potential for rural development. It is therefore important to understand not only the interplay between local and extra-local factors but also to identify how different attributes are introduced through the local participation and networks of different actors, especially in-migrant business owners.

Ray uses Bourdieu's work (Bourdieu 1996) on the forms of human capital: cultural, symbolic, educational, social and physical (health), as the intellectual framework for his idea of Neo-Endogenous Development. "Individuals/groups may invest their capital in manifold ways to earn individual and collective interest" (Ray 2003, p5) and human capital can accumulate similarly. Moreover, Bourdieu explains that one form of capital can be used to generate growth in another and therefore the accumulation of different forms of human capital are interrelated. Ray takes this conclusion and asks "how might human/cultural capital be accumulated and exploited so as to *change* relations: between actors within a territory; and between a territory and its politico-cultural-economic environment" (p5). Cultural capital is defined later in the paper as "the array of features that make one territory different from another" and "a vibrant culture is one that rides the interaction of indigenous and globalising forces: strategically aware of the value of both" (*ibid*).

From this basis, Ray explains that "the emergence of a neo-endogenous development initiative provides a mechanism by which individuals, be they business proprietors or employees, could invest their capital in order to earn not only financial returns (as wages or profits) but also returns in kind as accumulated embodied capital. Being able to lay claim to (be associated with) territorial-cultural capital valorises their present capabilities" (*ibid*). This idea provides a possible way of achieving capital accumulation and capabilities in any rural area because it is achieved through the people and their human capital. Furthermore, the idea of a vibrant culture being one that "rides the interaction of indigenous and globalising forces" illustrates the importance of interactions beyond the local. On these grounds, this thesis explores the role of in-migrant business owners in providing economic growth, enhancing diverse forms of capital accumulation and providing the potential to broaden these interactions.

### **2.2.6 Summary**

Lowe (2003, p13) summarises Neo-Endogenous Development by saying that in interacting with the "extra-local", rural areas must enhance their own capacity with a view to steering larger processes towards a more beneficial outcome. Dense local networks and strategic extra-local connections are both important. In terms of this research, the geography of this interplay is particularly significant. Actors should not be limited by local boundaries, rather they should seek to explore the opportunities provided by extra-local factors that can enhance local development potential. To maximise this potential, two attributes are required, namely

the ability for an area to **interact with the “extra-local”** and for the local area to accrue the requisite means to **realise development locally**.

In order to achieve the necessary interactions, networks of contacts need to exist through which the exchange of goods and services, knowledge and opportunities can all occur. Interactions may develop from wider social and business networks but also from in-migrants, bringing with them new human and financial capital directly into the rural economy. The shape of their networks and the contribution they are making to rural economies remain under-researched.

Cabus & Vanhaverbeke (2003) pick up on Ray's idea of territorial identities and explain that although urban and rural areas have different identities, “because of the intense relationship between both, it is necessary to have an inclusive model, in which a partnership with respect for both territorial identities and cultural markers is essential” (p4). The extent to which more or less peripheral rural regions can develop such relationships may also depend on the structure of local and extra-local networks and this will be investigated during the research. The concept of “city regions” highlights the fact that the under-development of certain rural areas may be more directly associated with their nearby urban centres rather than peripherality on a larger, national scale. For this reason, diverse patterns of connections to any “non-local” areas are considered advantageous for Neo-Endogenous Development.

Neo-Endogenous Development does not have to apply solely to rural development. As a response to problems of uneven development, the principles of Neo-Endogenous Development should be transferable to any peripheral area. So long as there is a set of human actors with the capacity to interact beyond the boundaries of their immediate community, it is possible to acquire human capital and identify appropriate measures to improve social and economic wellbeing. These interactions may cross class or territorial divides but if the actors in the local area are able to mobilise resources themselves, development will retain a closer attachment to its locality and this is expected to be more sustainable than a policy that is formulated externally or that relies solely on the internal capacity of the area in question.

As this research proposes in-migrants as a group of actors with the capacity to enable these interactions, their role in contemporary rural economies must be understood. The next section explores this in the context of the continuing trends of counterurbanisation and increasing numbers of small businesses in rural areas.

### **2.3 In-migrants and Businesses in Rural Areas**

If Neo-Endogenous Development focuses on the interplay of extra-local and local factors, it seems evident that in-migrants have the potential to play a substantive role. Stockdale (2006) recognises that “migration...has the potential to introduce or remove human resources, and as such the prospects for endogenous development [and Neo-Endogenous Development] are inextricably linked to contemporary migration processes” (p357). Rather than taking the view that counterurbanisation is an aspect of modernisation that is damaging traditional communities and established ways of life, this research considers the economic value of in-migration to rural economies. Some of the social and housing impacts of counterurbanisation may be associated with views of destructive modernisation but, in an economic sense, in-migrants are perhaps enabling rural development and safeguarding rural communities.

Before addressing the hypothesis concerning the direct and indirect contributions to Neo-Endogenous Development, we must understand the characteristics of in-migrants and their businesses and the trend of counterurbanisation that has brought them into rural areas. Only with this foundation can the direct and indirect components that contribute to development be explored more deeply.

#### **2.3.1 The Rural Economy – An Overview**

The term “rural economy” may appear an anathema in this era of globalisation. Cabus & Vanhaverbeke for example, “are convinced that...the economy of rural and urban areas has to be seen as complimentary parts of a larger economic entity. There is no such thing as simply an urban economy, just as there is also no rural economy” (2003, p14). *The Taylor Review* (Taylor 2008) also provides strong evidence to suggest that rural economies are increasingly similar to those in urban areas. Rural economies, however, still display certain characteristics that make them different; some create challenges and others provide opportunities. Because these economies exist as part of a wider structure within an increasingly global economy, it becomes even more important to identify the differences so that the challenges and opportunities can be addressed.

Historically, the primary sector provided the focus for rural policy and made the largest contribution to employment and income in rural areas but now traditional rural services and agricultural incomes are declining (PIU 1999; CRC 2008a). This decline in the foundation of traditional rural economies has led to widespread re-thinking of rural development with policy objectives now encompassing many alternative sources of economic vitality. *The Stepping Stones Report* (Countryside Agency 2003) showed that over 80% of the rural workforce works not in farming or tourism but distribution, retailing, public administration, education and health, real estate and finance. The latest *State of the Countryside* report also states that, “perhaps unexpectedly, in 2006 rural areas supported more than the national share of workplaces in

energy and utilities, construction, transport and communications and manufacturing” (CRC 2008a, p104). Agriculture may account for almost three-quarters of England’s land area (CRC 2007) but by 2007, agricultural employment was below 360,000, a decrease of 7% since 1999 (CRC 2008a, p100). The importance of the rural economy at the national level is also emphasised with over 5.35 million people working in rural offices, shops, factories and workshops and an additional 700,000 jobs in urban areas are with businesses registered in rural England (Countryside Agency 2003).

Although there is a significant workforce in rural areas, over 90% of rural firms are microbusinesses, defined as employing fewer than 10 people (PIU 1999). This category of business employs 26% of the workforce in deepest rural areas (CRC 2008, p24). Rural firms represent nearly one third of all registered business in England, with 8% more per head of population than urban areas (Countryside Agency 2002). During the 1990s business formation rates increased (PIU 1999) and rural firms displayed higher rates of growth (Keeble & Tyler 1995; Winter & Rushbrook 2003). In the early 2000s, business start-ups and turnover were rising more in rural than in urban areas (Countryside Agency 2002). A study in Northamptonshire found that 62% of rural firms trading for less than two years and 63% of firms trading for more than 11 years reported to be seeking growth (BMG 2003). While the statistics show that rural firms have been prospering, this is not reflected as strongly for the individuals. More rural than urban workers are self employed and “many self-employed are on very low incomes, especially women, with one in six struggling on household incomes of less than the poverty line” (Countryside Agency 2003, p4). Also, in 2002, rural wages were 88% of urban wages and rising more slowly (5.2% compared with 7.3%) (Countryside Agency 2002) and *The Taylor Review* confirms that this inequality perpetuates, stating that “people working in rural areas earn £4,655 less than the national average” (Taylor 2008, p120).

The centrality of households in rural economies means that they can more easily cope with lower profits by taking reduced wages but this also explains why “a third of rural micro-firms may hold little ambition to grow profits or take on employees” (Countryside Agency 2003, p13). This is especially true with the prevalence of home-based businesses in rural areas (Mason 2008; Newbery & Bosworth 2008). Many business owners cite other reasons above “making money” for their choice of jobs and those with such an attitude are likely to be less driven by productivity and growth (Raley & Moxey 2000, p38-39). Only certain groups of people, however, are able to take such a relaxed approach to their income so while small firms have the advantage of flexibility, lower wages and incomes remain potential barriers to wider rural development. Green (2006, p115) explained that the limited range of job opportunities restricts the potential for advancement which may lead some individuals to “trade down” and “make do” in the labour market in order to secure employment. This is confirmed by ongoing research by Groves-Phillips (2008) who found that, on average, in-

migrants move to jobs with lower Standard Occupation Classifications. The rural labour market is therefore not maximising their personal resources.

The following section describes economic changes over the past two decades with a specific focus on the small firms that dominate rural economies. Section 2.3.3 then explains the concept of counterurbanisation to enable the final sections of this chapter to explore the literature that has begun to investigate the connection between the demographic and economic trends.

### **2.3.2 Small Firms in the Rural Economy**

In 1999, there were about 3.5 million microbusinesses in the UK, about 95% of the total number of all businesses; and together they made a very major contribution to the economy, accounting for about 30% of total employment and nearly 25% of total output (Bank of England 1999). This trend is not a recent one as the importance of small firms grew substantially throughout the 1980s and it is estimated that many other small businesses are not VAT registered so often fall beneath the statistical radar (Rural Development Commission 1995). The importance of small firms was recognised with the establishment of the Small Business Service (SBS) in 2000 and this commitment continues within the Department for Business, Enterprise and Regulatory Reform (BERR) who aim “to both strengthen the enterprise environment for small businesses and to enable more people and communities to pursue entrepreneurial opportunities” (BERR 2008).

Rural areas host around 30% of England’s businesses. Over the three years to 2005, analysis has shown that the greatest growth of turnover in percentage terms was achieved by enterprises in sparse hamlets which saw a total growth of 83%. Also, by 2005, firms with a head office in rural England realised £304 billion of turnover (Spedding 2007, p3). The Rural Advocate’s report suggests that unfulfilled potential from rural firms might amount to a further £236-£347 billion per annum (CRC 2008) so it is hoped that this research can highlight where this potential exists and identify both existing barriers and possible catalysts for growth.

Rural economies are dominated by small businesses. Communications technology has allowed a more diverse range of businesses to become footloose and an increasing number of people to work from home. In 2001, 11.6% of economically active people in rural districts of England worked mainly from home (Census 2001) and home-based working increased by over 12.5% between 1999 and 2004 (One NorthEast, June 2006). A study of home-based working in the rural North East found that 9.5% (30,000) of the working population in rural districts worked from home and there were wide variations with the more sparsely populated districts showing the highest propensity for home-working (The Chambers 2006). Just over half of these home-workers were self-employed and they were spread across a range of

business sectors. Exploratory research suggests that business owners based at home, however, encounter significant restraints to growth when they reach the VAT threshold and they are significantly less likely to employ more than two employees (Newbery & Bosworth 2008).

Since 1979 there has been an increasing emphasis on encouraging an “enterprise culture” with grants made available for new businesses and a raft of agencies, schemes and initiatives all offering different support (MacDonald 1996). With the greater flexibility associated with smaller firms, this has undoubtedly helped the diversification of rural economies but we should avoid making the assumption that an enterprise culture, if this is interpreted in terms of new business starts, is necessarily a positive outcome. Qualitative research by MacDonald (2006) identified three categories of self-employed people; “runners”, “plodders” and “fallers”. Runners, those with successful businesses, were the smallest category in both younger and older entrepreneurs when interviewed between 4 and 6 years after participating in enterprise schemes. “Plodders” were those businesses just making ends meet and “fallers” were no longer trading. It should be noted that the survey period 1989-1994 coincided with a serious downturn in the national economy and the local labour market was experiencing high levels of unemployment so this may not be the most representative survey. Nevertheless, it is important to remember that while self-employment can create innovation and growth, there are also “forced entrepreneurs” (MacDonald 2006, p445) who resort to self employment due to restricted opportunities in the local labour market.

Keeble *et al* (1992, pp10-11) found that most rural firms were relatively young and this was similar in urban areas. Across rural England around 40-45,000 new firms (or 8-10% of the rural business stock) were being created, or at least registered for VAT, each year (Countryside Agency 2003). A net increase of only 5,880 (525 in remoter rural areas) VAT registered businesses in rural areas over the 2002-03 period (Countryside Agency 2004) demonstrates a high loss of rural businesses too. While growth in numbers of businesses is positive, the net increase is approximately 14% of the total number of new firms. There were also significant differences between sectors with agriculture and fishing, manufacturing and retail and wholesale all losing firms while hotels and restaurants, real estate and health and education saw the greatest increases (Countryside Agency 2004). The small business sector can bring local diversity making the community less susceptible to economic downturn (Lowe & Talbot 2000, p480) but the same authors argue that with limited resources available, prioritisations have to be made about which microbusinesses to support (*ibid*, p479). A policy emphasis on fast growing SMEs, however, carries with it the danger of potentially missing new growth sectors if it is solely based on past experience. It might also reduce diversity and encounter criticisms of inequality and difficulties of assessing or defining “fast-growing”.

Only a minority of microbusinesses are growth-oriented but many others provide useful functions in the countryside (Lowe & Talbot 2000, p481). As well as the services they provide, these microbusinesses enable others to participate in the workforce, either directly or through the provision of transport or childcare and can enhance the business environment for others through the local sourcing of inputs. In rural areas, small firms tend to be much more socially embedded than larger firms. Many employ local resources to meet local needs which can foster both community identification with business performance and business attachment to the local area (Lowe & Talbot 2000, p480).

Firms in both remote and accessible rural areas reported higher constraints with regard to finance, market demand and increasing competition compared to their urban counterparts (Keeble *et al* 1992, p27). These are undoubtedly factors in the lower numbers of growth oriented businesses. Access to labour, training, business advice, customers and suppliers were all seen to be more difficult for rural firms than those in urban areas (*ibid*, p38). The slower development of the Internet and other telecommunications technologies in rural areas has been a barrier to certain innovative sectors moving to more remote areas. "In aggregate, SMEs in remote rural areas are less innovative than SMEs in accessible rural areas because firms in the more innovative sectors (such as instrument and electronic engineering, R&D, and business and computer services) are under-represented compared with accessible rural areas" (North & Smallbone 2000, p155). Nevertheless, SMEs in less accessible rural areas were found to be just as innovative as those in more accessible areas (*ibid*). Furthermore, 58% of rural SMEs said that they had introduced innovations between 1991 and 1996 while 56% of SMEs in a national survey considered that they had introduced product and service innovations between 1992 and 1995 suggesting that rural firms are no more or less innovative than firms elsewhere (*ibid*, p149). In some areas they are forced to be more innovative to overcome disadvantages associated with remoteness but in some sectors, notably food and tourism, the opportunity to introduce products based on traditional rural skills offers new openings for innovation.

The Global Entrepreneurship Monitor (GEM 2006a) reports a relatively high level of rural entrepreneurship in the North East. Data from GEM puts the proportion of adults involved in starting a rural business at 10.7% compared with an average for the English regions of 8.4%. As a region, however, the North East has 360 businesses per 10,000 of population in rural areas compared to a national rural average of 415. Only 14% of new business starts are in rural areas and these account for only 6.7% of firms in rural areas (Countryside Agency 2004). These figures also fall below the national averages, suggesting that there is capacity for expansion in the number of rural firms given the necessary socio-economic foundations. The North East saw a net loss in population during the 1980s and early 1990s while the UK

population continued to increase.<sup>2</sup> The retention of younger labour and the continuing emergence of counterurbanisation into these more peripheral areas could be important facilitators of growth. The Regional Spatial Strategy for the North East (North East Assembly 2004), however, advocates a sharp reduction in housing starts in certain rural districts which may reduce the potential for development. These regional characteristics and the range of rural areas make it a good study area and the following sections explore counterurbanisation in more detail to help understand how in-migrants might stimulate neo-endogenous rural development.

### **2.3.3 Counterurbanisation and its Geography**

The trend of counterurbanisation has existed for four decades so it is hardly surprising that an extensive literature covers many aspects of this population movement. It is perhaps even less surprising that with such a large body of work come the criticisms that the concept of counterurbanisation is at times inconsistent (Mitchell 2004) and even “chaotic” (Halfacree 1994, p164). Halfacree himself defines the term as “the population revival and growth of ‘rural areas’, together with the corresponding population decline of the cities and large towns” (1994, p164). This leaves open the possibility for natural change to be a component of counterurbanisation but for the purposes of this research, it is the element of migration that is most important.

For the purposes of this study, Champion (1989, p30) provides the clearest definition where counterurbanisation is an inversion of the traditionally positive relationship between migration and settlement size. It is not simply a reversal of “urbanisation”<sup>3</sup> because Champion's definition specifically concerns migration patterns and excludes changes in the birth and death rates between urban and rural areas. Although in some ways inter-related, rural demographic change and migration patterns are two quite different factors in the changing economies and society of rural areas and it is migration that provides the overriding context for this study.

Counterurbanisation is also distinct from urban sprawl or suburbanisation because it concerns individuals moving into different, smaller settlements. The result is that “pressures for the release of land for buildings have developed in rural England, and the physical and social complexion of many rural settlements and traditional market towns have been altered substantially” (Champion *et al* 1998, p6). Indeed, Champion *et al* (*ibid*) also report that the most remote rural areas were the main gainers with an increase in population of 0.8% in the year leading up to the 1991 census. This is equivalent to nearly 8% over the whole decade

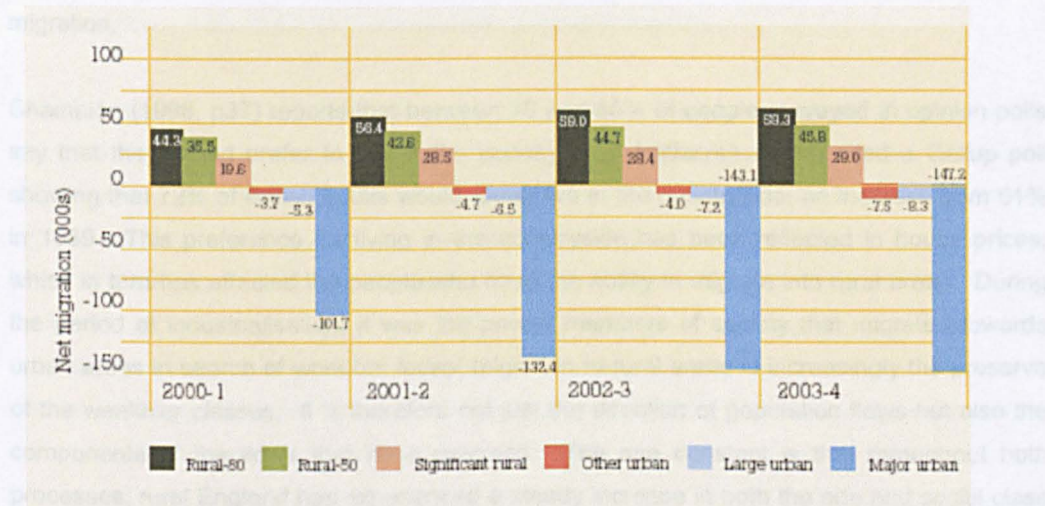
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<sup>2</sup> The population declined by 1.4% between 1981 and 1996 whilst the UK population increased by 4.3% and this is part of a longer term trend (Breheny 1999).

<sup>3</sup> Tisdale (1942) defined urbanisation as the increasing concentration of population in urban areas.

but the authors warn that such trends are subject to fluctuations so extrapolating the data in this way may not be appropriate. However, since 2000, the trend has continued, as illustrated in Figure 2.1 below.

**Figure 2.1. The ongoing trend of counterurbanisation (Countryside Agency 2006, p23)**



The causes of population movements are not addressed within Champion's primary definition of counterurbanisation although he does acknowledge the potential for a more restrictive interpretation that incorporates both geographical and sociological criteria. For some, as well as a residential move, a true "counterurbanite" must be assuming "a lifestyle which, if not identical with the traditional rural way of life, should essentially be the modern equivalent of it" (Champion 1989, p27). The social motivations for moving may be highly significant in determining the subsequent behaviour of rural in-migrants, especially in relation to their pattern of social networks, but these questions are to be explored further during the research rather than being included in a definition of counterurbanisation.

Although counterurbanisation may imply a move away from urban areas (if it were specifically a move favouring rural areas perhaps we would be studying "ruralisation" instead) we must be aware of the reality that the changing patterns of population distribution are a combination of many factors. Halliday & Coombes (1995) explain that it is a more complex process than urbanisation because the drivers of counterurbanisation are more diverse and do not necessarily overlap. In urbanisation, agglomeration economies by definition rely on many advantages complementing each other but rural migrants are attracted by a myriad of reasons, some anti-urban and some pro-rural.

Although the causes of counterurbanisation are complex and the overall trend can be seen as an "amalgam of different processes of population change" (Woods 2005, p74), there are

certain trends that appear more constant. "Higher-status districts...are most prone to fuelling metropolitan out-migration" (Champion *et al* 1998, p26) with high levels of social class, house prices and healthiness demonstrating the mobility of these individuals. The same districts that are supplying rural migrants also have low mortality rates, high rates of staying on at school, low pollution and crime rates and low unemployment, all of which illustrate that it is the ability to move rather than specific place-related push factors that fuel metropolitan out-migration.

Champion (1998, p37) reports that between 70 and 85% of people surveyed in opinion polls say that they would prefer to live in the countryside. Halfacree (1994) cited a Gallup poll showing that 72% of British adults would rather live in the countryside, an increase from 61% in 1939. This preference for living in the countryside has been reflected in house prices, which in turn has affected the people who have the ability to migrate into rural areas. During the period of industrialisation, it was the poorer members of society that migrated towards urban areas in search of work but today, migration to rural areas is increasingly the preserve of the wealthier classes. It is therefore not just the direction of population flows but also the components of the flows that have reversed. The one constant is that throughout both processes, rural England has experienced a steady increase in both the age and social class of its residents (Phillips 1998; Champion 2006; Champion & Shepherd 2006). When counterurbanisation is accused of prejudicing against the younger, less wealthy sectors of rural society, it is worth remembering that this spatial division of classes has perhaps been developing over a much longer time period.

With increasing participation in higher education and the fact that university students are still predominantly recruited from the middle classes, this is likely to accelerate rural change (Champion & Shepherd 2006, p30). Phillips (1998) refers to the colonisation of rural areas by professional and managerial classes and these groups represent "a potentially valuable source of human capital to participate in endogenous [and neo-endogenous] development" (Stockdale 2006, p355). Although this human capital is valuable, there is little evidence to determine whether the indigenous population are benefiting or whether they are being displaced by increased competition, rising house prices and the participation and perhaps domination of in-migrants in other local organisations.

More recently, counterurbanisation has broadened to include more household groups with younger children. This is having a short term effect on the age structure of rural areas but as the children increasingly move away after leaving school, the parents tend to become "empty nesters" and "age in place" (Champion & Shepherd 2006, p31). This subtly different process is, however, bringing more economically active people into rural areas and the potential that this offers for rural development is slowly being recognised. Younger families demand certain key services locally, the parents may work in the local economy and as they age in that local

community, they may become increasingly involved in local activities. "Pre-retirement in-movers may be self-employed, under-employed or flexibly employed, with time available to devote to voluntary service in the community...There may be a reservoir of older people who could, or want to be, working" (Green 2006, p114). Green has already identified that older rural residents (in the 50-64 and over 65 categories) are more likely to be in employment than their urban counterparts so an ageing population with a significant in-migratory flow should not simply be associated with the stagnation of local economies.

Sant & Simons (1993, p124) described the three major dimensions of counterurbanisation as place utility, the ability to move and a willingness to move. (see also Gorton *et al* 1998, p216). The opinion polls referred to by Champion *et al* (1998) highlight the place utility that the majority of the population attach to rural areas but this reduces many people's ability to move due to inflated property costs. Moreover, less affluent members of society tend to be more restricted by the reliance on continuous employment so again they are less likely to be counterurbanisers. Developing this logic, less affluent groups are less likely to be counterurbanising business owners because the purchase or establishment of a business incurs additional expenditure.

Stockdale (2006) found that in the study areas of Roxburgh and North Lewis, few in-migrants were establishing local businesses. Those that did establish businesses were thought to represent "survival self-employment" (see also MacDonald 1996) creating few jobs for others. GEM data identified that "necessity entrepreneurship" fell nationally "from 1.4% of the adult working age population to just 0.7% between 2001 and 2005" (One NorthEast & Shared Intelligence 2006) while "opportunity entrepreneurship" rose marginally from 5.1% to 5.2%. As this data aggregates rural and urban areas, Stockdale's finding suggests that rural areas are significantly disadvantaged and an above average proportion of "survival self employment" or "necessity entrepreneurship" could be detrimental to potential job creation and growth.

Many migrants in Stockdale's (2006) survey were also reaching retirement age and those that were economically active were competing for jobs with local people. An earlier survey of rural households in five English districts (Alnwick, Ashford, East Devon, South Warwickshire and Wear Valley) found that for each self-employed in-migrant, on average 2.4 full-time jobs were created (Stockdale & Findlay 2004). In rural areas of the North East it is estimated that more than half of rural microbusiness owners are in-migrants who have moved at least 30 miles into their locality and almost 10% of jobs in the rural areas of the North East are in microbusinesses run by in-migrants (Bosworth 2006). In Northumberland, an average of 1.8 new jobs is created for each in-migrant microbusiness owner and this is thought to be increasing (Bosworth 2006). In a similarly positive vein, research commissioned in the North East (One NorthEast & Shared Intelligence 2006, p27) discovered that 39% of in-migrant

business owners had created jobs in their local area and 28% said that their number of employees had increased in the last 12 months. This research will attempt to understand why there are such differences between the impacts that in-migration can have in different rural areas. This literature review therefore analyses the business activity and economic development associated with migration rather than revisit the wealth of research on other issues linked with counterurbanisation.

#### **2.3.4 Employment and Business as a Driver of Counterurbanisation**

Counterurbanisation has often been associated with a rise in commuting as travel to work distances have increased. Commuters provide linkages to urban areas (Winter & Rushbrook 2003, p41) and inject urban-gained wealth into the rural community (Slee 2005) but it is the more local economic activity that is the focus of this research. Findlay *et al* (2001) found that in England, although incomers were more likely to commute than long-term residents and local movers, 50% of incomers did work locally (defined as commuting no more than 15km). As rural in-migration has increased, the economic stimulus that these people provide to local economies must be significant. What is less clear, however, is the type of job that these people are taking, whether they are themselves creating employment or whether they are competing against local people for existing jobs.

A study by Halfacree (1994) identified that employment reasons are significant in the migration decision for many people. One of his conclusions was that motivations vary depending on the distance of the move. 56% of long distance movers and only 6% of short distance moves (<25km) were attributed to job-led reasons. This is confirmed by Stockdale & Findlay (2004, p7) who found that employment was the predominant motivating factor among incomers (29% compared to 25% for quality of life reasons and 8% for housing reasons). Incomers were defined as those moving from further than 15km since 1981. They do not report whether there were any significant differences between the five study areas. Owen & Green (1992) found that 14.8% of house moves occurred as a result of work-related reasons. More significantly, they also found that work-related moves accounted for 50% of moves over 25 miles and nearly 80% of moves over 100 miles. These figures are based on all house moves, not just "counterurbanising" moves. Findlay *et al's* (1999) study of sample districts in rural England found that 45% of people moving to rural areas and working locally cited employment reasons for their decision.

Approximately 80% of businesses reported the attractive living environment as being either helpful or very helpful (Keeble *et al* 1992, p37). This demonstrates that while the attractive environment may be seen as a personal or lifestyle factor for choosing to move, it may also be an economic decision. The reasons for migration can not always be clearly distinguished from each other. Family, lifestyle and business considerations will all contribute to the

decision and these factors are also expected to affect the future activities of the in-migrant, both in terms of their social networks and their economic behaviour.

Although the statistics illustrate the importance of employment in migration decisions, they fail to distinguish between those owning a business and those moving as employees. Raley & Moxey (2000) show that in the North East "the majority of returnees or in-migrants had not moved to the area with the express intention of starting the firm" (p35). However, just over 40% of those in-migrant firm owners surveyed in Northumberland moved to the area with the express intention of starting a business (Bosworth 2006) so this is certainly a significant section of the population. Keeble & Tyler also reported that "most migrant entrepreneurs – and especially those settling in accessible rural areas – moved to the countryside prior to setting up their firm; but one-fifth (21%) of all remote rural founders actually moved there in order to establish their enterprise" (1995, p984). For this research, two categories of in-migrant business owners will be considered: "Planned start-ups", those moving with a clear intention to establish a new business or those relocating an existing business, and "Unplanned start-ups", those moving without any business plans. It is expected that the characteristics displayed and the business relations developed may be quite different for each group.

Previous research in the North East categorised two types of in-migrant entrepreneur as those who planned to start a business and those who did not (One NorthEast & Shared Intelligence 2006, p28). Their findings discovered that those planning to start a business were more likely to be VAT registered (and therefore perhaps more likely to be discovered through sampling techniques), more likely to trade beyond the region, more likely to employ staff and be on average slightly younger. These comparisons are interesting for policy as the initiation of the entrepreneurial decision may take place in different places and as a result of quite different stimuli.

Personal attachments are also important in an individual's willingness to move. Halfacree (1994, p176) discovered that a quarter of long distance migrants had a previous connection or familiarity with their destinations and especially where individuals are returning to a home area, their motivations are expected to be different to other in-migrants. Conversely, ties to an area can be a barrier to migration restricting the movement of individuals or families at a particular stage in their life cycles. In terms of the contribution of their businesses, it is hypothesised that those with previous connections to an area will engage with more local networks and conduct more business within the local economy. Data from the North East demonstrates that return migrants conduct more trade locally (defined as a 30 mile radius) than other in-migrants (Raley & Moxey 2000, p37). Stockdale (2006), however, reports that in rural Scotland, return migration was sometimes viewed as failure so the nature and potential activity of returnees clearly requires further research.

Within much of the above literature counterurbanisation is viewed as a national trend. Although it is true that across the country, rural areas are gaining population while urban populations fall, these trends are not uniform. As well as the statistics, the motivations for moving and the impact of in-migration also vary spatially. Smith & Phillips (2001) in their study of the Hebden Bridge area of West Yorkshire went as far as stating that migrants to the villages were different in character to those buying isolated properties as they held a greater desire to become part of the community. Within this diversity, those in-migrants that are active in the local economy offer the greatest contribution to rural development so it is those that run businesses who provide the focus for this research.

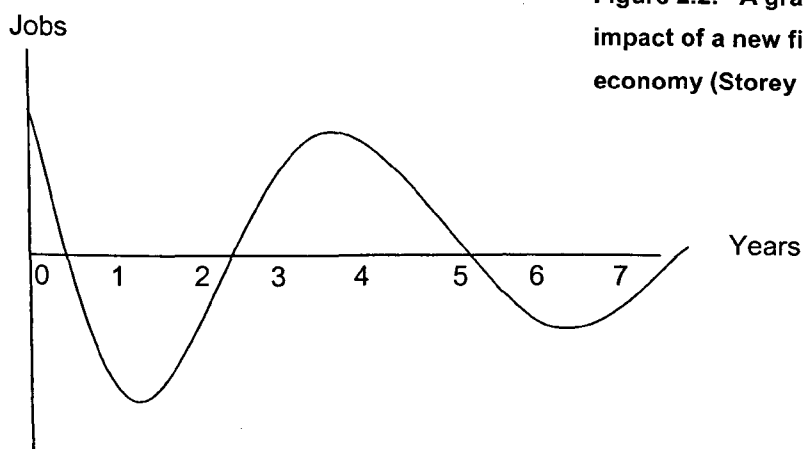
### **2.3.5 In-migrant Business owners as a Driver of Rural Development**

Divoudi & Wishardt (2004) provided a fairly bleak report on the consequences of in-migration in the Ryedale district of North Yorkshire. As well as concerns over housing affordability, key services, car-ownership and public transport, they explain that rural employment and incomes are declining. They recognise that in-migration has contributed to new business start-ups but argue that the jobs being created are often in the service sector requiring skills that are very different to those associated with traditional rural economies and often low paid or part-time in nature. This is echoed by the Countryside Agency who found that in 2002 rural wages were 88% of urban wages and rising more slowly (5.2% compared with 7.3%) (Countryside Agency 2002). There are also marked variations in job-creation between rural areas and it is often the most needy areas that attract the fewest migrants with the capacity to develop small businesses (Divoudi & Wishardt 2004, p25). Such concerns highlight the importance of research into the real contribution of rural businesses established by in-migrants.

Research into international migration, especially concerning the recent EU accession states, tends to place a greater focus upon the economic implications (e.g. Pollard *et al* 2008). Barnes & Cox (2007) demonstrated that Polish migrants, who traditionally took agricultural employment, have begun to be involved in a wider range of business activities. IPPR research in the North East encouraged more to be done “to harness the benefits of international migration in order to address some of the economic challenges that the region faces” (Pillai 2008, p6) and in this research, it is felt that such an enterprise perspective can usefully be applied to counterurbanising rural in-migrants. There remain very few international in-migrants settling in rural compared to urban areas and they are probably a great deal more transient. The more significant fact is that the greater the number of international in-migrants in cities, the greater volume of counterurbanisation from those cities (Champion & Shepherd 2006, p32).

Government policy has pushed for “an enterprise culture” since the early years of Thatcherism but the interpretation of this phrase is open to some discussion. Entrepreneurship and innovation are strong qualities for a local economy but if this is measured purely by numbers of new firms, this may not reflect the true vitality of a local area. “Survival self-employment” or “necessity entrepreneurship” is less likely to stimulate job creation and growth and many new start-ups rely on support from policy organisations but become unsustainable in the open market. Realistic and targeted policy is critical as “first and foremost, job creation and employment creation give rise to social costs not benefits” (Horbulyk 2001, p205) and the cost of such policies demand that “a project will ideally generate social benefits too, but these are best assessed in relation to goods and services produced, not in relation to factor inputs used” (*ibid*). Policy aimed at solely encouraging new business starts has therefore been described as “misguided” (Storey, 2007). This is illustrated by statistics which show that despite the investment in such policies, there has been little change in the proportion of EU populations owning their own business and in the UK, a steady growth in the 1980s had stabilised again by the 1990s (*ibid*).

Storey’s work confirms that we should not be lured into looking solely at business starts. Rather than just the introduction of new businesses, we should think about the dynamics of their introduction into rural economies. The graph below illustrates the impact that a new firm might have on aggregate employment in a local or regional economy. Initially there is a gain directly attributable to the new business but then other firms will have to lower costs in the face of new competition and this can have a detrimental effect on aggregate employment before improved business performance sees a net gain in the longer term. The graph will look quite different depending upon the nature of the firm and its local connectivity and this may be influenced by the origin, education and motivations of the business owner. It is therefore important to understand how different firms impact upon the local economy throughout this process, not just in the first six months.



**Figure 2.2. A graph illustrating the impact of a new firm on the local economy (Storey 2007)**

In-migrants are perhaps less likely to fall into the necessity entrepreneur category as the ability to move in itself requires certain financial resources. In the North East approximately 40% of in-migrants made the decision to set up a business in advance or at the time of moving (Bosworth 2008) suggesting that it was planned in a positive sense, perhaps in conjunction with other lifestyle choices or opportunities.

Nearly twice as many entrepreneurs in both remote and accessible rural areas were not born locally compared to urban settings (Keeble *et al* 1992, p14) and up to two-thirds of new rural firms were being created by people moving from urban to rural areas, often attracted by the quality of rural life (Countryside Agency 2003). It has also been suggested that "these new arrivals are relatively affluent individuals equipped with distinct attributes and networks of contacts" (Kalantaridis & Bika 2006a, p109). Combining these findings with the previous details of the job-creation of such in-migrant business owners (Stockdale 2004; Bosworth 2006) we can begin to justify a more positive perspective on in-migration for rural development. Between 1999 and 2000, rural England experienced a net change of 103,000 people moving from urban areas and during the 1990s an average of 90,000 per year moved into rural England, principally from urban areas (Countryside Agency 2003). On this basis, the Countryside Agency has recognised that "cultivating more of these in-migrants to work as well as live in rural areas, should be the aim" (*ibid*, p15).

Other findings have demonstrated that in-migrant business owners can have quite different characteristics and their firms do not always enter similar business sectors as their local counterparts. In the North East region, a large proportion of in-migrant microbusiness owners entered the hospitality sector while locals were more likely to be found in the local service firms (including construction) and land-based businesses (Raley & Moxey 2000, p34). Kalantaridis & Bika (2006a, p123) also found that entrepreneurs born outside their study area were much more successful in penetrating international markets.

External income coming into a local economy is essential for economic vibrancy and in-migrants to rural areas bring personal finance and increase the demand for goods and services (One NorthEast & Shared Intelligence 2006). We should also consider the more complex flows of income in rural economies and distinguish between firms that bring new income and those that retain existing income. In-migrants are more likely to export goods beyond the region (Raley & Moxey 2000, p37) but less focus is afforded to local service providers. Williams (1996) explains Kaldor's economic base theory where consumer services are described as " 'dependent' industries which serve the local market and are perceived as parasitic activities, contributing little if anything to the economy because they merely circulate money within the local area" (pp232-233). The retention of income, however, is an important factor in economic development. In terms of rural policy, local services do not only contribute to the multiplier effect by retaining a proportion of income locally but they are offering key

services which some residents may rely on. It is hard to imagine an economically vibrant rural area without any of these local consumer services that provide both financial and social connectivity.

Looking beyond the economic contribution and characteristics that can be statistically tested, it is expected that there will be other differences in the more social behaviour between in-migrants and local business owners. In a study of three Scottish towns, more accessible areas were found to be reaping the gains of incomers whose new ideas and extended networks offered greater opportunities for trade and innovation. These “adaptive incomers” broadened network links and the increasing diversity of the society was also thought to be a further attraction for more new people to develop relations with and move to the area (Atterton 2005). Incomers, however, are not always viewed positively. A survey of tourism enterprises discovered a mixed attitude towards in-migrant businesses. Some identified a lack of diversity as a weakness indicating recognition for the need to broaden the economy but competition was cited as a threat by other respondents (Snowden 2003).

Historical factors associated with the town were found to be important in the extra-local networking patterns of certain firms. In Atterton’s study this was found to be true in the less remote towns of Tain and Dingwall (2005, p357). Although networks are about the people of an area, cultural heritage retains an important role in bringing people together and creating the identities upon which connections are built. As local culture and heritage are seen to be attributes that can be exploited with neo-endogenous approaches to development, it is interesting that these same attributes are also attracting new people and new connections to these rural areas.

Snowden (2003) found that rural business owners perform different roles within rural networks and that there may develop an “inner circle” of key actors who can sometimes control the sharing of certain information. There was little evidence of how such a situation developed or how one might break into this “inner circle” but it will be interesting to discover whether business owners from diverse backgrounds are sharing such information within these local networks.

Socially overlapping connections, initiated by business owners themselves, were regarded as more useful to business success than formal networks initiated through public sector local enterprise events (Atterton 2005, p357). In Dingwall, the influx of incomers was thought by some to have made relations more formal, diluting the traditional embedded networks (*ibid*, p358). There have been few studies contrasting the networking of in-migrants with that of local business owners but Phillipson *et al* (2002) found that in two case study towns in the North East, in-migrants were more likely to be involved in formal business networks while local networks were based on personal relations developed over longer time periods (2002,

p53). This implies that for the two to overlap successfully, either the formal networks have to attempt to encourage participation from more local people or the in-migrants themselves must attempt to develop local personal relations outside of their businesses.

It is not only in-migrants running businesses that are making a contribution to rural economic changes. As counterurbanisation is associated with an increase of higher classes and wealth in rural areas so there are higher levels of demand and this demand is for better quality goods and services. Because the forms of capital tend to be related, it can be assumed that as well as financial wealth, the new residents will have accrued more human capital in terms of knowledge, skills and contacts during their lives. The question that arises for rural areas is whether these attributes are transferable through a local economy. The multiplier effect for income is well documented but the extent and manner in which human capital reaches other actors in a local economy is less well understood.

Changes in rural economy and society have resulted in a shift away from a countryside based around primary sector production towards a “countryside of consumption” (Slee 2005). Slee describes the injections of wealth and income from new residents into rural areas as having helped the traditional rural population “weather and adapt to a deep crisis in their livelihoods” (*ibid*, p255). The new rural economy is more than ever shaped by consumption demands, both private and public. No longer is the rural community a relatively self-contained exporter of primary food and fibre products but villages today are importers of people, both as residents and tourists, who consume products locally. Slee continues to explain that this new countryside of consumption still provides employment for traditional trades such as drystone-wallers but now “they are rarely building walls to keep stock in but to surround all-weather tennis courts, patios and gardens or enhance the appearance of the countryside” (*ibid*, p258). Where skills are transferable, this injection of wealth can benefit these traditional trades but for employees whose skills are more limited, the dangers of social and economic exclusion remain.

#### **2.3.6 Summary – Rural Business and Neo-Endogenous Development**

In this “countryside of consumption”, there is the potential for new resources to be exploited. Rather than land and physical or mineral resources, entrepreneurship and knowledge (Ward *et al* 2005) are increasingly seen as offering greater potential for rural development. As the value of new resources is recognised, so the channels through which they flow must also be re-assessed. Rather than studying just the trading patterns between businesses and regions, the flows of less tangible resources through personal relations, business co-operation and community involvement become increasingly important.

Thinking back to the two attributes of Neo-Endogenous Development (see page 29), in-migrants appear to have the capacity to stimulate the local economy endogenously and their networks enable interaction with the extra-local. As well as jobs and income, they will bring different life experiences and expertise to the rural economy and if their human capital resource is able to benefit other local actors through local networks, the potential for development will increase. The next section explores the existing literature on networks and then uses concepts of embeddedness and social capital to develop a practical and meaningful understanding of networks in relation to the performance of a contemporary rural economy.

## **~ Chapter 3 ~**

### **Business Networks, Embeddedness and Social Capital** **in the Rural Economy**

#### **3.1 Introduction**

The purpose of this chapter is to understand the significance of “networks” in rural development. Networks are discussed in relation to both social and economic development and “a number of influential ideas concerning the emergence of network societies” lead Murdoch (2000, p408) to question “just what relevance such notions have for the study of rural networks”. In the light of these conflicting views and the breadth of activity covered by the umbrella term “networks”, this chapter is used to extract critical ideas that relate to small firms in rural areas. The objective of this chapter is to derive categories of relations that exist between business owners and other individuals through the local community, through business activity and across the wider population. Such a categorisation will then provide a practical and useful framework for analysing the relations of rural business owners and understanding how these relations develop, how they benefit business activity and how they are perceived by different business owners.

In order to conceptualise such a framework, the implications of embeddedness and social capital need to be understood. Also, the rural economy and rural society cannot be studied independently from wider forces so Castells' work on the “Network Society” is used to provide a valuable global perspective as well as re-iterating the importance of the concept of networks. By examining theories from the global to the local levels, it is anticipated that the research will be well informed to explore the patterns and origins of a wide range of interactions involving rural businesses.

### **3.2 The Role of Networks in Business and Rural Development**

Literature on rural development has become increasingly concerned with the role of “networks”. Murdoch (2000) asserted that networks offer an alternative perspective from traditional exogenous and endogenous theories. He justified this view by explaining that “conditions in the global economy (such as rapid technological change) are now seen to place a premium on innovation and learning and this is thought to be conducted most expeditiously within associations of many small firms deeply embedded in local societies and cultures” (2000, pp414-415). He also explains that “networks can straddle diverse spaces” (2000, p408), both through connections along commodity chains and interactions between different business sectors so this incorporates both rural and urban spaces. In each case, there is potential for innovation, expertise and learning to be exchanged between actors across increasingly dynamic “heterogeneous constellations of networks” (Murdoch 2006, p171). These new network forms are displacing traditional socio-economic structures in rural areas and creating new opportunities for rural actors (Urry 2000).

Not only does the potential exist for actors to benefit from networks, but Murdoch also proposes that “in general terms, rural regions are increasingly moving along distinct and diverse development trajectories and that these trajectories are driven by the differing constellations of networks now to be found in new rural spaces” (2006, p172). With the erosion of the traditional dominance of agriculture in rural areas, a host of potential development trajectories have emerged with the future of each region or locality depending upon its local networks of actors and their outward connections as much as on its internal resources. In this light the potential role of rural in-migrants becomes apparent as one might expect them to be involved in different networks to indigenous rural people.

Murdoch also draws a distinction between the role of economic networks that can generate innovation and learning, and networks in the social sphere that have undermined traditional community institutions and given rise to new valuations of the rural environment (2006, p181). With these different meanings of the term “network” it is important to untangle their economic and social implications if they are to be presented as a new paradigm for rural development. With a multiplicity of network forms in rural areas, Murdoch warns that rural development strategies must “take heed of network forms” and “rural policy should be recast in network terms” (2000, p407). Despite the rhetoric, Murdoch does not offer clear policy solutions. He explains that networks show how new opportunities might be created by rethinking traditional approaches and assigns a particular benefit to the linking together of “development issues that are internal to rural areas with problems and opportunities that are external” (2000, p417). Although, “rethinking” and “linking together” are steps in the right direction, they are not definitive instructions for creating a network-led form of rural development.

The main difficulty here is that there is no single definition of a “network”. Murdoch, alone, describes horizontal and vertical (2000) and economic and social (2006) networks, each with different significance. Other proponents of “networks” as enhancers of SME productivity and competitiveness (Rosenfeld 1996; Chell & Baines 2000; Johannisson *et al* 2002) and as a potential vehicle for rural development (Lowe *et al* 1995; Murdoch 2000; Ray 2001; Lee *et al* 2005) are also unable to agree on a unique definition. Egocentric and sociocentric networks (Johannisson *et al* 2002), hard and soft networks (Rosenfeld 1996; Huggins 2000) strong and weak ties (Chell & Baines 2000) or associative and communal relations (Tiepoh & Riemer 2005) are all concepts that are related to networks of people but none provide a definitive, over-riding definition. Instead we revert to the OED which offers:

Network - **a.** An interconnected group or chain of retailers, businesses, or other organizations. **b.** An interconnected group of people; an organization; *spec.* a group of people having certain connections (freq. as a result of attending a particular school or university) which may be exploited to gain preferment, information, etc., esp. for professional advantage (OED 2007).

Looking at the etymology of the term (Harper 2001), we can also identify the significance of connections and communication. Originally the term related to complex interlocking systems such as threads or wires and subsequently, with the advent of mass transportation, “network” was used to describe interlocking systems of rivers, canals and railways. This transition introduced a subtle new meaning that not only related to the system but implied connectivity between nodes of a system. By 1947 the sense of a network describing an “interconnected group of people” (*ibid*) had evolved and the etymology tells us that we must be aware of the structure itself as well as the nodes and the nature of their interconnectivity.

The basic definition of a network as “an interconnected group of people” provides a basis to consider different typologies of networks before seeking to understand how certain systems and relations vary from each other in terms of their components, the strength of their connections, their geography and the interactions that occur within or between them. For the purposes of this research, all types of networks offer potentially valuable insights but it is a comparison of local and extra-local connectivity relating to rural business activity that is central to this thesis. Staff within a business could be described as a network as could an economy wherein individuals trade amongst each other. At the other extreme, a specialist business sector may have a truly global network with few members spread hundreds of miles apart. Where friends and family offer support and information of varying kinds, these networks are also important so we now can begin to untangle the problem of there being so many types of inter-related networks.

There is a vast literature on business networks covering issues such as their benefits to firms, their different structures, their creation and development, the actors involved and the nature of connectivity and flows that exist between network members. Within this literature, a host of advantages have been attributed to “networks” including the motivation of entrepreneurship among network members (Copus & Skura 2006), time and money saved in information gathering (Malecki & Oinas 1999), support for nascent small business (Davidsson & Honig 2003), innovation (Camagni 1991; Gelsing 1992), access to training (Bennett & Errington 1995) and providing a firm “with its ‘distinctive capabilities’ that help it to create and add value” (Malecki 1997, p173). Totterman & Sten (2005) found that formal support groups can also facilitate access to other business networks, seemingly implying that cumulative benefits can accrue from network participation. Uzzi (1996) also mentioned the long-term advantages of reciprocation demonstrating that the value of networks can increase over time.

Chell & Baines explain that networking can be associated with growth, especially where connections are weaker, of shorter duration or lower frequency. Snowden (2003) discovered that businesses with little interaction with the community or other businesses performed less strongly. Barkham *et al* (1996, pp37-39) found positive correlations between networking behaviour and business success in a study of four locations in the UK but other authors are less certain about the value of networking activity. Johannisson (1995) found no causal link between networks and growth and Curran *et al* (1993) describe how some firms cite independence and immediate business needs as reasons for not participating in networking activities, indicating that they feel the effort is not an efficient use of their personal resources. Perry & Goldfinch (1995, p233) also discovered that time was a major constraint on business owners building networks and few had a deliberate strategy for developing their networks.

The upshot of this section is that many authors describe many advantages associated with networks but because their work covers a range of subject areas from social policy through to business performance, it is difficult to provide a single usable meaning of the term “network” for the purposes of this study. Rather than attempting a precise definition of networks in relation to rural development at this point, the dictionary definition can be assumed to apply and this chapter will continue to explore the theoretical underpinnings of network theories in order to provide the most useful categorisation for the purposes of investigating rural migration and rural micro-business and rural development.

### 3.3 The Network Society

The "Network Society" describes the global world context within which rural businesses operate. Castells describes it as "the social structure that results from the interaction between social organization, social change, and a technological paradigm constituted around digital information and communication technologies" (Castells 2005, p xvii). This is in effect a post-industrial society where global flows of information lie at the heart of economic growth. He continues by arguing:

*"We must place at the center of the analysis the networking capacity of institutions, organizations, and social actors, both locally and globally. Connectivity and access to networks become essential. The right combination of information and communication technology, development of human capacity to take advantage of the full potential of the technologies, and organizational restructuring based on networking becomes the key to ensuring productivity, competitiveness, innovation, creativity and, ultimately power and power sharing"* (Castells 2005, p42).

Critics of Castells' holistic view of networks have accused his work of failing to address the complex modelling issue of how these various strands interrelate (Abell & Reyniers 2000, p741) and neglecting social struggles over networks and the issue of exclusion from networks (Van Dijk 1999, p135). Nevertheless, the increasing power of global networks has implications for all societies and economies. When studying local relations we see the importance of connectivity to these extra-local networks and not just to other local actors. The notion of combining technological advances with advancing local human capital has parallels with neo-endogenous thinking. Following Lowe *et al* (1995) and Ray (2001), development must embrace extra-local factors (such as global advances in technology) and combine them with advances in local stocks of capital (e.g. human capital, social capital, cultural capital).

Castells makes no particular reference to rural areas leading Murdoch (2000) to infer that "rural space...sit[s] rather low in the hierarchy of network "nodes" [and] the persistence of rural development as a "problem" might thus be seen as a simple reflection of the emergence of a new geography of flows, wherein rurality is (once again) reconfigured by forces emanating from urban centres" (p408). For rural areas, this reinforces the importance of positive connectivity with extra-local resources and drivers.

Castells' appreciation of the importance of both local and global forces interacting together is evident in his description of a new paradigm of "informationalism". The Network Society has its infrastructure based on global, digital networks but, to Castells, this does not reduce the potential for diverse cultural identities. Although accused of overlooking "the rural" (Murdoch

2000 & 2006) he explains that "because the Network Society is global, it works with and integrates a multiplicity of cultures" (Castells 2005, p39). Network Society still has a common core but "cultural identities become the trenches of autonomy" (*ibid*). He continues,

*"Rather than the rise of a homogenous global culture, what we observe as the main common trend is historical cultural diversity: fragmentation rather than convergence. Protocols of communication between different cultures are the cornerstone of the Network Society, as, without them, there is no society, just dominant networks and resisting communes" (2005, p39).*

By explaining the importance of diverse cultures and the potential for "complementarity and reciprocal learning" (*ibid*, p42) between cultures within the Network Society, Castells begins to valorise differentiated local areas. Local development built upon local attributes can enable local areas to interact positively beyond their traditional boundaries. So long as there is connectivity with extra-local factors, local development can be shaped to take advantage of new technological, learning and trading opportunities while continuing to build the stock of local capital and reinforcing local identities. Castells refers to cultures having their relevance as "nodes of a networked system of cultural dialogue" (2005, p42). Murdoch describes "a constellation of networks that can be found in the contemporary countryside" (2006, p172), supporting the argument that rural areas have an important place in a global Network Society.

Malecki & Oinas allude to the idea of cultures forming nodes of a networked system. With the necessary linkages, they believe a territory can function as a "collective entrepreneur" (1999, p11) with each component firm, organisation or institution playing a supporting role. Once territories or communities rather than just individuals are seen as nodes in the global pattern of networks, we begin to see why local development remains important. Communication technologies allow individuals to be footloose and act more independently but the implication is that these individuals need to be part of a local culture in order to attain certain other key attributes and access local stocks of capital.

Although technological advances have diminished time barriers and enabled networks to exist across vast distances, we can see that there is still a significant role for local areas and local processes in the Network Society. With the focus on local, and in this case, rural development, the processes that provide connectivity to other domains in the Network Society become critical. Abell & Reyniers (2000) suggest that we might expect a negative correlation between the interdependence of local economies and connections facilitated by IT. They explain that IT can allow "easier access to information about suppliers, customers and competitors and the resulting increase in competitiveness should make each actor less, not more, dependent" (2000, p743) but this overlooks the values of local identity and local cohesion. While information can be accrued more easily using IT, it is more factual

information and not the softer skills, experience and personal knowledge that are developed through diverse social relations.

Recognising the importance of both social and economic factors, different authors are calling for entrepreneurship (Kalantaridis & Bika 2006b), innovation (Gertler *et al* 2000) and business activity (Johannisson *et al* 2002) to be “embedded” in regional or local economies as this can provide added strength in a globalised world economy. Later in this chapter, more extensive relations that provide connectivity to the global “Network Society” will be explored but first the concept of embeddedness must be understood in order to fully appreciate the importance of local cohesion and local identities.

### **3.4 Evolving Conceptions of Embeddedness**

There are aspects of the Network Society that valorise local differences and recognise the importance of local cultural identities, two of the central pillars of Neo-Endogenous Development. Embeddedness can help to explain how and why individuals become part of local communities, both through social and business activities. Through the networks of relations that develop, these communities can facilitate the creation of social capital which can in turn improve the potential for businesses to prosper and for wider rural development objectives to be achieved.

As development theories have moved towards more endogenous approaches, the concept of embeddedness has become used to describe people’s attachment to their community or communities, sharing common identities and developing valuable relations that can enable the mobilisation of resources. Neo-Endogenous Development requires positive interaction with extra-local factors and the retention of local control and locally focussed goals. Embeddedness within a local community is also essential for the benefits of extra-local interactions to be maximised within that community. As Tiepoh & Reimer (2004, p432) explain, “a major feature of a community’s social capacity is that it facilitates the flow of knowledge and information between its economic agents”. Through social interaction within a defined community, actors are able to develop relations that enable them to access wider information and new trading opportunities. The trust that accrues through regular interaction can also reduce transaction costs and simplify many aspects of business life such as recruitment, sourcing suppliers and working together on larger projects. There can also be a downside if embeddedness creates an inward-looking community and actors become constrained by social influences, but this concern is addressed later in the chapter.

Earlier uses of the term embeddedness in economic sociology help to illustrate its core meaning which centres on the co-existence of social and economic spheres. Polanyi (1944,

p250) wrote “the human economy...is embedded and enmeshed in institutions, economic and non-economic” and this provided the basis for Granovetter’s definition of embeddedness as:

*“The argument that the behavior and institutions to be analyzed are so constrained by ongoing social relations that to construe them as independent is a grievous misunderstanding”* (Granovetter 1985, pp481-482).

Granovetter’s paper is specifically about “the embeddedness of economic behavior” which he uses to challenge classical and neo-classical economic assumptions about the role of social relations in free markets. Adam Smith recognised that social atomization is prerequisite to perfect competition leading us to the conclusion that social relations are therefore frictional problems that hinder the free market (*ibid*). As a result, economic models tend to describe *homo economicus*, as a selfish, materialistic creature (Gintis *et al* 2005). Granovetter challenges this notion and seeks to better understand the role of social relations by contrasting over- and under-socialized concepts of human actions in sociology and economics.

Under-socialized concepts follow the neo-classical economic approach where individual actors are seen as pursuing self-interests and “there is no room for bargaining, negotiation, remonstrance or mutual adjustment” (Hirschman 1982, p1473). In reality, individuals have concerns for the processes that lead to economic outcomes and not just the cold rationale of logical decision-making. Malecki (1997) alludes to the deficiency of under-socialized views when discussing business clusters and the benefits of agglomeration economies. The economic gains from businesses locating close together are lower transactions costs and possibly economies of scale and an increased local multiplier effect. Look beyond this, however, and there are many more advantages such as trust and reciprocity, the development of implicit rules and cultural norms, face-to-face collaboration and greater dynamism, all of which depend to some degree on personal relations.

Conversely, the role of social factors can be over-emphasised. The over-socialized view sees actors constrained by society, with behavioural patterns dictated by norms and obligations. If class or labour market sector define an individual’s subsequent behaviour, ongoing social relations become increasingly irrelevant as the individual’s choices are already so constrained by greater social influences. If social influences operate at this level, Granovetter considers them as an external force because they are already “in the minds and bodies of individuals, altering their way of making decisions” (1985, p486). If behaviour is so pre-scripted, knowledge of social structure becomes irrelevant to explaining social action (Krippner 2001).

Granovetter's central contribution is to put forward embeddedness as a "middle way" where:

*"actors do not behave or decide as atoms outside a social context, nor do they adhere slavishly to a script written for them by the particular intersection of social categories that they happen to occupy. Their attempts at purposive action are instead embedded in concrete, ongoing systems of social relations" (1985, p487).*

Although behaviour is *constrained* by ongoing social relations, the relations themselves are flexible and may change over time. An actor is constrained by his or her own social choices rather than by wider social influences. As relations develop, generating trust and discouraging malfeasance, there also develops a preference to perpetuate these relations and in smaller, rural communities we might expect this to develop more quickly. As one's reputation grows through these relations, so too does trust and the disincentive to cheat meaning that more valuable exchanges and cooperation can occur through these perpetuating relations.

Uzzi (1996) summarises Granovetter's definition of embeddedness as "the process by which social relations shape economic action in ways that some mainstream economic schemes overlook or mis-specify" (p674). He explains that while it is a useful concept for understanding the sociological failings of neo-classical economics "it does not explain concretely how social ties affect economic outcomes", adding "the core statement – that economic action is embedded in social relations which sometimes facilitate but other times derail exchange – is conceptually vague" (*ibid*). Oinas (1997) largely agrees, explaining that although embeddedness is helpful in capturing those aspects of economic life that are not purely economic (p23), it remains a "vague concept" (p24 & p25) because a wider perspective is needed which encompasses both the social and economic rationales. The notion of embeddedness can be seen as a useful tool against "the hegemony of mainstream economics and related approaches with their limited assumptions about isolated 'economic action' in an isolated 'economy' [but] the full potential and significance of the term is still being explored" (Oinas 1997, p25).

The formulation of embeddedness is also criticised for leading to "the relative neglect of the concept of the market in economic sociology" (Krippner 2001, p776). The notion that economic action should be "embedded" suggests that "somewhere there was a hard core of market behavior existing outside of social life" (*ibid*, p778). This is not the place to discuss the extent to which economic and social life can ever be referred to as separate concepts, but it suffices to say that Granovetter and others have ensured that the significance of both economic and social rationales for behaviour are not overlooked. Some authors (especially

Reimer 1997) have noted that the overlap of social and economic is likely to be especially strong in rural areas where community and identity continue to have greater resonance.

According to market theory, "selfish, profit-seeking behavior motivates action in arm's length relationships...[which contain]...all the information needed to make efficient decisions" (Uzzi 1996, p676). Embeddedness does not ignore the market but recognises that there are other factors that effect economic behaviour that may be more or less dictated by market forces. "Transactions cost economists argue that concepts such as trust and reciprocity only muddy the clear waters of economic analysis" (*ibid*) but these attributes do affect economic performance and their complexity is not a reason to discount them. In rural economies, many businesses are not profit-maximisers (Ilbery & Kneafsey 1999; Phillipson *et al* 2002) so one might expect that these other, non-market, factors will play a more prominent role. The importance of local identities, community and quality of life for rural business owners are all factors that might impact upon their business decisions and to truly understand the potential economic development that could be realised through this group of actors requires analysis of the interwoven strands of both social and economic influences.

In Granovetter's definition, embeddedness is a definite characteristic of human life; economic behaviour is *constrained* by social relations, and this is reinforced by reference to the OED definition of embeddedness: "*Embedded, ppl. a. That is fixed firmly in a surrounding solid mass*" (OED 2005). More recent interpretations of "embeddedness" in socio-economic research have focused less on economic behaviour being embedded in the context of social relations but more on actors being embedded within communities and localities. The meaning of the word has not changed but the question of what is embedded where has been addressed differently. One could criticise Granovetter for failing to explain the relevance of embeddedness in a spatial sense but it seems more constructive to recognise his contribution in relation to the inescapable co-existence of social and economic motivations, a fact that has great significance when studying the importance of diverse networks and relations and which has particular significance in rural areas where the overlap between the two is likely to be strongest. From here we can accept Amin & Thrift's argument that "local embeddedness" should be made explicitly different from embeddedness "so as to avoid notions of bounded and internally integrated territories" (1994, p259).

### 3.5 Local Embeddedness

In the Network Society, authors have referred to the importance of local areas functioning as “collective entrepreneurs” (Malecki & Oinas 1999, p11) or “nodes of a networked system of cultural dialogue” (Castells 2005, p42) but this can only happen if actors within these local areas are somehow linked together and share a culture or identity. Local embeddedness introduces this spatial dimension while still acknowledging the omnipresence of interwoven social and economic influences in the lives of rural people.

Referring back to the work of Polyani (1944) and Granovetter (1985), geographers have developed the concept of embeddedness to explain the evolution and economic success of regions based on clusters of firms with reduced transactions cost, agglomeration economies and successful local networks. Using a variety of terms such as industrial districts, creative milieux or learning regions, the argument follows that “the ‘local’ embeddedness of actors leads to an institutional thickness that is thought to be one crucial success factor for regions in a continuously globalizing economy” (Hess 2004, p166). Hess continues by exploring the debates around embeddedness as a “fuzzy concept” (Markusen 1999), characterised by a lack of clarity. Oinas (1997, p26) is also critical of the ambiguous use of “embeddedness”, considering that “it has become commonplace...to use the term embeddedness as a general catch-word for things that are not thought very carefully.” Without wishing to revisit this debate at great length, this section seeks to identify the important aspects of “local embeddedness” with specific reference to rural economies and rural development.

In their study of rural entrepreneurship, Jack & Anderson are definitive in adding a territorial component to the concept embeddedness, describing “embedding” as “the mechanism whereby an entrepreneur becomes part of the local structure” (2002, p467). They also explain that “local knowledge can provide a key factor of profitability” and embeddedness therefore “provides a mechanism for bridging structural holes in resources and for filling information gaps” (*ibid*, p469). Discovering that local embeddedness can create opportunities that would be unavailable to others led Jack & Anderson to assert that “entrepreneurial embedding...creates a link between the economic and social spheres [and] this social bond enables entrepreneurs to more effectively exploit economic opportunity” (*ibid*, p469). We can see that Granovetter’s work continues to influence research into embeddedness as both the social and economic arenas are essential to the process of local embedding but the introduction of a spatial dimension adds new significance to its meaning.

Studying in-migrants in rural Cumbria, Kalantaridis & Bika concluded that “the embeddedness of entrepreneurship differs significantly between in-migrant and locally born entrepreneurs” (2006a, p125), with in-migrants better able to exploit extra-local opportunities. Not only has the concept of embeddedness taken on a local connotation, but the process of entrepreneurship as well as the actors can now be “embedded” and there have developed

different degrees of embeddedness implying that it is no longer seen in the Granovetterian sense as an unchanging feature of human life.

The introduction of different degrees of embeddedness implies that we might be able to place a value on it. Once again, this is far removed from Granovetter's description of embeddedness but it introduces a practical rural development implication as the value of embeddedness can be applied to individuals or local areas. Lauer (2005) considers the difference between what might constitute an embedded and a non-embedded entrepreneur. The non-embedded entrepreneur would take the neo-classical approach and assess the market conditions and price signals to seek an opportunity while the embedded entrepreneur may learn of these opportunities through his interactions with other economically active members of society. The embedded approach would result in the entrepreneur taking a position where he has linkages to other actors for exchanges of trade and information. The actor has a degree of freedom in choosing the pattern of these linkages and with local embeddedness there is an assumption that many of these linkages will fall within a definable space or community. The non-embedded entrepreneur has to interpret the market independently, without the advantage of shared experiences that can be acquired through links with other actors. He or she is therefore more susceptible to the "liability of newness" (Stinchcombe 1965) that exists before trust and legitimacy have developed in relation to their economic activity.

Gertler *et al* (2000) sought to explore the embeddedness of innovation in a local economy. Despite the increasingly global nature of technological activities, they assert that "the home base is crucial to the innovativeness of domestic firms" (p692). Because competitive success depends on the ability to produce and utilise knowledge, education and training become increasingly important as do social relations that can allow the dissemination of knowledge through a local economy. They explain:

*"Given the highly social nature of learning and innovation, it has been argued that these processes often work best when the partners involved are close enough to one another to allow frequent interaction and the easy, efficient exchange of information. Indeed a growing body of work attests that innovation is fundamentally a geographical process: facilitated, though not necessarily contained, by spatial clustering of the involved parties within the same region"* (Gertler *et al* 2000, p694).

For Castells, the global Network Society "integrates a multiplicity of cultures" (2005, p39) and Gertler *et al* also consider globalization to provide the opportunity for stronger local cultures. There is the potential for the development of "regional institutions which help to produce and reinforce a set of rules and conventions governing local firms' behaviour and inter-firm

interaction" (Gertler *et al* 2000, p694). The combination of competitive pressures from outside the region and the potential for local actors to mobilise and develop local resources are both seen to be driving forces for local embeddedness. The comparison with Neo-Endogenous Development is once again apparent; local embeddedness can enable the mobilisation of local resources and control the direction of local development through beneficial engagement with extra-local forces.

Research by Johannisson *et al* suggests that "collective innovativeness, flexibility and capacity is created by relationships between firms" (2002, p298), although the structure of these relationships may vary considerably from place to place. Trust-building relations derived from social relationships provide "identity, legitimacy and additional resources" (*ibid*, p299) and when resources as well as learning experiences become shared, there forms a "complex system that is difficult to imitate and therefore creates regional competitiveness" (*ibid*).

Lauer, Gertler *et al* and Johannisson *et al* have all helped to demonstrate that local embeddedness is valuable to both individuals and regions. Because it is not uniform, we can make the assumption that the process of embedding can be achieved in different ways and that this will have different implications for businesses. Examples of how this can be achieved include family ties, local experience, trade experience, participation in fund-raising and community events and membership of sporting or social clubs (Jack & Anderson 2002). Not only are there several paths to embeddedness but the motivation for participation can also vary. Jack & Anderson (2002, p480) use the term "extractive" to describe a purposive process of "mining local connections" as a contrast to altruistic reciprocity so in this sense, *homo economicus* may once again be at work calculating the relations that provide the most valuable outcomes and the optimal level of embeddedness.

It is in this sense that we can identify the critical difference between the Granovetterian interpretation of embeddedness and local embeddedness. While economic behaviour is, by definition, always embedded within social relations (Granovetter 1985), there are many ways in which individuals or businesses might choose to be or become embedded within their local communities. Jack & Anderson (2002) talk of entrepreneurs *becoming* embedded to "pursue and exploit commercial opportunities" (p468). They proceed to explain, "it is more than simply developing social networks...Embeddedness involves: understanding the nature of the structure, enacting or reenacting this structure which forges new ties and maintaining both the link and the structure" (p468). This implies that local embeddedness is a less definite quality and one that can be changed by conscious actions.

Using this distinction, the research will seek to identify whether business owners are actively seeking to become embedded for business purposes or whether their non-business

motivations are more influential. The terms “purposive” and “passive” embedding are suggested as a means of differentiating between the two processes and these can enable us to better understand the realities of local embeddedness. However selfish or altruistic it may be, local embeddedness remains a “two way process of gaining credibility, knowledge and experience” (Jack & Anderson, p483) that is based on social relations within a local area but the roots of those social relations are thought to be important factors for determining the strength of embeddedness and in turn the accrual of social capital.

The next section will explore social capital in more detail but we must also address the negative features of embeddedness. Uzzi (1997) warned that embeddedness can become a liability for localities that become overembedded, are reliant on one key actor or are subject to institutional forces that rationalise markets. Jack & Anderson also warn that embeddedness can become a constraint to growth if social issues “supersede economic imperatives” (2002, p471). Furthermore, Burt (1992) argues that overembeddedness can reduce the inflow of information into a locality if there are fewer links to outside members. There is undoubtedly a value of looking “*beyond local embeddedness*” (Kalantaridis & Bika 2006a), but the critical conclusion should be that both local embeddedness and extra-local connectivity are essential and related ingredients for rural development.

Sporleder & Moss (2002) focus on the embeddedness of business networks, defining embeddedness as “the interdependency that develops over time from a myriad of interfirm relationships” (p1349). Grabher (1993) recognises that interdependency offers stability to business networks but if businesses become dependent upon specific networks, this may reduce the potential for new relations to form. According to Johannisson *et al*, embedding has a dual purpose; It means “creating order and reducing uncertainty as much as providing the variety and ambiguity needed to create space for individual and collective entrepreneurship” (2002, p299). Once again, this dual purpose incorporates the need for both local solidarity and extra-local connectivity but I argue that only the first of these can be described as an integral feature of local embeddedness and the extra-local connectivity must be viewed as a necessary complement but not part of the same concept.

This approach enables us to better analyse the potential risk of overembeddedness. Oinas (1997, p26) highlights a negative aspect of embeddedness stating that “the very *inability* to capture global opportunities and the subsequent *negative* effect on the local economy may be grounded in the nature of local social relations” (*ibid*, *original emphasis*). Atterton (2007, p240) also associates overembeddedness with “a lack of openness to different information...a high degree of inflexibility and a lack of adaptability and a situation where social norms and obligations may override economic arguments.” Embeddedness provides internal strength through beneficial local relations but where there is a lack of local resources combined with a

lack of extra-local connectivity, introspectiveness not only leads to communities missing out on potential external opportunities, but it can also reinforce local disadvantage.

By separating local embeddedness and extra-local connectivity, we can then interpret local embeddedness as the process that sees actors develop shared ambitions and values to provide order and improve the functionality of local areas. This offers the potential for local areas to act as “collective entrepreneurs” and for local identities to develop that might confer additional local competitive advantages to actors that are embedded within that locality. The importance of extra-local connectivity then provides the potential for the embedded locality to develop positive relations with the outside world and not be held back by any inherent weaknesses. From this basis, the next section of this chapter examines the significance of social capital as a facilitator of relations before comparing the importance of both strong and weak ties in sustaining embedded communities and extra-local connectivity.

### **3.6 Social Capital**

Whether it is purposive or passive embedding, the development of diverse relations relies on the core building blocks of trust, reciprocity and a sense of shared identity. As a facilitator of such relations, social capital has been described as:

*“a broad term encompassing the norms and networks facilitating collective action for mutual benefit. Ceteris paribus, one would expect communities blessed with high stocks of social capital to be safer, cleaner, wealthier, more literate, better governed, and generally ‘happier’ than those with low stocks, because their members are able to find and keep good jobs, initiate projects serving public interests, costlessly monitor one another’s behavior, enforce contractual agreements, use existing resources more efficiently, resolve disputes more amicably, and respond to citizens’ concerns more promptly” (Woolcock 1998, p155).*

From this description, the potential advantages of social capital are apparently endless and seductively simplistic (Mohan & Mohan 2002). As researchers or policy-makers, however, we must try to avoid being drawn in by utopian promises and seek to understand the reality of social capital and how it relates to the concept of local embeddedness, with particular reference to rural business and rural population change. Finally we should also examine whether social capital can be created in such a way that it can enhance rural development.

Since the publication of Putnam’s 1995 article on *“The strange disappearance of social capital in America”*, there has been an exponential growth in academic references to social capital

(PIU 2002). Putnam argues, “social capital refers to features of social organization, such as networks, norms and trust, that facilitate coordination and cooperation for mutual benefit” and “social capital enhances the benefits of investment in physical and human capital” (Putnam 1993, p1). Although a good starting point to understanding the concept of social capital, it is somewhat vague as a definition. The “features” are explained only by way of examples and the nature of networks, norms and trust that are best associated with social capital remains unclear. Nevertheless, his subsequent work has demonstrated that localities with high levels of social capital, when measured using indicators of civic engagement, are more likely to reap greater benefits in using human and physical capital and citizens in these localities enjoy a better quality of life (Evans & Syrett 2003, p2-3).

Financial capital can purchase physical capital or human capital (in the form of education or physical fitness) which can in turn offer access to better paid employment. In a similar sense, networks of contacts that are rich in social capital can provide better quality and quantity of information and knowledge, a better paid job or information about new technologies that might otherwise be inaccessible (Putnam 2000). If social capital is ubiquitous and can be used to provide access to other forms of capital, one hypothesis could be that all people can potentially improve their own capital resources if social capital grows<sup>4</sup>. As social capital is intangible and developed through relations rather than expressly financial means, this is a very appealing conclusion for policy-makers seeking to realise economic development. As Bowles & Gintis explain, “those to the left of center are attracted to the social capital idea because it affirms the importance of trust, generosity and collective action in social problem solving...[while]...proponents of laissez faire are enchanted with social capital because it holds the promise that where markets fail – in the provision of local public goods and many types of insurance for example – neighbourhoods, parent teacher associations, bowling leagues, indeed anything but government, could step in to do the job” (2005, p380).

The second major contributor to theories of social capital, also from America, was Coleman, who explains that “physical capital is created by making changes in materials so as to form tools that facilitate production, human capital is created by changing persons so as to give them skills and capabilities that make them able to act in new ways. Social capital, in turn, is created when the relations among persons change in ways that facilitate action” (1990, p304). Cooke & Willis criticise Coleman by saying that “a structural feature of society facilitating productive individual actions” (1999, p222) could be almost anything. Nevertheless, participation in society does bring benefits and it is important to distinguish this feature. Social capital is the least tangible form of capital as “it is embodied in the *relations* among persons” (Coleman 1990, p304). Social capital is not simply the addition of a group's human

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<sup>4</sup> At least this could be true for less finite resources such as knowledge, contacts, trust or learning.

capital components but through co-operation and sharing of resources, social capital can increase their utility.

From Putnam and Coleman, then, we learn that social capital is something that facilitates collective action but at the same time it relies on the existence of certain social structures within a community. Maskell (2000, p111) writes, "the use of the word 'capital' implies that we are dealing with an asset [and] the word 'social' tells us that it is an asset attained through membership of a community." More importantly, he stresses that "social capital is accumulated within the community through processes of interaction and learning" (*ibid*). As a resource, it is therefore augmented not diminished through use (Putnam 2000, Westlund & Bolton 2003, p83). Not only do community interactions have to exist to enable social capital to accrue, but this also suggests that individuals have to be a part of that interaction, or at the very least consider themselves to be part of that community, in order to reap any of the benefits.

The leading academics referred to thus far have not been working in the field of rural businesses but their core theories are transferable to any element of society where individuals can benefit from their relations and participation in group activities. As an example, Granovetter (1974) found that over 60% of the professional, technical and managerial workers used personal contacts to find jobs and Reimer (1997, p401) noted that "the use of friends and kin to identify prospective employees is pervasive all over the world." In a rural economy, there may be an individual with the human capital to fulfil a particular business role but unless the social capital exists to enable that individual to identify the opportunity or for the employer to identify the source of human capital, the vacancy will remain unfilled and both parties will incur higher costs of job seeking and recruitment respectively. Although a simplistic example, it is evident that such relations can improve trading opportunities, facilitate the flow of ideas and skills among business owners and enable the development of trust among business owners who respect communal rules and morals.

Burt (1992) draws the simple yet effective comparison whereby human and financial capital is invested to create production capabilities while social capital provides opportunities to sell the products. As Woolcock explains, "the latest equipment and most innovative ideas in the hands or mind of the brightest fittest person...will amount to little unless that person also has access to others to inform, correct, assist with, and disseminate their work" (1998, p154). Not only does someone need contacts as part of their human capital, they also need to trust the ability and integrity of the other person and both parties must be willing to co-operate. It is this trust and the desire to co-operate in certain situations that creates the added value associated with social capital, which surpasses the basic transaction costs argument.

Placing the principal concepts of social capital into the context of rural businesses, we begin to see how it can be a valuable asset for both individuals and communities. Bowles & Gintis (2005, p379) provide a useful summary, explaining that “social capital generally refers to trust, concern for one’s associates, and a willingness to live by the norms of one’s community and to punish those who do not.” From this definition we can see the parallels with local embeddedness where fitting in with the local community simplifies transactions and the sharing of knowledge and provides an accepted code of conduct for actors within that community. For each of these processes, it is also apparent that human interaction is essential both to create and sustain social capital and embeddedness.

In *Bowling Alone* (2000), Putnam’s focus shifts between local communities, states and national examples while other authors attach social capital more specifically to local communities. Mohan & Mohan state that it is “characterized as a public good, to which all residents of an area have access, in contrast to social networks, which almost by definition rely on exclusion (2002, p192)”. Moreover, when social capital is linked to a local area, they suggest that individuals can benefit from local social capital even if they have not invested time in creating it. Such free-riding may be considered inequitable but, based on the argument that social capital is augmented through use (Putnam 2000; Westlund & Bolton 2003), new actors will also be adding to the resource through the new relations that they develop. The monitoring of free-riding and the sanctions that are employed against non-conformers are also described by some as an integral element of social capital (e.g. Hepburn 2005) as these unite individuals around a common moral standpoint.

Coleman (1990, p315) explains that social capital is like a public good in that “it forms an attribute of the social structure in which a person is embedded” and it cannot be individually owned or traded. Unlike truly public goods, however, social capital is not a uniform entity and not everyone is able to access all elements of social capital. Westlund & Bolton recognise that “even if social capital in a Colemanesque tradition might be regarded as a public good, it is important to underline that it is a network possession and that actors without access to the network(s) do not have access to that particular social capital” (2003, p108). With this in mind, at any one time, an individual has access to only a tiny proportion of the available social capital but theoretically, if they chose to interact with a different group of people, this would automatically grant access to the social capital therein and in this sense, the public good characteristic prevails. This does, however, raise the question of how quickly new participants are welcomed to share in a group’s stock of social capital and therefore how quickly the benefits of co-operation and reciprocity can be realised. When assessing the role of in-migrants in a rural economy, the speed of local assimilation as well as the preservation of access to non-local stocks of social capital will both be important factors in determining the benefits that may be associated with this group.

Perhaps the most effective working definition of social capital is provided by The Performance and Innovation Unit (2002) who state that “social capital consists of the networks, norms, relationships, values and informal sanctions that *shape the quantity and co-operative quality* of a society’s social interactions” (p5, emphasis added). This reinforces the intangible quality of social capital as it is not simply networks but something that *shapes or facilitates* co-operation through networks. In other words, it is not just about whether individuals interact but whether the collective society in question provides the right opportunities and structure to enable fruitful interaction. The idea that social capital “shapes” interactions also suggests that there is an element of conforming and this has led to criticism of the concept. While certain conformities are essential for a community or economy to succeed, these can easily transgress into prejudices and exclusionary forces that divide societies. As Westlund & Bolton explain, “common norms create conformity, which implies restrictions on both individual freedom and business initiative (2003, p78)”.

Another way that social capital can produce detrimental outcomes is where groups become fanatical and the trust and knowledge that they share, enables small minorities to develop greater capacities to carry out actions that the rest of society considers improper or even criminal. Fukuyama (2001, p8) cites the Ku Klux Klan and the Mafia as examples of these “perverse networks” (Field 2003, p83) which have positive effects for their members but negative outcomes for the wider community. These criticisms, however, cannot be applied solely to the resource of social capital. All types of people can access money and other resources but the resources themselves do not determine actors’ decisions of how they are employed. The fact that social capital enables minorities to achieve beyond their means in a traditional economic sense could be taken as evidence of its inherent strength if it is applied in a desirable manner.

Where communities display characteristics of overembeddedness, the stock of social capital is restricted to that community and may constrain external connectivity. Atterton (2005) discovered that in relation to business activity in small towns in northern Scotland, the most remote town displayed strongly embedded characteristics resulting in fewer external networks with potentially detrimental implications for economic development. The other downside to strong internal cohesion is that it can lead majority groups to develop negative attitudes towards minorities, partly created by a lack of knowledge and understanding of these ‘other’ people who do not share in the same stocks of social capital and therefore may not develop similar communal norms.

Not only are some people marginalised by social capital associated with other groups, but they may also be held back through their attachments to networks with lower stocks of social capital. Field (2003, p78) talks of people being “held back because of their connections” which compares with the concerns regarding overembeddedness (Oinas 1997). The

networks available to marginalised people often comprise people in similar situations and allow access to fewer resources. Putnam overcomes these criticisms by referring to the importance of “bonding” and “bridging” social capital that can provide both solidarity and connectivity respectively. He explains that “some forms of social capital are, by choice or necessity, inward looking and tend to reinforce exclusive identities and homogenous groups...[while]...other networks are outward looking and encompass people across diverse social cleavages” (2000, p22). He continues with the analogy that “bonding social capital constitutes a kind of sociological superglue, whereas bridging social capital provides a sociological WD-40” (*ibid*, p23). Woolcock (2001) extended this to include “linking” social capital which could also cross class and power divisions. Just as local embeddedness also requires extra-local connectivity, bonding social capital among strongly interconnected groups relies on bridging links with other groups to avoid certain negative outcomes. By appreciating the importance of both aspects of social capital, we can distinguish the potential downside without devaluing the advantages.

A further parallel with embeddedness is apparent when we consider the possibility of individuals seeking to create or use social capital for purely selfish reasons. Lin (2001, p19) describes social capital as “investment in social relations with expected returns in the marketplace,” drawing a direct comparison with investment in other forms of capital. However, he continues to explain that social capital “consists of resources embedded in social relations and social structure, which can be mobilized when an actor wishes to increase the likelihood of success in a purposive action” (*ibid*, p24). The idea that an actor consciously invests in social capital appears contrary to the spirit of social capital which the leading authorities (Coleman 1990; Putnam 2000) see as a feature of human life that is not calculated for personal gain but is developed through the more altruistic motivations of trust and reciprocity. However, the fact that the resource is embedded within groups of actors and available to all members of that group implies that such investment is not of a selfish nature but driven by collective or community motivations.

There is a wide-ranging debate across sociology, anthropology and economics about the reasons for co-operation and reciprocity. There may be genetic reasons that have led to the survival of only the more co-operative groups of society (see Gintis *et al* 2005) or it may be that humans are able to calculate the behaviour that leads to the optimum outcomes. Genetic or psychological reasons for community-mindedness lie beyond the remit of this thesis but it is possible to consider some of the factors leading to certain people being more inclined to integrate with their local community, support charities, participate in voluntary work, share certain personal advantages and choose to maintain a wide group of friends. The reasons for this are manifold but the relations that stem from such action enable the development of trust, the reinforcement of social norms and the discouragement of anti-social behaviour.

Within such a structure, the potential for more efficient economic exchanges and the enhancement of personal or business reputations become apparent. Bonding social capital can foster local co-operation and bridging social capital can bring new opportunities to local economies and individuals recognise that networks of relations are valuable. This is evidenced by the growth of networking organisations which are able to provide access to social capital in circumstances where other community-spirited behaviour is less prevalent. Lin (2001) has challenged Putnam's assertion that social capital is in decline by highlighting the growth of cybernetworks and in business circles, the development of "networking" as a concept and the growing numbers of organisations and events continues to provide vehicles for businesses to co-operate and interact.

In these examples, however, there is a critical difference between "networking" and social capital in the traditional sense. Cybernetworks are joined purposively and individuals can choose when they want to engage with them. Certain rules and norms exist but it is difficult to assess their strength when individuals do not meet in person. Social capital also accrues alongside trade on the Internet (Jupp & Bentley 2001) but the capacity for this to spread into other aspects of life is more restricted. Similarly, professional business networks, local Chambers of Commerce and other public and privately formed groups are created to fulfil a networking purpose and therefore a conscious decision is made about joining. The decision to participate may be based on different logic and the resulting relations may be weaker in character compared to those arising more organically (Laschewski *et al* 2002). Also, if membership is associated with a specific aim on the part of an individual, the potential for the development of wider social capital may again be more restricted.

Knoke (1990) analysed the membership of collective action organisations. He found that members express many motives for joining a collective action organisation and that once they are involved, they may subsequently discover other reasons for continuing to contribute their time, money and effort. While joining is more about the perceived benefits<sup>5</sup>, once involved within an organisation, the motivations change. In the same survey work, Knoke discovered that ongoing contributions were more likely to be made to advance the knowledge available to members, because it was seen to be the fair and equitable thing to do and because it could help to shape the future direction of the profession/organisation. Less strong reasons for ongoing involvement were personal benefits, influencing government and improving a professional career. This work demonstrates the effect of social capital since involvement in the organisation led individuals to form new relations and recognise certain values attached to these relations that encouraged reciprocal, group-focused behaviour. Networks that are

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<sup>5</sup> In his survey, the most common reason for joining such an organisation was "job-related." 45% were job related, 35% joined for "direct services offered to members", 21% for "the lobbying or political activities of the organisation", 19% for "social or recreational activities among the members", 9% felt "expected to join by other people" and 2% said that "membership was a gift".

created to fulfil a certain role do contribute to social capital but in order to maximise their potential, relations must extend beyond the parameters of the initial group to generate trust that goes beyond organisational rules and to stimulate co-operative action that is not solely focussed on the group itself.

Hall (2002, p22) demonstrates that inorganic forums meet the criteria for social capital creation, explaining that “social capital turns primarily on the degree to which people associate regularly with one another in settings of relative equality, thus building up relations of trust and mutual reciprocity. Therefore, it can be created through formal or informal patterns of sociability.” There remains a debate concerning the extent to which social capital is about equality or excludability. By definition, a formal network with membership excludes non-members but a strong local community may also hold exclusory attitudes that can diminish the potential accrual of social capital. Other authors (Bourdieu 1996; Lin 2001) have described the importance of the hierarchical status of social capital. It is not just what you know, not even just who you know but also the status and the further contacts of who you know that are important factors in realising benefits from social capital. For individuals with weaker social capital or for in-migrants without strong local connections, organised groups provide a valuable function in creating bridging and linking social capital with the potential for stronger bonding social capital to develop over time.

For this study, the contrast between bonding and bridging social capital is aligned to notions of local and extra-local connectivity. That is not to assume that local connections imply bonding social capital but where individuals become embedded in local areas, they will develop stronger local relations. The focus on in-migrants as extra-local actors with fewer local connections, at least at the time of migration, enables this research to explore the development of relations that build social capital and with the business perspective of the study, the economic benefits associated with networks and social capital can be assessed simultaneously. Work in America by Florida *et al* (2002) concluded that an excess of any one type of social capital, typically bonding, can hinder economic development and areas that readily welcome outsiders tend to be more innovative but these two factors are not necessarily mutually exclusive. A strong community can still be open to external influences and welcome outsiders who can in turn increase the potential of development within that community and this belief is at the heart of neo-endogenous theories of development.

In rural areas there is a prevalence of smaller firms where economic decisions are often aligned with personal and family goals. From Granovetter, we learned that the economic and social arenas are inextricably related and through social capital we can begin to see how local embeddedness, where trusts are built up through regular interactions within the community, confers a definite value to actors within that community. With both embeddedness and social capital, however, authors have warned against overembeddedness (Burt 1992; Uzzi 1996;

Oinas 1997) and the potential of individuals being held back by connections (Field 2003, p78) where social capital becomes inward looking and unconstructive. Accepting the positive aspects of both concepts, it is essential to examine the other connections that can continue to regenerate local communities with the introduction of external ideas, new resources and new opportunities into the embedded structure. Rather than examining the structure itself, the focus is on the individual relations within that structure that can provide access to a range of benefits. The next section therefore examines the contrast between strong and weak, and local and extra-local ties to allow the formulation of categories of relations that can be seen to provide both local embeddedness as well as extra-local connectivity.

### **3.7 Networks of Strong and Weak Relations**

This chapter began by citing a plethora of benefits that have been associated with “networks” but raised concerns about the clarity of definitions of “networks” for the purpose of this study. The underlying theories of embeddedness and social capital have been examined in order to better understand how humans relate to each other with the conclusion that individual relations are the most accessible points of analysis although these are influenced by the local environment and by the prevalence of social capital. Neo-endogenous rural development is considered to have most potential where localities have strong internal connectivity that allows local advantages and local identity to be reinforced while maintaining positive extra-local connections to other communities, through business actors for example, across the “Network Society”. In each case the patterns of relations could be described as “networks” but their diversity and the different flows attached to them make such a generic term seem insufficient.

Up to this point, the dictionary definition of a network has been used although the majority of references have been to individual relations and not network structures. This distinction relates closely to that made by Johannisson *et al* (2002, p299), who use the terms “egocentric networking” and “sociocentric networking”. Egocentric networks are patterns of relations that are centred on an individual while sociocentric networks are viewed as defined structures containing given numbers of members. They continue to explain that one type of network cannot be considered independently. An individual who becomes part of a network has a personal “egocentric” network so the whole structure can potentially benefit from far-reaching new opportunities and information, depending on the characteristics of the individual actor. Alternatively, a business owner may take the “sociocentric” approach and identify a core group of actors working within the same sector or locality and seek to become a part of this structure. Either way, the focus quickly shifts to the relations attached to individuals rather than the wider structures that they form and it is these relations that are essential to social capital, local embeddedness and extra-local connectivity.

Mason (1997, p2) takes this interpretation a step further by acknowledging that "a network is unique to an individual" which again places individuals' relations at the heart of any analysis. He continues by quoting Mitchell (1973) who refers to the "fuzziness" of networks where "it is impossible to place boundaries around them," effectively dismissing the sociocentric notion of a delimited structure that can exist as a definable entity. "Unique" and "fuzzy" may seem contradictory but this contrast can be taken more as an illustration that individuals' networks are constantly changing as new contacts are made and others are forgotten. Networks, in this sense, are flexible patterns of relationships that develop over time among individuals and businesses alike. Although this may pose problems for studying networks in a quantitative manner, flexibility and the ability to evolve are critical features of networks as instruments of rural development.

Uzzi (1996, p675) describes a continuum where interfirm networks may be composed of a loose connection of firms or a finite, close knit group of firms. At any one time each individual will have a unique combination of relations including some loose and some close-knit connections. With this in mind, an individual's network cannot be placed at any one point along Uzzi's continuum, only each specific contact could be. The problem depends whether a network is seen as a group of firms that are inter-connected with particular shared interests or whether Mason is correct to individualise network relations. The two views have different implications. The appreciation of the uniqueness of each individual's network confirms how the intermeshing of very different groups of contacts can be achieved and the personal approach highlights how social and business contacts can become woven together through the individual actors themselves. This element is slightly overlooked by focussing on purely business networks where the network is seen to exist as a stand-alone creation with which individuals or businesses may or may not choose to interact.

Shifting the focus of "networks" away from sociocentric superstructures that exist within or across communities, we begin to see how individual relations not only provide a clearer unit for analysis but how the individual's pattern of relations will determine the opportunities that are available. If the individual is embedded in his or her locality, one would expect greater sharing of knowledge and greater opportunities for co-operation within that area, drawing on local stocks of social capital. If, on the other hand, the individual is less strongly embedded in the locality, more diverse relations can bring alternative advantages and through these local individuals it is hoped that a combination of each kind of benefit can become accessible in rural economies, and especially in rural economies where there is a mix of local and in-migrant business owners with the ability to call on such diverse networks of relations.

Although different terminology is used, a principal distinction drawn between types of relations is between strong and weak ties (Chell & Baines 2000; Atterton 2005) which are comparable to the concepts of bonding and bridging social capital (Putnam 2000). Strong ties provide the

unity that encourages co-operation, trust and reciprocity while weaker, arm's length ties are those that build bridges to new contacts and associated resources, opportunities and information. Chell & Baines note that weak-tie networking is associated with growth as it enables individuals "to reach actively and purposively outside his or her immediate close social circle and to draw upon information, advice and assistance from a large, diverse pool" (2000, p196). By contrast, they explain that although strong ties have stronger trust, these individuals are most likely to share contacts and information which "militates against the generation of new information and fresh perspectives to create and exploit business opportunities for growth and development" (*ibid*).

Uzzi uses the terms "embedded" and "arm's length" to describe the different qualities of ties that connect individuals. Arm's length ties conform more closely to the idealised neo-classical concept of rational market behaviour while embedded ties are based more on trust and social influences. Based on his definition of embedding as "the process by which social relations shape economic action in ways that some mainstream economic schemes overlook or mis-specify" (Uzzi 1996, p674), it is clear that strong ties are considered to be most associated with personal and social relations. By contrast "arm's length ties facilitate performance because firms disperse their business among many competitors, widely sampling prices and avoiding small number bargaining situations which can entrap them in inefficient relationships" (Uzzi 1997, p369). The language here is much more economic and the benefits are quite different from the predictable expectations, effective co-ordination and "thick" information exchange that can occur between firms with strong, embedded ties.

Sporleder & Moss (2002, p1349) use the terms "structural" and "relational" embeddedness to contrast largely impersonal networks with more personal, longer term relationships respectively (see also Gulati 1998). Interestingly they only mention social capital in connection with relational embeddedness, highlighting the importance of the continuing personal aspect of social capital. "Relational embeddedness is a dimension of the larger stock of social capital enjoyed by individuals or an organisation" (Sporleder & Moss 2002, p1349) with actors developing a shared understanding of the utility of certain behaviour as a result of discussing opinions in strong, socializing relations. "Cohesively tied actors are likely to emulate each other's behaviour" (Gulati 1998, p296), and by diminishing uncertainty and promoting trust, "cohesive ties can become a unique source of information about the partner's capabilities and reliability" (*ibid*).

Until now, the notion of strong and weak ties has not been considered in a spatial sense. The concept of local embeddedness implies that individual ties will strengthen in a local area through interactions with other members of that community and this can create social capital and in turn build trust, reciprocity and co-operation. The extent to which in-migrants maintain strong and weak extra-local ties while at the same time developing stronger local ties is

critical to the potential for increasing stocks of social capital and enabling valuable exchanges through their diverse relations. Where Neo-Endogenous Development advocates both local embeddedness and extra-local connections, the potential for in-migrants to stimulate local networks through the introduction of new strong and weak relations clearly merits more detailed investigation.

As this study is focussing specifically on rural businesses, the more formal and professional arenas must also be examined as the underlying motivations and the dynamics of relations here may be different. Barnard's incentive theory, for example, states that in formal business organisations "each participant will continue his participation in the organization only so long as the inducements offered to him are as great or greater (measured in terms of his value and in terms of the alternatives open to him) than the contributions he is asked to make" (March & Simon 1958, p84 -from Knoke, 1990). While this may be true, different participants will include different factors in their assessment of "inducement". Some might consider the financial costs and benefits while others may value the opportunities for social interaction, knowledge exchange and even the opportunity to offer help and support to other members, all of which is dependent upon the extent to which they feel embedded in the organisation and are able to share in its associated social capital.

This range of potential benefits or "inducements" that are available from network participation is highlighted by Rosenfeld (1996, pp261-262) who uses the terms "hard" and "soft" networks to contrast interactions between firms. Hard networks involve firms joining together to co-produce, co-market, co-purchase or co-operate in product or market development whilst soft networks involve problem-solving, information-sharing and acquiring skills. Hard networks are examples of more formal arrangements, usually requiring someone to initiate the co-operation and recognise potential gains from the outset, while soft networks are more voluntary and flexible. It is also specifically about more than just a dyadic relationship<sup>6</sup> so Rosenfeld is seeking the promotion of network structures that may, in time, develop to bring more actors together.

Huggins (2000) uses the terms "hard" and "soft" in a slightly different way. Although the formal and less formal distinction is retained he focuses more on the people than the specific activities of "hard" and "soft" networks. "The best network support consisted of brokers who are able to mix and overlap the hard business and softer social interests of participants" (2000, p132). Once again, there is a recognition that while different descriptions or categorisations of networks help our understanding of some of the motivations and processes that create them, no sets of relations fit exclusively into one group.

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<sup>6</sup> Rosenfeld takes Gelsing's (1992) definition "three or more firms that co-operate in order to gain strength of numbers, solve problems, enter new markets, or develop and produce goods" as the basis for discussion of 'hard' and 'soft' networks.

As with strong and weak ties, there must also be a continuum between hard and soft networks. Firms that operate closely together, possibly contractually linked for certain purposes, will see different benefits (and possibly drawbacks) from their relations compared to those that can share information on a more ad hoc basis. Rather than contrasting the relations themselves, it is perhaps helpful to contrast the motivations for perpetuating relations. With strong ties that are based on social links, such a question would seldom be consciously considered. The distinct characteristic of business-related networks, especially formally arranged groups that may charge a membership fee, is that individuals are asked to make a more conscious choice about their involvement. Once networks are formalised to this extent, theories of embeddedness and social capital begin to take a back seat. These social theories promote local involvement and community-mindedness on the basis of the value of self-creating and self-enforcing trust and reciprocity. Once paid organisations are able to regulate the behaviour of members, the purpose of the network becomes distinctly more practical and investment in them is more related to returns in the market place rather than common societal aspirations (Lin 2001).

Social capital is most effective where communities come about organically. "Where group membership is the result of individual choices rather than group decisions, the composition of groups is likely to be more homogeneous...thereby depriving people of valued forms of diversity" (Gintis & Bowles 2006, p387). Research into formal business networks has produced similar findings with networks being found to operate most effectively when they originate with minimal state or policy intervention (Laschewski *et al* 2002). Research in Greece (North & Smallbone 2006, p48) recognised that although, logically, initiatives designed to reduce costs and increase competitiveness through successful inter-firm co-operation should be welcomed, the lack of any tradition or interest in co-operative arrangements led to poor results. The difficulty of "creating" social capital or local embeddedness through exogenous policy demonstrates the need to understand individuals' relations and the existing endogenous relations than might already offer the potential for development.

Tiepoh & Reimer (2004, p430) provide a framework of four fundamental modes of social relations. "Market relations are those based on the exchange of goods and services within a relatively free and information rich context" and these tend to be short-term and based on the neo-classical assumption of economic behaviour. Bureaucratic relations are impersonal and formal relationships based on a rationalised division of labour, authority structures and regulation. Moving to less formal relations they describe "associative relations" as those that are typically informal, voluntary and surround shared interests, and "communal relations", as typically family and close friendships. Both of these can help to generate market relations through which trade can occur and, equally, through regular interaction, transactional and other business relations may develop increasingly social characteristics through which added

trust can accrue. The flexibility of relations and their potential to transfer many resources and opportunities demonstrate the importance of local embeddedness and extra-local connectivity. The same authors also acknowledge that the crossover of relations can create problems as social influences and responsibilities can create market inefficiencies and "market-based social relations are often viewed with suspicion by friendship circles or voluntary groups" (*ibid*, p431).

Despite these different categorisations of networks, in each case it is apparent that the potential advantages are all generated by interactions between people. In order to study these relations amongst rural business owners, it is important to be clear about the occasions where the relevant interaction occurs and from here it will be possible to elicit how individuals benefit, the extent to which they are purposively seeking such benefits and the regularity with which these interactions occur. In a study of rural areas and migration, it is also important to examine the spatial dimension of these interactions to understand the implications of different relations in contemporary rural communities.

### **3.8 Formulating a Typology of Relations**

Within the different uses and interpretations of the term "network" there appear to be three quite clear distinctions between business and non-business relations, strong and weak ties and local and extra-local relations. For different individuals, the composition of these relations will vary depending on their personal histories and the nature of their businesses.

This chapter has demonstrated that connectivity is important for building social capital but that in an economic sense, it is the exchanges that are facilitated through diverse social relations that are most significant. The following categories of relations can be seen to facilitate increasingly valuable exchanges based on more frequent interaction, closer acquaintance and higher levels of trust. On this basis, it is tempting to describe a hierarchy of relations but the development of stronger relations is unlikely to follow prescribed stages. Any of the first four levels of acquaintance are almost certainly prerequisite for reciprocal or contractual business relations to develop but it is wrong to make other assumptions at this stage. Rather than a hierarchy, it is described as a typology of relations and each category is described in Figure 3.1 below.

**Figure 3.1. Defining a Typology of Relations**

Transactions/Market Relations – One-off or infrequent financial exchanges between two parties, either individuals or businesses. No personal contact is required but acquaintances may develop through more frequent exchanges. Transactions may occur similarly between parties that are geographically close or distant.

Community Relations – Friends, neighbours and acquaintances accrued from living in a local area. These may develop through membership of clubs, societies, non-business organisations or from aspects of daily life such as using local services, taking children to school or simply talking to neighbours. This could include people from previous communities as well as in the current area of residence.

Close Friends and Family – These are considered to be relations with stronger emotional associations and therefore higher levels of trust and reciprocity. Individuals may speak more frequently and be prepared to help each other more. The geography of these relations will vary depending on the course of an individual's life.

Informal Business Relations – Businesses co-operating together, bilaterally or multilaterally, in order to gain knowledge, improve working practices, improve their access to markets, reduce transactions costs, share training facilities, etc. Business owners may meet in more social or more formal environments but the business is the motivation for coming together. These would tend not to be contractual or involve trade but may exist alongside transactions or economic relations.

Reciprocal and Contractual Business Relations – These are groups of businesses or business-client relations that involve the flow of goods and services in exchange for monetary consideration. Businesses may conduct regular trade and rely on each other's orders/sales within the course of their business. They may also work together through joint marketing, co-production, cross-recommendations etc. This depends on a large amount of trust between the actors and this trust may come from formal contracts or the development of long-term social relations where mutual trust becomes implicit.

The following table highlights some of the key features of each type of relation that offer potential advantages to businesses and therefore to local economies. The identification of these different relations and understanding the impact of different types of social capital both help to crystallise the research questions and shed light on the methodological approaches that are discussed in the next chapter.

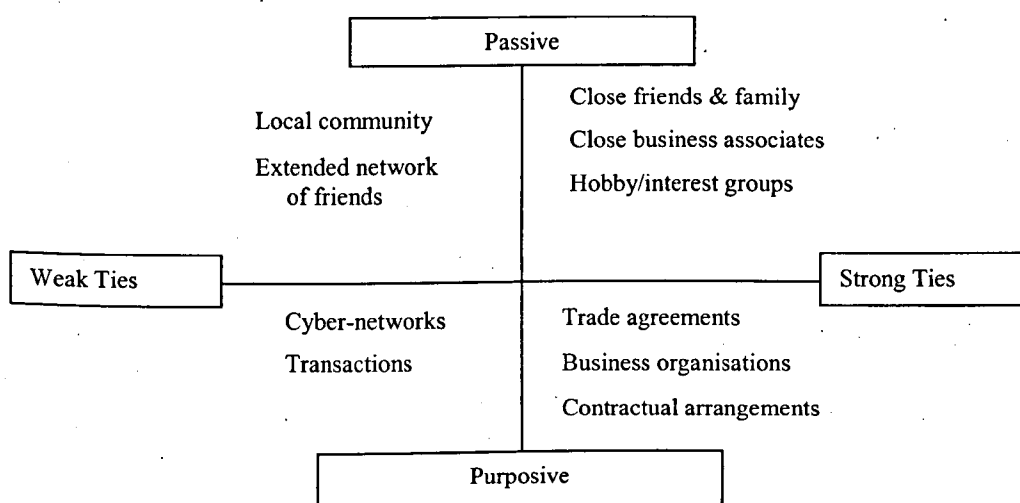
**Figure 3.2. A typology of relations and associated exchanges**

Type of Relation	Exchanges/outcomes from the relations
Transactions	Trade of goods and services for money Spreads awareness of the business May include face to face meeting
Community Relations	Inter-personal support Local knowledge Reputation Personal or business recommendations Contacts with other people
Close Friends and Family	Personal/emotional support Financial support Personal and business advice Time/work in the business - flexibility Contacts with other people
Business Relations	Exchange of business knowledge and advice (this may be sector specific, customer needs, supplier information, employment issues, market opportunities, skills and training, finance/funding) Inter-business trade Contacts with other people
Reciprocal/Contractual Relations	Exchange of business knowledge - tacit knowledge, experience & innovations Sharing forms of capital (e.g. machinery, labour, premises) Regular trade Collaboration on joint projects Sharing valuable contacts and clients

Business owners are likely to have relations that fit into each of these categories and throughout the research it will be important to identify where different relations have materially impacted upon the business. Also, the geography of these different relations is particularly significant for Neo-Endogenous Development in rural areas as connections outside of the locality can provide key opportunities and advantages and from the literature we have learnt that both strong and weak ties provide different benefits. Within the locality this is also true as strong ties provide trust and solidarity but weaker ties are important to welcome new members into the community and avoid the dangers of introvertedness or over-embeddedness.

As the diagram below illustrates, it is possible to think of the continuum between the purposive and passive actions on one axis and the relative strength of ties on the other with different relations or individual interactions placed in the resultant quadrants. The origin and the strength of relations are important factors in determining their value to business owners as different levels of trust and reciprocity and different commonalities will exist between the individuals concerned and these in turn will influence the exchanges and interactions that occur between them.

**Figure 3.3. Categorising strong and weak, purposive and passive relations**



Business owners are likely to have relations that fit into each section of this graph. Some will be the strong ties that are associated with bonding social capital or "the glue that binds people together" (Putnam 1993, p23) while others will be weaker ties, associated with bridging social capital, offering different opportunities for growth or learning. For local economies, and especially those in more peripheral regions (Copus & Skuras 2006), these different forms of connectivity are critical for economic development as they enable local resources to be used most effectively and provide access to external resources without reliance on exogenous state policies that we have seen to be inefficient and unsustainable.

### **3.8 Conclusions**

Throughout the research, the concepts of embeddedness and social capital will be used to inform analysis of the networks that influence business activities and the typology described above will be used to guide the design of suitable questions that can investigate when and how these diverse networks are used. To date, the most significant work on social capital has revolved around education, health and well-being but it is clear from this chapter that it is also highly relevant in business circles. A rural economy with small businesses that are often integrated with family life and rural communities is an appropriate study area, especially at a time when rural economies are changing and seeking new bases for development. The next chapter details the research methods used to address the questions regarding the role of in-migrants, businesses and networks in rural development and the themes set out in this chapter will then be revisited in the light of the subsequent results chapters.

## **~ Chapter 4 ~**

### **Research Questions and Methodology**

#### **4.1 Introduction**

Chapter 2 set out the theoretical underpinning of Neo-Endogenous Development and explored the nature of the modern rural economy as well as the changing characteristics of the rural population. Chapter 3 then sought to develop the underpinning concepts of Neo-Endogenous Development with a review of the literature on embeddedness, social capital and business networks. From these chapters, we can understand many characteristics of the modern rural economy and this has highlighted the important question concerning the socio-economic role of in-migrants in rural areas. These chapters have also raised certain new questions that merit attention at this stage so each of the three central questions are re-visited below to assess their scope and ensure that all of the key issues are addressed. This also helps to determine the nature of the data that is required to provide answers and to allow the most informative analysis. Section 4.2 proceeds to describe other researchers' approaches to studying rural business activity and guides the design of suitable research for this thesis. Section 4.3 then describes analysis of an existing dataset before the methodology for new data collection and analysis is described in Section 4.4.

#### **4.2 Re-examining the Research Questions in light of the Literature Review**

In Chapter 2 it was concluded that neo-endogenous rural development requires actors in a local area to possess both the ability to realise development locally and the capacity to interact positively with extra-local factors. The literature on NED emphasises the importance of extra-local factors but, as yet, there is little analysis of the actors and networks that facilitate this interaction. Chapter 3 provided a detailed overview of the existing literature on networks, embeddedness and social capital but this diverse literature is derived from equally varied backgrounds. For this research, it is important that the key aspects of the literature are interpreted in a meaningful way that can be applied to rural businesses and shed light on the patterns and nature of connectivity within the rural economy. NED demands such connectivity at local and extra-local levels and one interface between these arenas is provided by rural in-migrants. With the trend of counterurbanisation still increasing (Countryside Agency 2006), these rural in-migrants are therefore at the heart of this research.

The literature on counterurbanisation explains that employment-related decisions are often highly significant determinants of migration (Halfacree 1994; Stockdale & Findlay 2004) but the number of counterurbanites that proceed to work in rural areas or set up their own businesses is less certain. Also, the work and lifestyle motivations of in-migrants whose business activity is based in the rural area may differ from local people or in-migrants who commute to an urban workplace so this requires further investigation. Rural in-migrants may retain contacts from their former places of work and communities, they may have experiences and skills that are less common in their new rural locality and the fact that they have moved could suggest that they are more outward-looking, mobile individuals (Atterton 2005; Kalantaridis & Bika 2006b). If these in-migrants do engage with the local economy, these factors could all be seen as positive attributes for the local area and not just for the individuals concerned. The hypotheses that in-migrants' extra-local contacts, their education and work experience and their individual characteristics and motivations can all enhance rural economies are explored in Chapter 5. From this basis, it is possible to examine the extent of the extra-local contacts that are retained, the nature of these relationships and whether they strengthen or weaken over time.

The second group of questions relating to in-migrants concerns the benefits that their contacts and relationships bring to the local economy and how accessible these attributes are to other businesses in the local area. In addition to extra-local contacts, this requires an understanding of local embeddedness and the motivations for local engagement. The research questions therefore set out firstly to compare the characteristics of local and in-migrant business owners, secondly to examine the economic contribution of in-migrants and their businesses and thirdly to explore the integration of in-migrants into local economies. Focusing on this integration will enable further analysis of the flows of information and expertise, goods and services, finance and innovation and the access to new relations or new markets that are associated with in-migration.

*Research Question 1: How do the characteristics of in-migrants and their businesses compare to local people and their businesses?*

A dominant demographic trend in the UK is counterurbanisation, defined as an inversion of the traditionally positive relationship between migration and settlement size (Champion 1989). It is not just movement from urban to rural areas but the net trend includes a range of migrants who may come from other rural areas as well as larger or smaller, closer or more distant urban areas (Halfacree 1994). Beyond his definition, Champion has also described a counterurbanite as someone who assumes "a lifestyle which, if not identical with the traditional rural way of life, should essentially be the modern equivalent of it" (1989, p27). Perceptions of "a traditional rural way of life" and the extent to which "rural" was either a

personal or business motivation for moving can provide a further insight into the attitudes of different business owners.

Counterurbanisation is, in many areas, associated with a steady increase in both the age and wealth/social class of rural residents (Cloe & Thrift 1990; Hoggart 1997; Champion & Shepherd 2006). It will be useful to compare this for business owners to determine if the same trends exist or if the rural business community displays a different composition. To address this, the research will seek to establish the motives for establishing a business, including the extent to which locals and in-migrants become entrepreneurs through necessity or through opportunity (GEM 2006). One might assume that those with the ability to move also have a greater opportunity to be entrepreneurial, but local people with knowledge of local resources and markets will also have entrepreneurial opportunities. Understanding how these different business opportunities develop will help to provide a more detailed picture of rural economies. Where in-migrants are significantly wealthier (Champion *et al* 1998), any boost to the local economy may be partly offset by the fact that local people cannot compete for property prices (Gilligan 1987; Knight 2005) and become alienated from their home settlements. In-migrants may also have a dominating influence over local affairs in such cases, so it is important to be aware of potential negative as well as positive impacts.

Analysis should also seek to compare the education and work experience of business owners and their sources of knowledge and training to identify whether local or in-migrants have different abilities that can benefit their businesses. A further question raised by the literature on counterurbanisation is whether in-migrants and local people have different perspectives on the strengths and weaknesses of rural areas for their businesses. We know that the majority of counterurbanisers cite the quality of living (Halfacree 1994) as a primary reason for moving so it might be expected that they take a more positive view for their businesses as well and these positive associations could be built upon to improve the wider perception of the rural area for economic activity. Raley & Moxey (2000, p35) explain "the majority of returnees or in-migrants had not moved into the area with the intention of starting the firm – this was a subsequent decision". One might therefore expect that those moving with a clear intention to start a business will select their destination with reference to its business potential, while those running "unplanned start-ups" may have different views.

Research Question 2: What is the contribution of in-migrant businesses to local rural economies and how does this compare to indigenous businesses?

The literature and the data available from the microbusiness survey indicate that in-migrants are creating jobs, seeking growth and becoming involved in local rural markets (Raley & Moxey 2000). This is backed up by more recent work by Stockdale & Findlay (2004) and the Commission for Rural Communities (2008). What is less clear from these findings, however, is the processes that lead to business formation, job creation and growth aspirations. This raises further questions about the time it takes for migrants to establish businesses, the distances that they move and whether their place of origin affects the dimensions of their economic and social networks.

Based on their owners different life courses, rural microbusinesses can be grouped into three categories. The first group are the "Local Businesses" which refers to those owned by non-migrants. The second group are "Planned Start-ups" whose owners moved with a clear intention to establish a new business. This could be broken down into those whose owners planned to start immediately and those who had a longer term plan. For the purposes of this research, this group would also include business owners who move an ongoing business or establishing branches or secondary sites. The third group are "Unplanned Start-ups", whose owners had no business plans when they move but, for whatever reason, become business owners. When referring to the different business owners, the terms "local", "planned in-migrant" and "unplanned in-migrant" will also be used.

This research seeks to explore in more detail how engagement with and contributions to local rural economies may differ between these different categories of business owners. An understanding of the pathways that lead in-migrants to be running businesses can help to clarify this. It can also enable us to attempt to identify the times at which businesses begin to take on staff and realise growth, an important factor if policy is seeking to stimulate economic growth through new business formation which may be partly led by in-migration.

Although data is available on job creation, income, new firm formation and growth (Raley & Moxey 2000; Stockdale & Findlay 2004; Countryside Agency 2002 & 2003; Defra 2005; Bosworth 2006), the extent to which new firms displace existing businesses and the ways that these firms source their employees are less clear. There is little evidence on the micro-level labour market implications of in-migration and the majority of this work focuses on the movement of labour rather than employers. For rural development, it is important that new types of jobs are provided that can be filled by local people and that can provide new skills to the economy. As employees move between jobs, they might also build up new networks and transfer different knowledge between businesses. We might also think about spin-off jobs in other businesses that are boosted by new firm formation, especially associated with in-

migration. Each of these issues can be investigated by assessing the attitudes of business owners, the extent to which they value and integrate into the local economy and by asking direct questions about competitors, trading relations and recruitment.

Where other firms benefit from the establishment of a new firm, this is an example of a multiplier effect. It will be very difficult to gather sufficient financial data to elicit trade multipliers although some analysis of trade patterns has been possible from the existing database. Investigation of individuals' networks can provide a very useful insight into the extent of trade and other interactions that occur between businesses within and beyond rural economies. The amount of trade and knowledge exchange between different groups of actors can then highlight the extent to which business owners are integrating into the local economy, retaining or developing extra-local linkages. If new income is generated by local businesses and this is spent within the local area, there will undoubtedly be a positive multiplier effect and, furthermore, if individuals become embedded into their local community, we can hypothesise that this will influence their patterns of trade resulting in a higher local multiplier.

Kalantaridis & Bika (2006a) found that in-migrants were more successful than local business owners at penetrating international markets. Re-analysis of the CRE microbusiness database illustrated this for regional and national as well as international markets (Bosworth 2006). Raley & Moxey (2000) found that in-migrants tended to enter different business sectors to those traditionally populated by local people and Atterton's (2005) research found that in-migrants had to be more adaptive, providing greater opportunities for trade and innovation. With a combination of quantitative and qualitative methods, this research can provide a clearer understanding of these statistics and explore more deeply the underlying reasons for the differences between local and in-migrant business owners as well as assess the benefits associated with rural in-migration.

*Research Question 3: To what extent do in-migrant business owners participate in local networks and enable the transfer of knowledge, expertise and trade within the local economy?*

Chell & Baines (2000) argue that it is important for individuals' networks to consist of both strong and weak ties (see also Shaw 1997). They conclude that strong ties, primarily family and close friends, offer support whilst weak ties are those contacts that bring new resources into a business and enable it to develop. Although phrased differently, there is a clear parallel between strong and embedded ties (Uzzi 1996), where acquaintance, trust and reciprocity are stronger, and weak or arm's length ties where these features are less strong.

The literature on different types of business relations is fairly well developed but there has been no attempt to compare the composition of relations associated with in-migrant and indigenous business owners. With this in mind, the research will examine whether and how in-migrants business relations differ from those of locals. This should also provide a framework to examine whether, over time, in-migrants' patterns of relations become more similar to local people. Also, the distinction between strong and weak ties will be very useful when considering the integration of in-migrants and locals. The literature on social capital (principally Coleman 1990; Putnam 1993; Woolcock 1998; Field 2003), which emphasises the importance of developing trust and reciprocity over time and especially the need for frequent and close contacts, would lead us to expect recent in-migrants to have fewer strong ties locally. This research will examine how stronger ties might develop locally as well as considering the time scales and spatial distances that influence the continuance of former relations and the implication of these upon the building of newer ones.

The concept of social capital could be interpreted to imply that actors have a social or community-minded motivation to become involved locally (Putnam 2000, p116) but local participation might also be more selfishly motivated. Jack & Anderson (2002, p468) described entrepreneurs becoming embedded to "pursue and exploit commercial opportunities," explaining that, "it is more than simply developing social networks. Embeddedness involves: understanding the nature of the structure, enacting or reenacting this structure which forges new ties and maintaining both the link and the structure".

Whether we are talking about social capital, embeddedness or local networks here, the rationale for local involvement is at the heart of this discussion and qualitative research can seek to understand the real reasons that both local and in-migrant business owners get involved. As well as finding out whether it is personal, social or business reasons, and whether it is selfish or altruistic, it will be possible to examine what can be gained from these different relations and whether there are different times during the course of a business that lead owners to participate in different groups in different ways. This research will explore the hypothesis that there are both "purposive" and "passive" forms of networking activity that can lead to individuals becoming embedded into their local communities. It will also consider the implications of these different modes of action.

While it is important to examine the participation of in-migrants in local networks, we must also seek to establish whether there are particular tensions between locals and in-migrants that affect this integration. Such difficulties are unlikely to be uniform and may vary between localities and business sectors and will also have very personal components. Atterton (2005) and Phillipson *et al* (2006) recognised that in-migrants were more involved in formal networks. Atterton saw this as diluting the traditional embedded networks but Phillipson *et al* also acknowledged the creation of such business groups as a potentially positive step. It is

therefore important to explore both positive and negative outcomes with a specific focus on the implications for business activities and business relations.

As well as exploring the development and the shape of networks and the rationales for embeddedness, it is important to investigate the extent to which knowledge and resource transfers occur as a result of this connectivity. The final stage of the results will therefore examine critical incidents where business owners are learning key information, new skills or valuable trading opportunities that have a clear benefit to their business. The geography of these contacts can help to identify whether in-migrants become more locally focussed over time and the extent to which they maintain and use extra-local networks. By assessing the strength of these fertile relations and whether they are more associated with the individual or their business, it will be possible to understand more about the different outcomes associated with different forms of networks.

The questions raised here are all tackling new ground. The literature explains the value of social capital and embeddedness but there is little evidence as to how quickly individuals are able to benefit from participation and thus how quickly the local economy can benefit from the injection of new resources associated with in-migrants. As well as social capital, the extent to which the other "immobile resources" of cultural and environmental capital (Terluin 2003; Bryden 1998) develop and become accessible to in-migrants might also be considered. By tackling the issues regarding in-migrants establishing business and participating in social and economic groups both locally and extra-locally, this interface as well as their businesses can be better understood and enable policy-makers to identify points where support could be most effective.

#### **4.2.1 Extrapolating Sub-Questions**

In summary, the different ways that local and in-migrant business owners engage with the local business community is important not only for community cohesion but also for the sharing of trade, knowledge and contacts between businesses. The characteristics of different business owners are expected to influence the ways that they engage and the attributes that they bring with them. The economic impact of in-migrants has particularly important policy implications as local agencies will want to establish the types of new business that are successful in their locality. If in-migrants are not having a positive impact, the negative elements of counterurbanisation may be more important in the eyes of policy-makers. A rich insight into the characteristics of different types of local and in-migrant business owners and an assessment of the economic contribution of in-migrants provides the essential foundation for examining the interactions between the different groups. The table below summarises the key sub-questions that must be addressed to provide answers to the

research questions discussed above and the chapter then continues by exploring the most appropriate methods for addressing these issues.

**Figure 4.1. Expanding the research questions**

Core Research Questions	Sub-questions
How do the characteristics of in-migrants and their businesses compare to local people and their businesses?	<ul style="list-style-type: none"> <li>• What pathways led individuals to be running their businesses? Necessity or opportunity entrepreneurship?</li> <li>• Do local and in-migrant business owners have similar motivations for starting and developing their businesses?</li> <li>• Are in-migrants more likely to be self-employed or work from home?</li> <li>• Which businesses are the primary income providers for their owners' households?</li> <li>• What age are the owners of each category of business?</li> <li>• What is the educational background of local and in-migrant business owners?</li> <li>• Does "rural" mean the same to locals and in-migrants?</li> </ul>
What is the contribution of in-migrant businesses to local rural economies and how does this compare to indigenous businesses?	<ul style="list-style-type: none"> <li>• How many jobs, and what type of jobs are provided by each category of business owner?</li> <li>• How much income is generated by different types of businesses and where does their trade take place?</li> <li>• Are in-migrants generating a positive multiplier effect and providing trade for other local businesses?</li> <li>• Do local and in-migrant business owners have similar growth aspirations?</li> <li>• Which sectors are benefiting from in-migration?</li> <li>• Are local firms being displaced by in-migration?</li> <li>• Which businesses are most innovative?</li> </ul>

<p>To what extent do in-migrant business owners participate in local networks and enable the transfer of knowledge, expertise and trade within the local economy?</p>	<ul style="list-style-type: none"> <li>• How do the patterns of social and business networks of local and in-migrants compare?</li> <li>• What benefits are realised from participation in organised business networks? Are there also costs?</li> <li>• How do individuals' social networks affect their businesses?</li> <li>• Why do people participate in different networks? Is it personal, community or business-led motivations and are there selfish or altruistic reasons? Is integration passive or purposive?</li> <li>• Over what time period do in-migrants patterns of networks become more locally focussed?</li> <li>• Do in-migrants have and retain more extra-local contacts and does this influence their business arena?</li> <li>• Are local people able to benefit from in-migrants' wider business networks and other forms of human capital?</li> <li>• Are specific skills, trade secrets, knowledge and market opportunities exchanged and capitalised on through participation in networks?</li> <li>• Does networking lead to businesses working together through formal or informal co-operation, co-marketing or co-production?</li> <li>• Are in-migrants stimulating more local business networks?</li> <li>• Is in-migration contributing to NED?</li> </ul>
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#### **4.3 Researching Rural Businesses and Entrepreneurship**

This section proceeds to examine how different approaches have been applied to the specific pursuit of researching entrepreneurship and small businesses. Economic data is readily available for regional or national studies but difficulties arise when the research requires data about contested issues such as entrepreneurship, innovation and networks. With some uncertainties regarding their definitions, we must first establish the key facts that are required and then identify the people that can best provide this data and the methods by which it can be most effectively obtained.

Shane & Venkatamaran investigated research of entrepreneurship in an attempt to provide a conceptual framework that they felt was previously lacking. Defining entrepreneurship as being concerned with “the discovery and exploitation of profitable opportunities” (2000, p217) they emphasise the importance of researching both “the presence of lucrative opportunities and the presence of enterprising individuals” (*ibid*, p218). Such an approach highlights the limitations of defining an entrepreneur as any individual who sets up a business or defining an entrepreneurial region where there is insufficient human capital to take advantage of profitable opportunities. This is not to undermine smaller businesses that are not growth oriented, but it highlights the importance of business survival and business development rather than relying on statistics for the number of business starts as a proxy for entrepreneurship.

In this research there will be many different opportunities for entrepreneurship across the rural North East but we must ask the question “why do some people and not others become entrepreneurs?” Shane & Venkatamaran describe two broad categories of factors that influence individuals’ likelihood of discovering particular opportunities. These are “information corridors” and “cognitive properties” (*ibid*, p222) and describe the ability to access the necessary information regarding entrepreneurial opportunities and then the ability to understand and assess the potential value of those opportunities. Through the course of this research, data on connectivity and knowledge exchange as well as education, training and work experience can begin to demonstrate how individuals are able to become entrepreneurial.

Davidsson (2004, p6) chooses a succinct but somewhat unspecific definition of entrepreneurship, saying that it “consists of the competitive behaviors that drive the market process”. The reason for including it here is that it involves both behaviour and outcome. The micro-level behaviour of entrepreneurs must generate effective outcomes if they are to impact upon the wider economy and similarly, research into rural development must also concern both the processes and outcomes associated with rural business activity.

He continues to explain that research into entrepreneurship raises three central questions concerning: "1) why, when and how opportunities for the creation of goods and service come into existence; 2) why, when and how some people and not others discover and exploit these opportunities; and 3) why, when and how different modes of action are used to exploit entrepreneurial opportunities" (2004, p19). Following this logic, it is important for this research to examine the local context that might provide opportunities and the connectivity to other sources of opportunities. To address Davidsson's second point, we must examine the background of the individuals who may or may not discover and choose to pursue these opportunities and finally we must understand the other actors that are involved in the process and enable entrepreneurship to happen. At the regional level, statistical analyses can describe certain characteristics of rural business owners but only through deeper questioning can Davidsson's third point be investigated as this depends on the motivations of individuals, their contacts and their personal entrepreneurial abilities.

North & Smallbone (2000, pp147-148) describe five dimensions of innovative behaviour as the benchmark for assessing the innovativeness of businesses. The first dimension concerns the development of new or innovative products and services, the second is about developing new markets (both in terms of the type of customer or the geography of the markets), the third concerns innovative marketing methods, the fourth considers innovative technology used in the process and the fifth is about the use of IT in administration. While this research is not attempting to assess the relative levels of innovation among different firms, these five dimensions highlight key points in the development of businesses that can provide the focus for interviewing. By understanding individuals' motivations, their contacts and their decisions associated with different stages of innovation and business development, it is possible to establish the significance of specific personal factors and the value of different networks to each business owner.

As well as data on economic factors and the relations of local business owners, this research relies on data about the history of individuals running businesses. The critical distinction is between local and in-migrant but we must be aware that there are many types of in-migrant business owners. The opening of borders to Eastern European nationals has seen a proliferation of research into the impact of these migrant workers which is quite different to research into counterurbanisation. For this research the quantitative survey provides valuable data regarding the origins of business owners but subsequent interviews can enrich life histories and seek to understand the reasons for people moving, whether this is connected to business motivations and the ways that in-migrants assimilate into their new surroundings. Halfacree (1994), Stockdale & Findlay (2004) and Champion (1998) have tended to focus on statistical data for analysing trends of counterurbanisation so there is undoubtedly a need to understand more about the people that make up these statistics as we can expect that they will have a wide range of characteristics and personal stories.

Having decided the nature of the information required, it is important to establish the people who are best placed to provide it. Uzzi (1997) interviewed both chief executives and staff at 23 women's better dress firms in New York. By choosing a sector dominated by smaller firms, it was expected that senior managers would be involved in all key aspects of the business so be able to answer a wider range of questions. Johannisson *et al* (2002) also selected a small cluster of similar firms to enable the relations amongst members of the cluster to be analysed more closely. Phillipson & Laschewski (2006) selected a small number of business owners in two separate towns to enable them to study the internal networking dynamics. Kalantaridis & Bika (2006b) elected to extend their interviewing to include "key informants" such as business support providers and development officers.

This research includes survey data from a much wider geographical area so it is not possible to carry out a detailed analysis of small local networks. Also, with the focus of the research on extra-local connectivity as well as local embeddedness, it was felt that individual microbusiness owners would be well placed to speak about their experiences of all types of relations. Similarly, although "key informants" are able to provide a different angle, it is the attitudes and activities of the entrepreneurs that are most important and therefore entrepreneurs' perceptions of "key informants" are considered to be more valuable.

For this research a similar assumption is made to that of Uzzi, whereby microbusiness owners are expected to have a holistic understanding of the activity of every part of their businesses and its history. It is considered that they are able to discuss their staff, competitors, suppliers and consumers as well as their non-business relations. They will also be able to explain the motivations that led them to establish or take over a business, the speed at which it happened and the problems and successes along the way. Such a rich account would not be obtainable from other sources and it was therefore decided that this research would be most fruitful if an appropriate sample of business owners was used.

When researching entrepreneurs, we must be aware that our sample group will always incur a success bias (Chell & Baines 2000; Davidsson & Honig 2003) as it is very difficult and unusual to include failed business starts in such work. As research is generally looking to promote the positive aspects of entrepreneurship, however, this is not seen as a weakness although a contrast with failed entrepreneurs could provide interesting additional material for future research. Davidsson & Honig also explain that respondents may suffer memory decay, hindsight bias, or rationalisation after the event with the risk that "outcomes are attributed to factors that were not truly present at the time" (2003, p311). Although this cannot be avoided, the fore-warned researcher can overcome such difficulties with well-structured questions and carefully considered analysis.

As well as identifying the right people to speak to and the best location for the research the size of the sample is also important. Statistical techniques demand high numbers of responses but with qualitative interviews, a broad range of sample sizes have been successfully used. Jack & Anderson (2002) felt that research concerning individuals' attachment to the local area and their local embeddedness required depth interviews conducted over a three-year period. Although their fieldwork was restricted to seven entrepreneurs, they were able to interview business owners two or more times and this provided meaningful insights and rich details and description that continually generated hypotheses for further testing throughout their research. Others have conducted face to face interviews with 23 (Uzzi 1997), 42 (Philipson *et al* 2006a) or 104 (Chell & Baines 2000) business owners, all with successful outcomes. This research has the advantages that a small sample of businesses were interviewed as part of a pilot study and there is a considerable quantity of statistical data available, both of which enabled the final interviews to be well structured and focussed upon clear research goals. The number of interviews is therefore best assessed according to the different categories of businesses that are required in the sampling frame and this is discussed in Section 4.5.1 ahead.

Kalantaridis & Bika (2006a, p114) draw a distinction between the importance of qualitative methods for researching "soft issues" and the meanings that lie behind actions with the need for quantitative surveys to include larger samples of rural business owners. Other authors have found that a combination of large sample surveys and deeper interviews with fewer respondents have provided the most valuable insights into rural business activity as this can provide extensive contextual data from which smaller samples can be selected to address specific aspects of the research (Chell & Baines 2000; Huggins 2000; Stockdale & Findlay 2004; Totterman & Sten 2005).

This confirms that a mixed methods approach is suitable to address the questions in this thesis and past work demonstrates that such an approach can deliver valuable results. Atterton's (2005 & 2007) study into the networking patterns of small businesses in Northern Scotland used a similar mixed-methods approach with questionnaires posted to 1,000 firms and semi-structured interviews with 20 businesses and related organisations. In her research, three contrasting towns provided the focus for sampling and this enabled detailed investigations into the internal network structures as well as the external connectivity associated with each town. This research is more concerned with individual business owners, their backgrounds and their egocentric network patterns so a regional sample that ties in with an existing database of microbusinesses provides the most valuable range of data to address the central questions and compare local and in-migrant business owners.

Stockdale & Findlay (2004) also found that in-depth interviews were essential to supplement the information gained from a questionnaire survey. For their research, the qualitative angle

was especially insightful regarding the impact of migration and given that my research is concerned with both networks and migration in the rural economy, it is clear that successful interviews would provide a vital component of the necessary data. The next sections therefore explain how both qualitative and quantitative methods were employed to investigate the characteristics of businesses, the background and human capital attached to their owners and the networks, co-operation and social capital that can provide links to information and opportunities for entrepreneurship which in turn can stimulate neo-endogenous rural development.

With a mixed methods approach, a geographical focus was required to minimise the number of variables and the selection of the North East was based on a combination of reasons. As a region, it has some of the most rural districts as defined by Defra's (2005a) classification of rurality yet it also has a mix of commuter settlements with connections to the Tyne and Wear conurbation and more remote areas. The North East is also the poorest region in England (European Commission 2002) and with an agricultural heritage based on pastoral farming and a high proportion of upland grazing both farming and tourism were badly hit by Foot and Mouth Disease. Policy focusing on city regions therefore leaves the rural North East marginalized at both the national and regional level with the result that new vehicles for rural development are required. The existence of a database of microbusinesses in this region also provided valuable data that could be used as part of a mixed methods approach.

#### **4.4 The Rural Microbusiness Survey in the North East**

The rural microbusiness survey was conducted by a team at the Centre for Rural Economy between September and December of 1999. Several publications have presented analysis of this survey data (Raley & Moxey 2000; Bennett *et al* 2001; Phillipson *et al* 2001, 2002, 2002a, 2006; Laschewski *et al* 2002; Oughton *et al* 2003) but there has been no specific focus on the impact of migration patterns on the performance of the region's rural economy. With such a wealth of data, it is important that this survey is used to maximum effect so it was decided that this would be more valuable than conducting a new survey for the purposes of this research.

Recent evidence states that there was virtually no growth in the VAT registered business stock in the North East region between 1994 and 2003 (One NorthEast & Shared Intelligence 2006, p12) and studies from both the mid 1990s and mid 2000s indicate that up to two-thirds of new firms are started by in-migrants (*ibid*, p13; Keeble & Tyler 1995) suggesting that the 54.2% of firms run by in-migrants in this survey remains a fair representation. Also, individuals' motivations for running businesses, their opportunities and threats and the patterns of business activity in the countryside are considered to be broadly similar between 1999 and 2008. As the focus of this research is not specifically about the number of

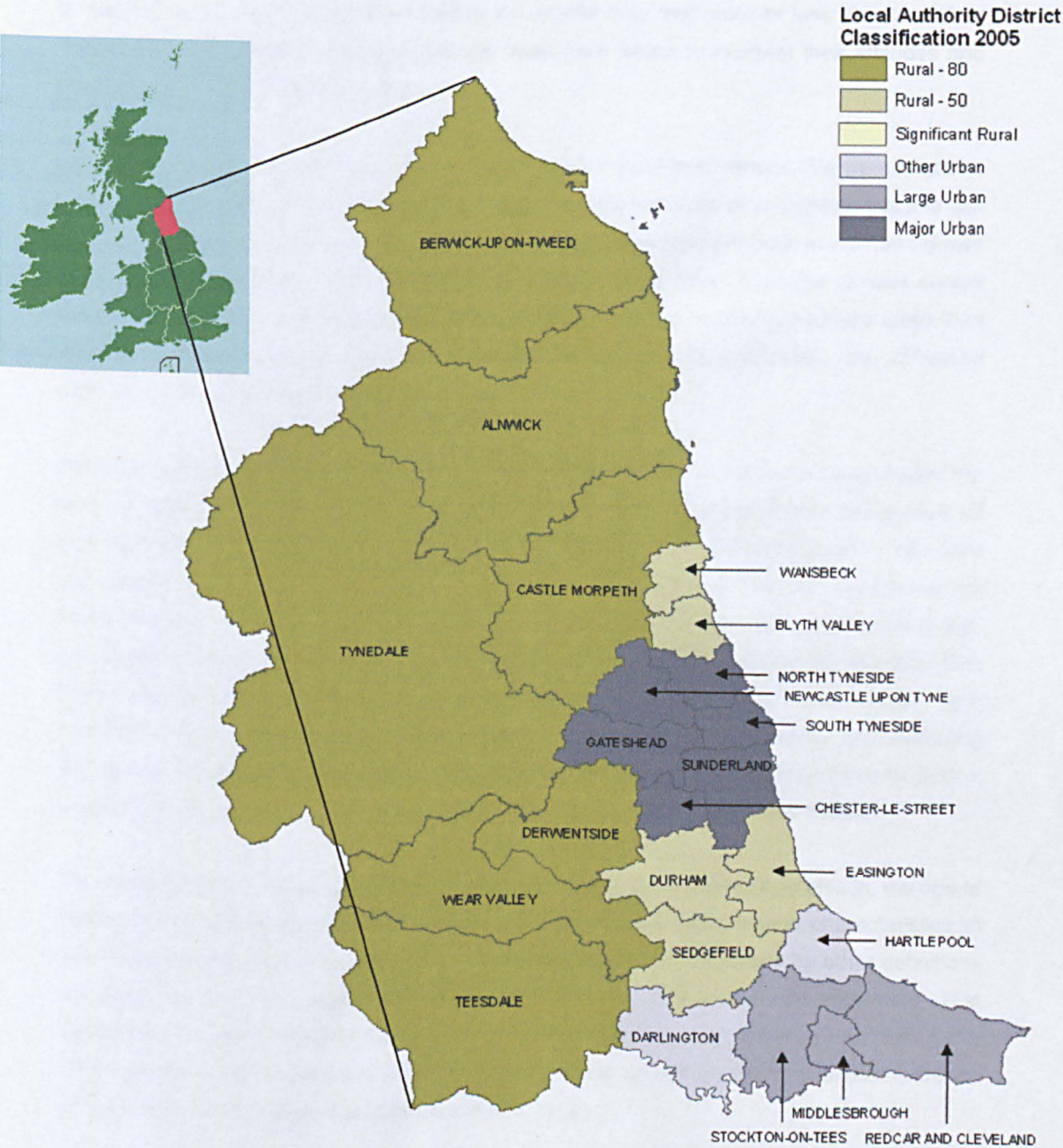
businesses but a comparative analysis of the behaviours of local and in-migrant business-owners, the age of the statistical data is therefore not considered to be a weakness.

Raley & Moxey's original report (2000) includes a copy of their original questionnaire sent to non-farm businesses. These Businesses were sampled from a variety of sources including Business Link business directories, District Council databases and the Northumbria Tourist Board. The decision not to rely on government statistics meant that the sample was able to reach smaller, unregistered businesses which it was felt would display a more accurate picture of the rural economy.

From 5,314 addresses, 1,294 usable returns were received from businesses across Durham, Northumberland and the Tees Valley. In 2004, there were 9,049 registered businesses in the region's rural areas, of which 84% were microbusinesses (Countryside Agency 2005). We can therefore estimate that there are some 7,600 microbusinesses in the rural North East and the survey data used for this research has 1,294 responses giving a sample of approximately 17% of the total rural microbusiness population.

The definition of rural was based on an urbanisation index derived by Coombes & Raybould (2001) which focuses on the size of a settlement and its distance from other settlements with controls for scale. This provided a score from 0-100 and for the purposes of the sample, only enumeration districts with an urbanisation index score of 30 or less were included. One exception was the East Durham Rural Development Programme Area which, although having some scores just in excess of 30, was classified as rural for the programme so it was felt that they should be included. Within this index, it was then possible to classify four categories of rural areas as very remote (0-4), remote (4.1-10) moderately rural (10.1-20 and slightly rural (20.1-30). Since this index was compiled, a new classification for rural areas has been introduced (Defra 2005a) but as figure 4.2 illustrates, this does not distinguish between large parts of the North East at the district level. From the map, it is apparent that this research is focussing on some of the most rural parts of England and in terms of business activity, Coombes & Raybould's index can be used to provide additional detail for comparisons of remoteness among the location of different businesses.

**Figure 4.3. A Map of the North East region of England, highlighting the most rural areas according to the classification of local authorities districts**  
 (From: [www.defra.gov.uk/rural/ruralstats/rural\\_atlas/atlas-by-geography.htm](http://www.defra.gov.uk/rural/ruralstats/rural_atlas/atlas-by-geography.htm))



The survey distinguished between local and in-migrants with the question "When did you start living in this area (within a 30 mile radius)?" The options for respondents were either "lived here since a child", "grew up here and returned in later life" or "moved here as an adult", leaving a wide range of people that might fall into the category of in-migrant. However, the advantage of using this categorisation is that it provides a clear definition of a local person, an in-migrant and a return migrant and while individuals may feel more or less like "locals" or "incomers", this categorisation provides the basis from which to interpret their attitudes and the underlying reasons for any variation.

As well as drawing comparisons of local and in-migrant business owners, this work might be used to inform a future survey that might categorise different types of in-migrants but this can only be achieved with additional insights about the nature of different business owners drawn from a qualitative study. One interesting distinction that is drawn from the original survey relates to a question which asks whether in-migrants intended to start a business when they moved. This allows us the derivation of the three categories of 'Local Businesses', 'Planned Start-ups' and 'Unplanned Start-ups'.

Although we cannot be sure how quickly a planned or unplanned start-up emerged after the time of their owner's migration, there is at least an indication that these two groups of business owner have emerged through different motivations and from decisions that have occurred in different locations. The validity of these three categories and their implications for future research and policy will be explored in more detail through in-depth interviews with individuals from each of the different backgrounds. While additional data on the length of time since migration and the distance of that migration would also have been useful, such questions could be raised during interviews and it was felt that a deeper understanding around the importance of time and distance would provide more meaningful results than a large scale survey that was only filling small gaps in an otherwise extensive dataset.

The existing data includes information on the sector that rural business operates in, the age of business and owner, reported attitudes towards growth, the location and characteristics of their markets and data on employment. Where the analysis is restricted by other definitions or categories from the original survey, this will be made clear at the relevant times. This quantitative analysis will complement more detailed interview data both by elucidating the context within which the primary research is taking place and by providing statistical evidence of the characteristics of microbusinesses in rural areas.

Unlike other research into rural migration and its economic consequences (Halfacree 1994; Stockdale & Findlay 2004), this study focuses specifically on businesses rather than just households. This does not deny the importance of family and housing issues in the migration decision of business owners, but it is important to separate the economic effects of

counterurbanisation in terms of rural businesses and to view them alongside the traditional debates around housing, community and social change. The effect of household decisions upon business activity will be considered through the qualitative interviews with business owners but the business activity remains the focus of this research.

#### **4.4.1 Analysis of the Survey Data**

The statistical analysis was carried out in two stages. The first was to produce statistics that would draw simple distinctions between local and in-migrant business owners that could provide preliminary results and, more importantly, could guide the sampling and structure of qualitative interviews. At the stage of writing results, more detailed analysis was undertaken to provide clear answers to some of the research questions and contribute towards the understanding of other findings drawn from the qualitative data.

The survey data was stored in the statistical analysis software, SPSS. To ensure that all possible factors relating to in-migration were considered at the outset, each variable was assessed in relation to whether businesses fell into the category of local, planned start-up or un-planned start-up. In some cases, returnees were also treated as a separate category. This not only provided the basis for further statistical analysis but also raised certain questions that could be explored in more detail during the interview phase of the research.

The core themes covered by the microbusiness survey data were employment, business growth and trade patterns and these provide the central themes for addressing the economic contribution of each category of rural microbusiness. Other information sources such as national Census data, State of the Countryside reports and local government research provided valuable additional statistics for the rural North East which allowed these results to be contextualised.

Figure 4.3 (overleaf) sets out the most valuable data for each of the three research questions detailed above. This confirms that a lot of results could be generated that relate to the economic contribution of rural businesses as well as indicating that quite a lot could be determined about their owners' characteristics. There is a noticeable paucity of data regarding the connectivity of these individuals as the original researchers recognised the difficulty of eliciting such diverse, personal detail from postal surveys. It was therefore critical that the qualitative part of this research would successfully fill these gaps in the data and it could also be used to provide an indication of how such questions might be asked in a future quantitative survey.

**Figure 4.3. Summary of the available data from the rural microbusiness survey**

<b>Personal Characteristics</b>	<b>Business Characteristics</b>	<b>Relations of Business Owners</b>
<ul style="list-style-type: none"> <li>- Age</li> <li>- Sex</li> <li>- Household composition</li> <li>- Education</li> <li>- Full time job and/or main income provider?</li> <li>- Main reasons for starting the business</li> </ul>	<ul style="list-style-type: none"> <li>- Sector</li> <li>- Turnover</li> <li>- Numbers &amp; type of staff</li> <li>- Age of the business</li> <li>- Location of supplies and consumers</li> <li>- Attitude towards growth and future plans</li> <li>- Business premises</li> <li>- Rurality of location</li> <li>- Access to Internet</li> <li>- Grant applications</li> </ul>	<ul style="list-style-type: none"> <li>- Membership of groups/networks</li> <li>- Access to business advice</li> <li>- Extent of trade with local businesses</li> <li>- Attitudes towards the local economy</li> </ul>

With a range of nominal, ordinal and interval datasets, appropriate tests were chosen to identify if there were associations between them. The principal statistical techniques employed were comparisons of means for interval data, and crosstabulations for ordinal or nominal data. For the critical results, data is also presented in either graph or table format. The size of the sample enabled significance levels to be attached to the comparative statistics and these are presented in the results where appropriate. These tests are not able to show causation although additional analysis of associated factors and qualitative research are used to develop stronger understanding of the relationships highlighted by the statistical data. Where certain criteria were thought to influence a particular outcome (e.g. a high proportion of hospitality sector firms may influence trade patterns) the subset of the data concerned were excluded to enable further statistical tests but as there was limited interval data, more detailed multiple regression techniques were not feasible.

Analysis of many of the personal characteristics of rural business owners is largely self-explanatory. Comparisons of mean ages and cross-tabulations of educational attainment with local and in-migrant business owners are relatively straightforward. Similar analysis was carried out to compare whether the business owner was male or female, whether they had dependent children and whether the business provides the main household income or whether the owner has additional alternative employment. It was also possible to identify certain personal motivations regarding individuals' business activity. Thirteen reasons for starting the business were selected by the questionnaire designers, plus an option for "other",

and respondents were asked to score each option out of 10. The propensity for respondents to answer 1, 5 or 10 demonstrates that caution must be applied when interpreting these figures but so long as we are aware of this, the data can be considered to offer a good insight into the motivations and attitudes of individuals. A similar style of question is used to ask what business owners seek to achieve from running their business and others ask about their future plans, all of which provide valuable insights into the thought processes behind the bare statistics.

Statistical analysis is most valuable where numerical data such as turnover, trade and employment are concerned. With Coombes & Raybould's (2001) index of rurality, statistics were used to contrast the location of different types of firms and business owners from different backgrounds. To avoid non-responses, the turnover brackets in the questionnaire were left fairly broad. It is still possible to compare the turnovers of different businesses but it is not possible to use this data in any other purpose such as to estimate aggregate regional income figures or to contrast the value of different flows of trade associated with each firm.

Data on trade patterns were taken from a question that asked respondents to indicate the proportion of their sales and purchases that occur locally (within 30 miles), regionally (30-100 miles), nationally or internationally. Although only an estimated percentage of the value of sales or purchases, these figures provided a strong indicator of individuals' perceptions of their markets. As this research focuses on the embeddedness and the relations of business owners, such data is equally as valuable as the precise monetary units.

The analysis of employment figures is slightly restricted by the fact that it is a survey of microbusinesses which by definition employ fewer people. Despite the low numbers, however, the large sample size enabled meaningful and statistically reliable analysis to be carried out and the survey is particularly strong in providing break-downs of full-time and part-time, casual and family employment. Businesses with different owners and from different sectors or different rural areas could all be compared with reference to their employment creation and, given that this survey covers some 17% of all microbusinesses in the rural North East, combining this data with regional statistics enabled further results to be extrapolated for the region.

Growth in the local economy is a vital component of rural development and the survey asked three important questions regarding individuals' attitudes towards growth. The most obvious analysis relates to the direct question about whether respondents are definitely seeking growth, not seeking growth or whether they are unsure. This data could be expanded with reference to their 2 year and 10 year plans for the business and also with reference to their opinions as to whether they could sell more of their existing products or services if production was increased. Further data was available regarding business owners' perceptions of the

scope for growth. Details of whether businesses have the capacity to produce more or whether owners consider that there is unmet demand for their product both shed light on more subtle aspects of their attitudes towards business growth and development.

Although the survey data is strongest for economic analysis, questions relating to perceptions of the local community, networking behaviour and individuals' motivations enable introductory quantitative investigations into embeddedness and different personal and social relations. The importance of local markets and the desire to create local jobs or to provide a local service were taken as indicators of a locally embedded business. Use of different business advice agencies or seeking advice from less formal sources were also used to provide initial indications as to whether there were any significant differences between the networking patterns of local and in-migrant business owners. It was difficult to draw conclusive findings from such analyses as personal motivations and embeddedness are difficult to identify from simplified survey questions. The value of these data, however, lies in their ability to identify certain themes and raise certain questions that could be investigated in more detail in subsequent qualitative analysis. The next section therefore continues by describing these qualitative methods in greater detail.

#### **4.5 Qualitative Methods**

This section explains the detailed formulation of the interview structure and keeps sight of the critical need for data generation that will help to deepen our understanding of answers to the central research questions as well as filling the gaps left by the literature and the survey data. A mixed method approach enables each of the three research questions to be answered in the following three chapters with reference to both statistical and interview-based data.

According to Hughes (1999, p372), it is imperative that interview narratives are triangulated with other existing data and theoretical perspectives on the issues being researched. Winchester (1999, p62), however, sees "the triangulation approach [sitting] firmly within the empirical realist tradition" so critical realists may cite alternative methods of assuring the rigour of their data. The qualitative-quantitative debate need not be reconciled here, rather it is highlighted as a means to evaluate the best methods that are available for this study. As a study of businesses in a regional economy, it is quite feasible to conduct meaningful research with various methodologies and therefore it seems most appropriate to favour a mixed methods approach, which allows for greater triangulation (Patton 2002). This is not undermining the value of research that sits at either end of the qualitative-quantitative continuum but it is expected that each methodology will provide different advantages in tackling the overriding objectives of this particular research. Certain truths are perhaps out there to be discovered while other research requires the more personal involvement of

qualitative interviewing and exploring both of these approaches will benefit the cumulative analysis.

At the heart of this thesis lie questions concerning the integration of in-migrants into the evolving rural economy, their businesses, their backgrounds and their networks. New research requires deeper insights into personal attitudes, understandings and motivations and qualitative methods were considered to offer the greatest potential for generating such data. With the growth in intensive qualitative research, especially in the field of economic geography (Crang 1997), new possibilities now exist for higher quality research into more sensitive subjects, personal motivations and more complex causalities. To generate such depth of understanding, the researcher needs to " 'get close' to participants, penetrate their internal logic and interpret their subjective understanding of reality" (Shaw 1999, p60).

In contrast to qualitative research, McKendrick (1999, p47) explains that questionnaires cannot tease out personal significances, especially in situations where action derives from collective decisions. Insights from this thesis, however, could provide guidance to enable a subsequent well-informed quantitative survey that uses the most appropriate categories to define in-migration and the best techniques to ask questions about complex trade and network patterns and more personal ambitions and motivations.

This research requires data on the development of rural businesses and, as King explains, "the qualitative research interview is most appropriate...where individual historical accounts are required of how a particular phenomenon developed" (1994, p16). In this case, understanding the simultaneous development of their businesses and the human interactions that enabled them to succeed can provide the necessary data to compare different types of businesses. In choosing this methodology the researcher accepts that "the validity of qualitative interviews cannot rest on their representativeness or whether they are capable of generalisation in an empirical way" (Winchester 1999, p62). Instead, "their validity rests on whether they can help elucidate the structures and causal mechanisms which underpin observable behaviour" (*ibid*). As an exploratory piece of research, this is considered significantly more valuable, especially as other empirical data is available to assist with theory generation and contextualisation.

The reflections and memories of corporate actors may not always be the best means of understanding the business practices in which the researcher is interested (Useem 1995) as there may be memory decay, hindsight bias, or rationalisation after the event (Davidsson & Honig 2003) and only that individual's perspective is available. So long as the researcher is aware of these limitations, however, they can be usefully applied in many situations and enable the researcher the closest access to the critical information. Deeper qualitative methods such as participant observation, discussions and focus groups and ethnographies

can be "far more effective in elucidating the connections between 'the cultural' and 'the economic'" (Hughes 1999, p365) but equally, there can be many restrictions, particularly where private businesses are concerned, that deny the researcher sufficient access.

When studying networks of businesses and the background of individuals that are running businesses, it seems logical to assume that the individuals themselves are best placed to assist with the research. In terms of their personal background, the only other people who could speak about this would be immediate friends and family. These people would all have slightly different stories to tell as they would have been more closely involved at different times but practically, it would be very difficult to access all of these people and ethically there would be issues about prying into someone else's background. As researchers, we have to accept that some elements of an individual's past might remain private and by speaking to them alone, they have the final decision about the information they provide.

For researching networks, there is the potential to use different methodological approaches that target the collective groups rather than just individuals. This research, however, concerns individuals' motivations and benefits from participation and interaction through their networks so this is best elicited through one-to-one conversations. These networks can be studied at a different level by following contacts through the rural economy to explore whether actors recognise that they are part of a network and the extent to which contacts are shared. Individual interviews also enable follow-up questions to explore the background of certain relationships, the regularity of interaction and the nature of exchanges that occur through that interaction. Each of these would be more difficult to explore in other settings.

Topics in regional studies, including co-operative competition and social capital, can lack substantive clarity. In describing this lack of clarity, Markusen (1999, p870) raises the caution of using "fuzzy concepts" where "two or more alternative meanings" might be applied to any phenomenon or process, thereby undermining their reliability. To use qualitative methods, themselves accused of "fuzziness" (Hammersley 1992), to explore patterns of social and business networks and embeddedness may be fraught with danger. Each of these terms is open to debate so there is a heavy responsibility on the researcher to make each interpretation and each concept very clear to the reader. Participants in the research may also have different understandings of these terms but it is the role of the researcher to allow respondents to talk about the issues that are important to them, and to avoid being caught up in academic or sociological terminology. With a detailed understanding of the sociological concepts, the interviewer must use his or her skills to translate these into the language of business owners and relate their experiences to the critical aspects of the academic research.

The aim of each interview is to encourage the respondent to tell his or her story and to describe their business motivations and attitudes. Individuals' perceptions of their most

important contacts for different purposes and their reasons for participation in formal and informal networks can all help to understand more about connectivity within the local economy and links that extend further afield. Semi-structured interviews were considered to provide the best balance so that the conversation could flow most naturally while a schedule of questions was still available to provide a guide to the interviewer and act as a checklist to ensure the central topics were addressed. As well as providing answers to some of the questions detailed in Section 4.2, exploratory questions could also shed light on different perceptions of concepts such as networks or business growth that might vary from academic interpretations. Such understanding could then inform future research in this field, particularly the design of survey questionnaires aimed at rural business owners.

The design of an interview should take account of its subject so as to ensure that the questions are relevant and comprehensible to the respondent as well as to the interviewer. Also, the interviewer must be aware of his or her influence on the dynamics of the conversation and that when seeking answers to prescribed questions, the interviewer has an agenda that might not mirror the most important issues in the eyes of the respondents. For these reasons, both the sampling and the design of the interview structure are crucial to producing rigorous and insightful research and these are described in the following sections.

#### **4.5.1 Interview Sampling**

An initial target of 40 business owners was chosen. In a sample of this size it is not possible to cover all sectors, all scales of rurality or all sizes and ages of businesses so a sampling frame was required that had clear objectives. Because the survey data was available, there was no need to establish a sample that would enable statistical calculations, the most important element of the qualitative work was to speak to people about the reasons behind key decisions that effected the development of each business. The grounded theory approach suggests that the number of interviews should be determined by the concept of theoretical saturation (Robson 2002, p192). With this in mind, detailed analysis was carried out after 27 interviews, with preliminary results written up to help identify critical themes that could be explored in more detail in the remaining interviews. This approach made later interviews more targeted around business owners interactions with other people throughout their business activities and patterns from the earlier interviews were in most cases confirmed providing strong confidence in the quality of the data and justified the initial sample size of 40.

A sampling frame was designed to ensure that certain business sectors and business owners from different backgrounds were represented. This enabled business to be selected from the original database and categorised according to these two variables before they were approached. Other businesses were approached from other sources as this allowed start-ups after 2000 to be included. These other sources included personal contacts in two cases and

cold-calling to advertisements in two other cases. From these a snowball sampling approach (Robson 2002) was used to provide additional new interviewees as it was considered that following people's personal networks might offer an added dimension to the research. The sampling frame chosen is illustrated in Figure 4.4 below with the figures representing the minimum number of businesses that should be included from each category.

**Figure 4.4. The sampling frame used to select the 40 interviewees**

	Retail	Tourism & Hospitality	Manufacturing & Distribution	Professional Services	Total
Un-planned in-migrant	3	3	3	3	12
Planned in-migrant	3	3	3	3	12
Local	4	4	4	4	16
<b>Total</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>40</b>

The categories of unplanned and planned start-ups have been discussed elsewhere and the opportunity to introduce these categories into the sampling frame is particularly valuable as it identifies whether the business idea originated in the local economy. It would have been possible to consider return migrants as a separate case but these were a smaller category and the origin of a business idea seemed more critical to the research questions than the previous origin of the business owner. Some return migrants were picked up in the interviews and respondents reported a range of connections with their new locality, not just related to previously living there. Local people are included partly to enable a comparison but also to enable their perceptions of the rural economy and their integration with other local and non-local business owners to be analysed.

The core research questions in this study centre on comparisons between local and in-migrant business owners although there is an additional interest in the origins of in-migrants and their specific characteristics. For this reason it was considered appropriate to skew the sample slightly in favour of in-migrants and this also helped to provide a better representation in each sub-category of in-migrant. Also, in the earlier microbusiness survey (Raley & Moxey 2000), 32% of respondents were "unplanned in-migrants", 22% "planned in-migrants" and 46% didn't move so the bias in favour of in-migrants is mirroring the real picture in the rural economy of the North East.

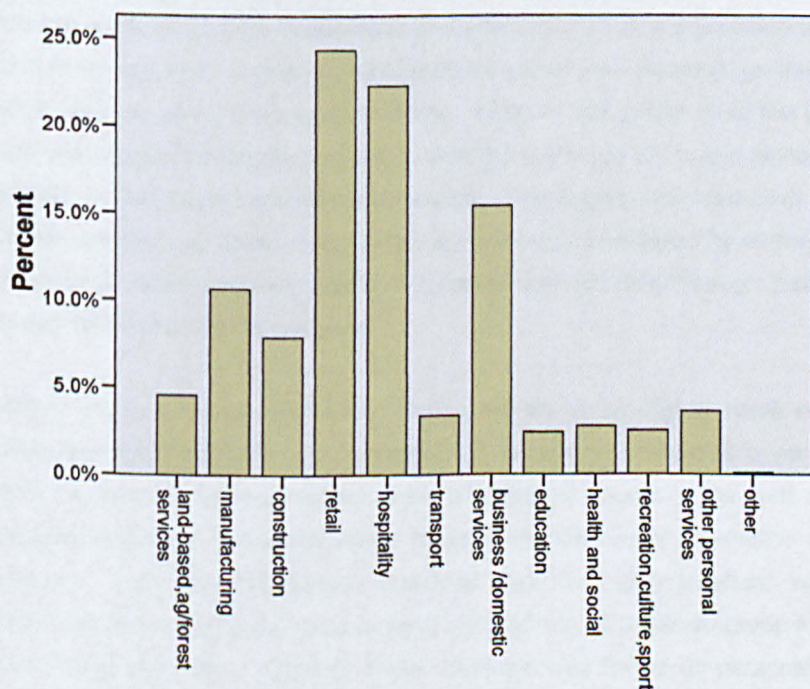
Some business owners may not consider themselves as in-migrants if they have strong affiliations with the local area and have lived there for a long period of time but retaining the above definition of an in-migrant provides a definitive point of reference to base the analysis around. Indeed, where the personal perceptions of individuals vary from this definition, it is

possible to investigate further the timescales involved and the reasons for these differing attitudes. From these results, the definition of in-migrant may be reviewed to consider whether it is possible for an in-migrant to become "local" after a period of time, but any re-definition must have a clear method of categorising individuals that does not just rely on personal perceptions.

Having decided that 12 planned and 12 un-planned in-migrants and 16 local business owners would constitute a fair sample, a further criterion was required to select appropriate firms in each category. It was decided that a sectoral approach would help to cover a range of business types but an astute selection of sectors could also limit the range of businesses to a manageable level for comparative analysis.

The sectors chosen for the sampling frame above are the dominant four sectors but they are also quite different in terms of their markets, which provides an added interest for this research. When looking at Neo-Endogenous Development there is a clear need to think about the local and extra-local connections of different types of businesses and therefore, businesses with local and non-local customers were required, as were those with local and non-local suppliers and information sources. It is also essential to ensure that the sample includes the largest sectors of rural businesses and the graph below illustrates these from the microbusiness survey.

**Figure 4.5. The percentage of firms in each business sector in the microbusiness survey**



The first sector was therefore chosen as "retail services", which are characterised by a local customer base and may or may not have extra-local contacts. The second sector is "tourism and hospitality". This is characterised by a local product which is consumed locally but by a much wider, perhaps national or international, customer base. To some extent, business owners in this sector would require more diverse networks to reach their wider market but the ways in which they are able to do this might vary significantly. Also, the characteristics of the business owner will affect their degree of local involvement and the local focus of their service. In two cases, businesses fell into both the hospitality and retail categories as a tea-room attracted both tourists and local people and one pub-owner also operated a bed and breakfast. For the purposes of the sampling frame, both were considered to be hospitality businesses because their trade was not solely reliant on a local customer base.

The third sector, "manufacturing, wholesale and distribution", was selected to include those firms who were most likely to sell tangible products to markets beyond their immediate locality. Although the smallest of the four main sectors, it is an important category for regional exports, innovation and potential growth. This was not exclusively true as some manufacturers are restricted to local markets, but, unlike the retail sector, there is a greater chance that their trade will extend beyond the immediate region. This is a broad category in terms of the range of products, the sources of inputs and the size of firms that could be included but with manufacturing declining, this scope was required to ensure that enough firms could be identified.

The final category is "professional and business services". These are typically firms that provide services to other businesses and where the service is provided to individuals it tends to concern property, finance or legal matters rather than cleaning, gardening or hairdressing, which tend to serve more local markets. Firms in this sector have the potential to sell their services outside the region, especially with the advances in IT, and higher skills levels enable greater differentiation between businesses. The higher skill levels will also tend to attract higher salaries and these professional services are considered by some (e.g. Hepworth *et al* 2004) to be essential components of a knowledge economy through their provision of skilled support services and consultancy.

Within this fixed sampling frame, it was possible to be slightly more selective about other aspects of its composition. For example, two groups of businesses in very similar sub-sectors were chosen where the owners were of different origins. As well as covering a wide geographical area, it was possible to conduct interviews with a selection of businesses in two villages. This had the added advantage that the highly localistic interactions could be observed and in one case I was invited to attend a local business group meeting in addition to conducting interviews. Each of these decisions was based on personal interpretations and opportunities arising from the snowball sampling approach rather than statistical sampling but

it provided alternative insights without prejudicing the quality of the data or sampling procedure in any way. A conscious attempt was also made to minimise the number of businesses with no staff and when the sample began to include a higher than average number of female business owners, efforts were made to balance this ratio.

There might be a value in extending the research to another region of the UK but with depth interviewing, the restrictions on the number of participants means that is more valuable to focus on a smaller geographical area and seek a deeper understanding of factors influencing rural business activity within that region. The findings might subsequently be tested on a wider spatial scale but the critical questions do not demand a fully representative or widespread sample. Indeed, virtually all qualitative research is "heavily grounded within the local context in which the phenomena of interest occur" (Lee 1999, p8). This allows the researcher to develop a personal understanding of the context, in this case the social, natural and economic environment, in which the research is being conducted.

To ensure that the research was grounded in the rural areas, the sample of interviews was restricted not only by the criteria applied in the rural microbusiness survey (Raley & Moxey 2000; Coombes & Raybould 2001) but also excluded settlements with more than 10,000 inhabitants based on the Countryside Agency definition prior to 2004<sup>7</sup>. This ensured that the focus of the qualitative research was on unquestionably rural areas where it is considered that the economic growth and extensive networking is most challenging. Other studies have focused specifically on market towns (Laschewski *et al* 2002; Newbery 2008) where economic and network dynamics may be quite different but the individual focus of this research makes it possible to study some of the most rural areas of England.

#### **4.5.2 Interview Structure**

Interviewing is the most widely used qualitative research technique as it is highly flexible, can produce data of great depth and it is a familiar method to many people. The consequent danger for qualitative researchers, according to King (1994, p14), is that "they may feel the method is so familiar and straightforward as not to require much thought about what they are doing." This caution could also be extended to the interviewee to ensure that they recognise the true value of an interview and do not treat it as just another survey. The breadth of application and familiarity make a definition somewhat superfluous but the aim of a qualitative interview is "to see the research topic from the perspective of the interviewee and to understand why he or she comes to have this particular view" (*ibid*).

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<sup>7</sup> One business had recently moved into such a market town but had existed for several years in a very small village and was therefore considered to provide a valuable example. A second interviewee had previously worked from home but now shares office space with a client in a market town but once again the development of the business demonstrated a contrast between the workplaces.

It is important that the interviewee has a positive experience (Lee 1999, p64) and the conversation should reflect the everyday experiences of the interviewee and not create an unnatural or interrogative setting. Having a voice recorder instead of writing full notes, I was able to focus on the conversation and demonstrate my genuine interest in the respondents' answers and opinions without other distractions. This in turn should improve the experience of the interviewee who is participating in a two-way conversation rather than an interrogation. The presence of a voice recorder in the room, however, does change the dynamics of any interaction as it has the potential to stifle what a participant feels comfortable talking about, but it also makes clear that it is a research setting (Bennett 2002) and therefore places certain responsibilities on both parties. As Shurmer-Smith (2002, p96) warns, it is unethical for researchers to "dash into 'the field'" and "raid" people's lives so, with no funds available to pay interviewees, it was decided that the provision of a summary report on the findings relating to their local rural economy would be a suitable token of appreciation for their time and demonstrate the value of their input.

As I intended to use direct quotes from interview transcripts, it was important to gain consent from participants so this was explained at the start of each interview along with an assurance that all quotes would be anonymous and all data would be stored safely and not be used outside of the study without additional consent. This was important to meet ethical standards (ESRC 2008) but also to gain trust and respect from the interviewee who was being asked to speak to me, a stranger, about aspects of their personal and business lives. Furthermore, if they felt that my ability or knowledge was inadequate, this could also influence the value of their responses. In any qualitative research, the researcher must remember that every conversation is created by his or her interaction with the respondent and the attitude and actions as well as the words of the interviewer can influence the course of that conversation. It is not possible to discover all the private thoughts and motivations of business owners, only those that they are happy to share. As Whatmore (2002) explained, the researcher is generating materials from pre-arranged discussions where respondents will react differently. Given the importance of this interaction in generating the richest data, the interviews were conducted face to face and at the home or business premises of the interviewee.

In addition to the interview, respondents were asked to complete a brief questionnaire (see Appendix 1) to provide contextual data such as age group, previous place of residence, year of move as well as indications of their attitudes towards growth and future plans. This data was used to categorise respondents and also helped to enrich the understanding of both the background and certain attitudes of respondents while the oral data was analysed. It was also a useful technique to formally introduce the interview and to ensure that key facts were not missed and sensitive information, such as people's age or their business turnover, did not have to be raised in conversation.

For this research, conversational interviews (see Lee 1999), with a semi-structured format were considered most appropriate as they enable the generation as well as the testing of theories. The key feature of these interviews is that there is sufficient structure to enable comparative analysis but there is sufficient flexibility to ensure the interviewee can speak openly and confidently about issues that are important to them and this leaves openings for unanticipated subjects to arise. By asking general questions, it was hoped that the respondent would be encouraged to tell their stories about their personal background, their motivations for setting up the business, the development of that business and the future plans for the business along with some information about their personal, social lives. In each case, this biography would involve other individuals or organisations that had significant impacts upon the current position of any business and it was these points that could be picked up and developed further through the conversations. Such narratives are valuable in allowing interviewees to tell a full story in their own words rather than responding to individual questions. Lee (1999, p112) notes that there is the potential for "recall bias" and "impression management" on the part of the narrator so it is important for an interviewer to subsequently delve deeper into certain aspects of those stories to ensure their accuracy as well as to clarify and enrich particular meanings.

While flexibility is valuable, it is equally important for the interviewer to have a script to ensure that all the relevant areas of questioning are covered during the interview and that a consistent time frame is maintained. Considerable thought, therefore, went into the design of an interview schedule (also in Appendix 1) and it was tested with two pilot interviews to ensure that there were no major omissions or difficulties of usage. It was reviewed at regular intervals throughout the research with slight changes made for different types of businesses but the core themes and style of the interview remained consistent. Interviews still varied from half an hour (where the interviewee was pushed for time due to an unexpected business commitment) to just over one and a half hours but the key questions were always covered.

Having opted for a conversational style of interviewing, questions were designed to be open-ended to encourage interviewees to develop their answers with minimal prompting although sub-questions were included to ensure that all of the key points were covered. These questions were not asked one by one and in many cases interviewees were only too willing to relate their stories without the need for secondary questions and they would often lead the conversation to other parts of the script. This was itself an important aspect of the interviewing since issues that were mentioned unprompted were possibly more significant to that individual compared to issues that required a direct question that created an onus on them to provide an answer. This was especially true with the subject of networking where it was anticipated that individuals would have quite different understandings and attitudes towards the term so open discussion of business and non-business relations were contrasted with answers to a direct question that mentioned "networking".

Questions about “rural” and their locality or community did not refer to scale in order to understand the scale in which the respondents viewed their business. In each case, more direct follow-up questions could be used to either confirm or query my interpretation of their answers. Where questions concerned innovation or learning, however, it was important to probe for the finer detail of the time and place, the people involved and the rationale for taking key decisions. Using semi-structured, conversational interviews, it was possible to introduce follow-up questions to either broaden or narrow down certain points. Within the interview schedule, certain possible follow up questions were included although these were intended more as prompts to ensure that the relevant answers and details were provided rather than as scripted questions that would be asked to every interviewee.

The style of interviewing and the interview schedule remained largely consistent throughout the research, reflecting the fact that the data being generated was interesting and insightful, thorough and relevant to the research questions. By writing up each interview within two days, I was able to develop my understanding throughout the research process, providing a gradual introduction to the subsequent analysis. After 27 interviews, it was apparent that some valuable insights were being generated but the breadth of the data was raising concerns about the possibility of drawing succinct and generalisable conclusions. The diversity of people, businesses and stories was clearly one of the findings of the research but the questions raised at the start of this chapter were seeking more definitive answers.

In response to these issues, it was considered valuable to break from the fieldwork and begin some comparative analysis of the data. Having conducted some statistical analysis before going into the field and then pausing to analyse the fieldwork at this stage, there was a clear progression that ensured the study was continuing to follow its goals. Following the grounded theory approach (Robson 2002), this also enabled the questions to be developed to improve the quality of the data generated from later interviews.

As well as highlighting any gaps in the data, this preliminary result-writing meant that later interviews could be used to test certain conclusions with additional questions, adding rigour to the final results. Equally, it was possible to refine the later interviews by taking out certain questions that were poorly phrased or producing inconclusive or less valuable responses. In general, however, adhering to the interview schedule ensured that the later interviews were not structurally different to the earlier ones and care was taken to ensure that comparable analysis was not compromised.

#### **4.5.3 Analysis of Interviews**

The interviews were conducted with carefully selected business owners in order to provide a depth to the research that would not be achievable using quantitative methods alone. Each interview was analysed with the aim of providing the complete stories of how the firm had started, how its owner interacted with other people and how its position in the local economy had evolved. This required a short narrative on the history of the business as well as critical pieces of information relating to perceptions of the local area and both economic and social aspects of the business-owners life that influence his or her running of the business.

In order to achieve these objectives, each interview was digitally recorded with the audio file saved for future reference and a summary of each interview was written. Full transcripts of each interview were considered unnecessary since I conducted each interview personally and was familiar with the conversations that developed. Substantial notes were transcribed that included sections of direct quotes where they were clearly relevant to one of the sub-questions and where direct quotes were not used, notes were always taken to ensure that no elements of the interview were completely excluded from written records. Each original recording was saved and the process of writing a summary of the conversation within two days of each interview ensured that this was an accurate interpretation. The original notes taken from the audio file included time references throughout to facilitate returning to it at any point in the future should new themes arise during the research that may require more detailed analysis. As well as saving time in transcription, the summary essays written for each interview were considered to be easier to use in the writing-up process as the volume of text was more manageable.

Each interview summary was written using a similar template to ensure that the key points were addressed and allowed confirmatory follow-up questions to be asked over the telephone on occasions where the interview had important omissions. The standard format was designed to help comparative analysis once all the interviews were completed and each one included large sections of direct quotes where it was apparent that the interviewees words were required to provide emphasis and clarity. The production of 40 similarly structured essays on the characteristics, networks, histories, growth and trade of each business made the comparative aspects of answering the principle questions a more focused process.

With a clear list of sub-questions (Figure 4.1), the use of computer software to enable thematic analysis was not considered to be appropriate in this instance. The nature of this research meant that considerable effort was made to construct a set of questions that had already identified the key themes that would be explored throughout the fieldwork. It was therefore possible to frame questions and elicit details from each interview that related to each theme and highlight these themes within the structure of the written summaries. By conducting and writing up every interview personally, any new themes that developed

throughout the course of the research were identifiable at the time and could be introduced to the analysis without the need to search full transcripts at a later date.

The research questions were used as the guide to analysing the data. With detailed sub-questions derived from the literature review and planning stage of the research, these provided the core themes around which comparative analysis could be carried out, using a combination of qualitative and quantitative data. For questions relating to networking and inter-personal relations, the diversity of individual experiences made generalisations more difficult. To understand the importance of different types of interactions, a critical incident technique was used whereby the type of contact and the value for the business could be examined for every incident where another individual had an impact upon the business. Curran & Blackburn explain that this technique can expose "the character and content of the linkages between small business owners and others within the social and economic community" (1994, p106).

In this study, analysis of these critical incidents was carried out by identifying each occasion an interviewee referred to another individual or organisation that had a material impact upon their business. These were listed in a spreadsheet with reference to whether it was a local or extra-local contact, how the contact had originated, the strength of the relationship (where known) and the outcome for the business. Without explaining all possible types of relationships, examples included family members who offer financial support or business advice, friends in the community who provided contacts to other businesses, former work colleagues who influenced start-up or provided ongoing trading links and organisations such as Business Link or local Councils who may have provided advice or funding.

From such a methodical approach to the range of contacts associated with a business owner, it was possible not only to explore the geography of relations but also to explore how different relationships benefited a business at different stages of its development. The results therefore focus on start-up, the development of new trade and extensive marketing, the accrual of new practical and technical business knowledge and the recruitment of staff. By focusing on these areas, it was possible to draw comparisons between local and in-migrant owners and understand how they came to have these valuable relations and how their valuable social capital could provide other assets for the business.

With over 400 critical moments identified, the data lends itself to a degree of statistical analysis but as it is based on 40 interviews, it remains a predominantly qualitative technique and as such, the results are used to provide further insights into how these relations are used and how they benefit local businesses rather than to make statistical assertions or predictions. As with all of the qualitative analysis in this research, the real value is that it

provides details of the motivations and reasons for individuals' behaviour in ways that compliment and enrich the understanding that is possible from the existing survey data.

#### **4.6 Summary**

Having established the rationale behind the core research questions and identified key sub-questions, this chapter has demonstrated the value of a mixed-methods approach. The existence of a robust data-set enabled preliminary enquiries to inform the sampling frame for in-depth interviewing and the re-examination of the research questions in the light of the literature informed the nature of data that was required from those interviews.

The following three chapters set out the analysis and results from this research. The three research questions are used in turn to provide the focus for each chapter and this ensures that the mixed methods approach is maintained throughout the analysis. The strength of this research lies in the potential to combine survey and interview data at each stage to address specific questions and therefore these questions and not methodological nuances determine the structure of the following sections.

Where direct quotes or references are taken from interviews, the category of the business owner and their reference number is cited. An assurance of anonymity and confidentiality was given to each participant to ensure that they were confident in discussing their businesses and for that reason, an anonymised list of participants is included as Appendix 2 to this thesis. The inclusion of this spreadsheet allows the reader to see the range of businesses that were included in the research in terms of their size, age and sector and also their owner's characteristics and future plans without enabling the identification of any specific participant.

## **~ Chapter 5 ~**

### **The Characteristics of Rural Microbusinesses** **and their Owners**

#### **5.1 Introduction**

This chapter focuses on the individual business owners and the characteristics of their businesses. As the vehicles through which many aspects of rural development are created and introduced into rural economies, it is important to understand the origins of rural businesses before we can proceed to investigate their impact in other ways. Future chapters examine the economic impact and the networking patterns attributed to both in-migrant and local business owners but a general comparison of the individuals, their backgrounds, attitudes and motivations provides an important introduction to the comparative study that forms the backbone of this research.

The fieldwork highlighted that there are many different businesses run by people from many different backgrounds, both personally and geographically, and they have many different approaches to achieving business success. Before attempting to draw comparisons between categories of business owners and exploring the possible implications for rural development, this introductory section describes the diversity of individuals, their backgrounds and their businesses. This is a useful reminder that while trends will be described in subsequent sections, these trends are made up of a host of unique stories that merit independent recognition. Few business owners can cite just one factor that led to them running their business and these stories are used to demonstrate the need for researchers to take great care when attempting to categorise individuals. The selected examples are from different sections of the sampling frame and are used to highlight particular features associated with different business owners and also to raise certain issues that feature in the results and analysis across this and the subsequent chapters.

The boxes on the following pages provide brief details of a selection of the businesses that were interviewed during the course of this research.

### **Unplanned In-migrant – Retail (23)**

A professional employee who continued to work for the same firm relocated to the North East around 1970 in order to find affordable housing at a time when he had just married. He subsequently moved into a different business in Newcastle and only in the late 1980s did the family move to a rural home. This coincided with the desire to have more time with his family which now included 2 children and he began working in an agricultural business. The business was a great success until the disaster of BSE which forced them to sell. Having settled into the rural area and with children doing well in a local school, he was now in a position where family reasons forced him to seek alternative employment in his local area. Redundancy money meant that he was able to buy a rural business where he would be more on hand for the family and able to remain in the rural area close to the children's school. It was a new trade for him and his family but one that another family member had done previously and there was also support on hand from local friends that they had developed from living in the local rural community.

### **Local – Retail (34)**

The manager of a village store was left in a difficult position when the company that owned the shop decided to sell up. It was almost Christmas and he faced redundancy so with the support of friends and family, he was able to raise sufficient funds to buy the business and continue running the shop. Until that point, he had not considered self-employment but having been left in such a precarious situation, it seemed the only option to support his family, especially as there were few other jobs available in the local area. From this point, he has developed the business with a strong local focus, providing local jobs and an outlet for other local producers.

### **Local – Manufacturing (20)**

A dairy farmer suffered from declining incomes after BSE realised that the business had to diversify if it was to succeed into the future. Previous attempts at small scale non-agricultural activities had provided additional income but not to the extent that it would sustain them in the long term. After attending a meeting of dairy farmers in Yorkshire, he chanced upon a friend who had begun to add value to the raw product with food processing on the farm. Following this advice and links to other contacts who were able to provide and install machinery, the business has developed to the stage where it is more important than other traditional farm activities. Despite the success, the business owner admitted *"I wish I could just farm and farm profitably, there are not many people that can say they've got 3 jobs...I love farming, I like handling animals, I just wish I could farm and make money out of farming."* The economic situation has forced this diversification demonstrating the vulnerability of rural economies but it also highlights the flexibility and potential for growth that exists within rural areas when business owners are exposed to the necessary influences that can create new opportunities.

### **Planned In-migrant – Manufacturing (12)**

Having been made redundant from a job some 200 miles away, this individual established his own business in a similar line of work, taking advantage of the experience and contacts that he had built up during his previous work. Having been brought up in the North East he was keen to move back to the area and with the flexibility to work from anywhere, he was keen to choose a property with space for the family and the business, good local schools for the children and a field so that his daughter could have a pony. With such criteria, there were few properties available but with help from local estate agents, an old farmhouse was found and provides ideal accommodation for offices, a small warehouse and a family home. The search took several months but they were in a position where they were able to wait for the right opportunity and this has benefited the development of the business as there is space for growth, they are able to attract staff from the local area, there is no congestion and they enjoy a pleasant working environment. Without the time to plan and wait for the best opportunity, the home-life balance and the development of the business would almost certainly have been compromised.

### **Planned In-migrant Hospitality (19 & 21)**

In these examples, two bed and breakfast businesses initially appear very similar yet their owners have totally different histories. Two couples, approximately 10 miles apart, both moved to the rural North East and run their businesses to provide an income as they near retirement. Neither had dependent children when they chose to move, both were attracted by the beauty and peacefulness of the rural area and both had some local family connections that influenced their decision. However, while one bought an existing bed and breakfast having decided that they wanted to move into this line of business, the other couple were drawn to the area more by the beautiful scenery and the husband's desire to return to the county where he was born. His wife commented, *"I just wanted to live here, this close to the beach...it was pure emotion"*.

While these might be categorised the same, the point at which the business decision was made occurred in totally different places. In both instances the first guests arrived somewhat unexpectedly. The couple who bought a guesthouse had told friends of their intentions and this had led to a booking just 2 weeks after they had moved. Although not fully prepared, they were able to accommodate the guests and this gave the business the perfect start. The other couple had hoped that they would have time to think about future work plans but the cost of the move forced them into this much sooner than they had anticipated. They had already sought information from the local tourist board and had plans to open a bed and breakfast when one day visitors to the village needed accommodation and speculatively asked to stay. This chance request was to provide the first of many visitors and the business developed from there.

### **Local – Professional Services (11)**

A successful businessman born and brought up on the family farm, has developed several business interests outside of farming and yet the initial idea that encouraged him to explore diversification has still to be put into action. Some 15 years on, other opportunities have been prioritised and businesses have moved in different directions. He still uses the farmland so his business activity could easily be categorised as “farm diversification” but his business activities are not connected to traditional agricultural output. In this sense he is very different to a local food producer who adds value by processing foods on the farm but the rural setting combined with an entrepreneurial outlook have seen the development of a successful consultancy business as well as other business activities that fit in with a family lifestyle and continue to manage the family's farmland inheritance.

## **5.2 The Diverse Personal Histories of Business Owners**

Although brief and anonymised, the above vignettes provide a small snapshot into the types of people and businesses that make up the rural economy. Planned and unplanned in-migrants were introduced in Chapter 4 (pp106-107) and the implications of these different routes to becoming a rural business owner are revealed within more examples. The above manufacturer who was focusing on property characteristics might have moved to anywhere within a 100-200 mile radius and the owners of a retail business described how they had scoured the length and breadth of the country for a property before finding somewhere suitable (*planned in-migrant, retail, 26*). The reasons for migrants coming to the area are not uniform and may be based on more personal factors, as with the “emotional” guesthouse owner, or more business-related reasons such as a food manufacturer who balanced the importance of local markets and accessibility with the need to retain a rural character for the business (*planned in-migrant, manufacturing, 22*).

In each case, local business support would not help unless it was accessible from outside the region so the external image of the region has to be attractive to potential entrepreneurial migrants. As well as the local/in-migrant distinction, the introduction of a third category differentiates the large numbers of in-migrants for whom the entrepreneurial decisions is influenced, to varying degrees, by local factors during the time after their move. While a residential move has many facets, the process of moving occurs at one time whereas commercial counterurbanisation can have two stages as the residential and entrepreneurial decisions may in some cases be un-related. The processes that lead residential migrants to run rural businesses are explored in greater detail throughout these results and especially in Chapter 7.

When considering the triggers that lead to individuals starting or taking over a business, we might usefully employ the terms “opportunity entrepreneurship” and “necessity entrepreneurship” (GEM 2006). From the 40 business owners interviewed, the majority would be classed as opportunity entrepreneurs although there is a fuzzy line where individuals are tied to a locality through strong personal connections and few other employment opportunities are available. We might expect that in-migrants are less likely to be necessity entrepreneurs but when we consider the category of unplanned start-ups, the potential for migrants to be restricted by local labour markets, family or social ties becomes more apparent.

From the research, it is difficult to determine specific characteristics associated with either necessity or opportunity entrepreneurs. Necessity can be associated with low aspirations and a survival mentality but it may also be associated with a highly motivated outlook and an ability to achieve significant growth. Similarly, opportunity entrepreneurs may identify a lucrative niche market but they may also be individuals who have the opportunity to pursue a personal interest through the establishment of a new business, in which case growth and profit may not be the fundamental motivations.

As individuals near retirement or reach a time when children have left home, there is often an opportunity to pursue alternative interests and business ideas. In the research there were a mix of local and in-migrant business owners who had made such a decision and they each had different goals. Two were only part-time enterprises for the owners and had no staff. One was run by a local person, one by an in-migrant and in both cases the owner's spouse was the main income provider for the family. Despite this, the businesses were run in a professional manner with the owners striving for high quality products and service but there was no ambition to see the business grow. One referred to their holiday cottage as “*just a little perk*” (*un-planned in-migrant, hospitality, 18*) while the other felt that she had to stay small to uphold the perception of customers who associate home-made produce with small businesses in the countryside (*local, manufacturing, 35*). In a similar vein, a farmer's wife had the opportunity to take over a local business after their children had left home and explained that she was not ambitious for growth, but enjoyed the work and the sociability of being at work. Unlike the previous examples, however, she has already invested in expanding her premises and now employs up to 20 staff at peak season (*local, hospitality, 8*).

These examples demonstrate that businesses set up on the back of personal interests can have quite different growth ambitions and also that ambitions and reality are not always the same. Another business was established by two retired people with the initial intention to supply their product to family and friends for a small income. The rate of growth was surprising and the interviewee commented “*we got a little bit of plant and thought that would do as a retirement hobby for the both of us but it kind of snowballed on*” (*unplanned in-migrant, manufacturing, 4*). This business now employs six members of staff and sells a

growing range of products across the whole of the North East region. It has developed into a full time job for the owner who has created a business that he expects to outlive him. He continues to invest in the business, although his personal position means that he is risk averse. The mentality that this was to provide an extra source of income in retirement means that he is unwilling, or more precisely his wife will not allow him, to risk their life savings at this time of life.

These examples illustrate the importance of appreciating all types of entrepreneurs when considering rural development. It would be easy to dismiss an individual who works part-time in a seasonal business with no staff, limited growth and a small turnover but at the outset, it is almost impossible to identify whether circumstances will change and that business will evolve into something larger. As well as providing personal incomes and vitality to rural areas, even the smallest businesses have the potential to grow. At the furthest extreme, two professional service sector businesses that were initially run from home now have office premises and staff of 19 and 7 respectively (*unplanned-in-migrant, professional services, 29; local, professional services, 38*). In these examples, the business owners had previous experience of working in their sector and had firmer plans for developing their businesses compared to the examples cited above but on the basis that only some of these will realise their growth plans, the importance of supporting a wide variety of small businesses becomes evident.

Statistics illustrate that not all firms are growth oriented or profit-maximisers (Bosworth 2008; Ilbery & Kneafsey 1999) and as well as the reasons for starting a business, there are many other factors that influence business owners' ongoing motivations. One individual started her business after a divorce and had dependent children to care for so her business drive was heightened by the need to succeed. Since then, she has regularly invested money in the property, and said "*I do something every year to help*" and cited the example of providing wheelchair access and disabled facility where "*others wouldn't put that money back in again because their argument is 'how often have you been asked for a wheelchair user this year?'*" (*local, hospitality, 2*). She has maintained the highest standards to guarantee return visitors and a strong reputation and she takes pride in the service she provides. On a follow-up interview, she had a much more relaxed attitude because she was planning to retire, her children had left home and she was in a stable relationship. Quality and service were still important but she had reached a stage where she was able to enjoy the business without the pressures of having to succeed.

Across the spectrum of businesses, individuals' ambitions could largely be categorised in three ways: survival, expansion or maintaining a stable level. The third category was generally associated with older business owners who were comfortable with their income and biding time until retirement. Both survival and expansion can push business owners to take risks either by taking on new staff, exploring new markets or developing new products which

can benefit the economy but stable businesses are equally important to the fabric of rural economies. Local and in-migrant business owners from all business sectors could fall into any of these three categories so we cannot draw any definite conclusions without further statistical analysis which is presented in Chapter 6.

This section has highlighted that business start-ups derive from a range of influences, both local and extra-local and based on necessity or opportunity. As well as providing advice and support services in the local area, rural development practitioners should aim to make the rural economy a realistic and attractive option for all entrepreneurs, whether locally based, working in nearby cities or migrating longer distances. This diversity of people and businesses is a strength for the rural economy as it demonstrates that it is beginning to overcome a reliance on vulnerable primary sector industries and a great number of new skills, resources and opportunities now exist in the countryside. Diversity, however, is only one characteristic of the modern rural economy so in an attempt to provide more definitive answers, the following sections continue to explore whether characteristics such as education, age, sex and location influence the size and success of rural businesses.

### **5.3 Education and Work Experience**

Rural areas experience higher academic achievement in schools when measured in terms of GCSE grades (CRC 2007, p48) but achievement is slightly lower in the more sparse areas. This is in turn reflected in a higher propensity for rural school-leavers to attend university, resulting in the outflow of a high number of 18-21 year olds. If rural school-leavers are achieving better results than their urban counterparts, we might expect that this is associated with better educated parents. Given that the young people are often leaving rural areas, however, we cannot say that rural school results are directly linked to better educated rural residents in higher age categories. Indeed, Stockdale (2004) notes that rural out-migrants are highly qualified, employed in secure and responsible positions, and earn in many cases substantially more than they could in the donor community.

The *State of the Countryside* report (Countryside Agency 2005, p90) tells us that "census data indicates that, in general, there is a higher incidence of top end qualifications such as university degrees (Level 4-5 and above) in rural areas and, correspondingly, a lower incidence of those without skills or qualifications". A study in Wales confirmed this with a survey of the rural workforce showing that "rural areas have a lower proportion [of the workforce] with no qualifications at 18.7% and 20.5% for males and females respectively compared to 20.0% and 24.6% for the rest of Wales" (Jones 2003, p6). Townroe & Mallalieu (1993) also demonstrated that founders of businesses in rural areas are generally more likely to have higher educational qualifications than those in urban areas.

Chell (2001, p270) reported that “the more highly educated are more likely to found high growth businesses” and Storey (1994, p64) referred to empirical work from America which presented evidence that, “*ceteris paribus*, educational attainment levels are positively associated with a move into self-employment/new business formation.” With this in mind, education is considered to be an important factor in the rural economy and with a large proportion of more highly educated younger people leaving rural areas, this section explores the potential for in-migrants to redress this balance by introducing new forms of human capital in terms of their education, professional qualifications and further work experience.

The survey data for the North East shows that in-migrants are significantly more likely to have stayed in education for longer and they are almost three times more likely to have a degree compared to local business owners. In-migrants are also more likely to have a professional qualification although it is not clear how many of these are directly relevant to the business that they are running. With over 50% of local business owners not being educated beyond GCSEs or O-levels, the influx of new business owners is raising the levels of human capital in the rural economy. Not only does research tell us that education is linked to business start-up and growth, but the presence of this resource means that there is the potential for all businesses to develop further by tapping into the knowledge and experiences of in-migrants. Previous knowledge is also highly valuable in the integration and accumulation of new knowledge and in adapting to new situations (Davidsson & Honig 2003). Knowing how to learn, where to access training and having the desire to engage with information providers are all characteristics that are beneficial for business owners.

**Table 5.1. Comparing the stages at which local and in-migrant business owners completed their formal education**

Origin	No.	GCSE/O-level or earlier	A-level or equivalent	Diploma	Professional qualification	Degree	Post-graduate
<b>Local</b>	<b>589</b>	<b>55.6%</b>	<b>6.5%</b>	<b>18.1%</b>	<b>10.3%</b>	<b>7.6%</b>	<b>1.9%</b>
<b>In-migrant</b>	<b>693</b>	<b>29.3%</b>	<b>5.7%</b>	<b>13.2%</b>	<b>17.7%</b>	<b>20.8%</b>	<b>13.4%</b>
Planned Start-up	281	32.0%	6.5%	16.2%	15.5%	21.2%	8.6%
Unplanned Start-up	412	27.0%	5.2%	11.3%	19.4%	20.6%	16.5%

Table 5.1 confirms the above analysis and also shows that business owners who intended to start a business when they moved completed their formal education earlier than the owners of unplanned start-ups. Initially we might think that those who are able to plan to start a business would be better educated but if we reverse the causality, perhaps this statistic is actually telling us that educated people are moving to the North East to pursue further education or other employment and only after that does the opportunity arise to establish an

independent business. This finding re-iterates the importance of considering commercial counterurbanisation as a two-stage process and demonstrates that the interim period of employment where in-migrants assimilate into local communities can have a significant influence on future entrepreneurial activity.

Many longer distance moves are linked to higher education (One North East & Shared Intelligence 2006), with students staying on in the region of their university. The role of universities in regional development is already being studied (Ward *et al* 2005) and with support for spin-out companies, urban centres can be important factors in stimulating rural business activity. One interviewee (*in-migrant, professional services, 1*) explained how the founders of the business met during a masters course in Newcastle and with the support, knowledge and contacts that they had built-up, they were able to develop their independent business venture.

One example of how decisions about higher education can lead people to running rural businesses is given by the manager of a manufacturing firm. He explained that *"when we got married...you tend to move out of the city, you've done you're student days, whatever, so we moved out to Whitley Bay and then when we were having kids we needed a bigger house with more space so it was a case of what could we afford. We knew this place because my wife's family lives nearby, we quite liked it and it's affordable. It's also not too bad commuting-wise because at that time I worked in North Shields and it's quite a simple run and my wife worked at the Metro Centre."* He did a politics degree but said *"I couldn't find work in the field I wanted to do so fell into jobs just to get a job and then almost a career takes shape by accident"* (*un-planned in-migrant, manufacturing, 17*). This example involved several stages but still demonstrates the importance of the city region in attracting potential future rural business owners.

As well as universities, it is important to recognise the importance of strong urban economies that can attract well-educated and well-paid individuals to an area as it is these people who may subsequently decide to relocate to rural areas and employ their human capital in rural ventures. Halfacree (1994) established that employment decisions are significant factors in migration decisions and in this research there were several examples of migrants moving to an urban workplace and subsequently identifying business opportunities in the rural areas. Where this migration is to the rural hinterland and the individual commutes to work, they are also able to develop local rural knowledge which can benefit a new business.

The first example comes from a professionally qualified consultant who was able to specialise in providing his service in the countryside. Opportunities to gain professional qualifications are scarce in the countryside so similar firms cannot develop without individuals that have worked in more urban areas (*planned start-up, professional services, 13*). The second

example was a migrant from London who wanted to find a better home to raise a family. Having moved to Newcastle, the family were able to live out of the city and when the new job was considered unsuitable, the migrant was in a position to establish his own business by using contacts developed both in London and Newcastle as well as those in the local town. This business owner commented that their new home was *"ideal for bringing up the children"* demonstrating that in-migrants are bringing young people to the area to replace those leaving in search of other opportunities (*unplanned start-up, professional services, 26*).

With universities and urban employment taking people away from rural areas as well as attracting new people into the region, return migration offers a potential benefit for rural areas whereby out-migrants leave to gain education and work experience and when they return they already possess some of the advantages of local knowledge and local networks. So far return migrants have not been classified separately but with many young people leaving their local areas to access higher education, it is important to consider this separate category so as not to prejudice against the achievements of local people. Simplifying the previous table and introducing return-migrants in Table 5.2, we can see that return migrants are considerably more likely to have a degree compared to local people but they still lag behind other in-migrants.

**Table 5.2. The percentage of local, return and in-migrants leaving school before A-levels and the percentage attaining degrees**

	No. Firms	Completion of formal education	
		GCSE or earlier	Degree or postgraduate
Local	589	55.6%	9.5%
Returned	117	25.7%	26.5%
In-migrant	581	29.9%	35.9%

The importance of mobility and broad interactions in relation to the development of knowledge is also evident in individuals' attitudes towards business advice. In-migrants are significantly more likely to have considered seeking business advice than local people. While this could demonstrate a lack of knowledge, we have already seen that in-migrants tend to be better educated than local people so it should instead be interpreted as an indicator of in-migrants' awareness of the availability of support and their willingness to learn. The comparative figures are set out in Table 5.3 below and a chi-square test confirms that these differences are statistically significant to at least a 0.1% confidence level ( $n = 1,279$ ).

**Table 5.3. Comparing attitudes towards using business support**

	Have You Ever Considered Seeking Business Advice?			
	General Business Advice	Sector Specific Advice	Both	None
Local	152 (25.9%)	83 (14.2%)	19 (3.2%)	332 (56.7%)
In-Migrant	235 (33.9%)	135 (19.5%)	27 (3.9%)	296 (42.7%)

Further statistics demonstrate that there is a relationship between education and the propensity to consider using business support amongst all business owners. Over 68% of business owners leaving school with no qualifications and almost 54% of those with no qualifications beyond GCSE or O-level reported that they had never sought business advice of any kind. By contrast, only 37% of those with degrees said that they had not considered seeking business advice. Those business owners with higher education qualifications were also the most likely to have used private sector advice services and other contacts in industry, most likely to have been members of Chambers of Commerce and most likely to have approached public support agencies. This lends weight to the notion that attracting greater numbers of more highly educated business owners into rural economies fosters a culture of enterprise that can support other local business activity.

These statistics also support work by Lin (2001) who explains that education and higher social status are both factors that are seen to be related to wider networks and relations with other individuals who also have more to offer in terms of their human capital. Based on Lin's assertion that "social capital is found to be significantly related to human capital" (p122) we can expect that a higher average level of education, a component of human capital, will correspond to higher stocks of social capital. He also explained that education and other forms of human capital can improve the quality of social capital that is available to individuals as more capital-rich networks become accessible to them.

Another indicator of the value of education is in the development and use of new technologies and new ways of working. At the time of the survey (1999-2000), in-migrants were significantly more likely to have access to the Internet, 64% were on-line compared to just 48% of locals<sup>8</sup>. Of course, the Internet has become more pervasive in the past eight years with recent evidence suggesting that rural entrepreneurs are not disadvantaged by the lack of access to technology connections such as broadband (Deakins 2007). However, being older data, these figures provide a telling indication of how people coming into the rural North East have better accessibility to newer technologies and one might expect the adoption of future technological advances to be similarly prevalent among in-migrants. This might be a result of

<sup>8</sup> The Chi-square test of significance gives a value of  $p < 0.000$ ,  $n = 1,282$

greater awareness, better skills enabling them to use the new technology or simply that their businesses are more likely to rely upon modern technology. As well as being better able to use the technology themselves, we can further assume that their demands for faster connections, training of staff and the pressure for local competitors to catch up will all increase the spread of technology throughout the rural economy.

There is a lot of emphasis on the potential for "knowledge economies" to develop in rural areas. A knowledge economy is defined by the DTI (1998, p2) as "one in which the generation and the exploitation of knowledge has come to play the predominant part in the creation of wealth" so the trend of educated in-migrants moving to rural areas and engaging with rural economies can be seen to contribute to this. For a sustainable "knowledge economy" to develop, however, these attributes need to become a part of the rural economy that is also accessible to local people and concurrently, in-migrants need to accrue local knowledge from participation in local networks.

While counterurbanisation is bringing a higher level of educational achievement and technological skills into rural areas, it is also important to consider the extent to which other business skills can be learnt locally. Whether local or in-migrant, a lot of the learning required for an individual to run a business is accrued elsewhere. In some cases individuals have actively sought out relevant training to enable them to develop their business plans, others have worked outside the rural area and developed the necessary experiences to be able to run a business in the future and others have moved from outside the area, complete with the requisite skills to set up their businesses. Very few people have been able to learn in their local area except for those involved in lower-skilled or hobby-based businesses such as village shops, bed and breakfasts or craft-related activities.

The importance of external contacts and work experience is characterised by the higher numbers of in-migrants establishing technical or consultancy businesses. The microbusiness survey does not identify professional services as one specific sector but unplanned start-ups are twice as likely to be in the domestic/business services sector (24% compared to 12% for both planned start-ups and locals). The professional service firms that have participated in interviews have tended to need to employ skills learned in a bigger, usually urban-based firm so even those individuals with local origins will almost certainly have worked outside of their local area. One interviewee gave a clear example of the transferability of work experience by explaining that he had gained a clear insight into the world of business from working in the head office of a major supermarket (*planned in-migrant, professional services, 16*). Subsequently, he has never worked in retailing but the value of this work experience was something that he could not have gained through formal education or working in other small businesses.

This does not preclude local people from moving into these sectors but they will often have to engage with external education or employment first. One rural businessman had plans to start a manufacturing business but knew that this was unrealistic without the necessary experience. He identified a course that would provide him with certain skills and opportunities to work in a specific sector and accepted that this would mean moving away from the local area for a certain amount of time. He recognised that this experience was essential if he was ever to set up independently and it was also important to earn some capital to put towards the business. His attitude that "*people shouldn't be afraid to do something else to achieve their goals*" (*local, manufacturing, 9*) demonstrates that to succeed in business you have to look outside your immediate locality or comfort zone in order to create new opportunities. Through the course and work experience, he not only learned production techniques and business skills, but picked up valuable industry contacts. Another entrepreneur had taken on the family business immediately after leaving university but some years later felt the need to pursue further education so was able to do a masters degree at a local university which not only added to his knowledge but provided the opportunity to meet many like-minded individuals who have been able to offer a support network and potential business opportunities (*local, professional services, 11*).

External knowledge sources are not the preserve of rural in-migrants. As well as seeking out relevant courses, it is also possible for a business owner to introduce these skills and knowledge through other means. A farmer needed someone with additional knowledge and business skills for a diversification business and he was able to bring in his father-in-law to help establish the new business (*local, manufacturing, 6*). The farmer had valuable experience that helped with production, finding builders and manual staff but this external influence gave the business better connections for planning advice, better access to markets and better knowledge of accountancy and business administration systems. Here though, we see the importance of personal relations as it is much less likely that a small business would take on a stranger for such an important role, and a role that was initially poorly paid as they set about constructing the business in partnership with shared ambitions revolving around the farm and family life.

While education and training can be achieved in the rural economy, the opportunities are more limited and the trend for younger people to move away is continuing. While greater opportunities and information on training in the rural areas themselves would be advantageous to some business owners, the range of potential provision and the limited number of potential users suggest that they would be fairly inefficient. The fact that in-migrants are providing training in workplaces, offering consultancy advice, participating in formal and informal networks and providing contacts to other sources of training and information all suggest that rural business networks are increasing their ability to fill the gaps where public bodies cannot provide. Moreover, successful local networks have been able to

access public support collectively to address common needs because the provision of advice and training in this way is more cost effective.

In conclusion, an individual's education does correlate with his or her aspirations for business growth and in-migrant business owners have higher-level school and university qualifications. Counterurbanisation is therefore helping to offset the loss of the more educated, younger individuals and it appears that the arrival of business owners with higher qualifications and greater work experience is stimulating the business community as a whole through the creation of new business demands, stronger local competition, the development of social networks and the training of employees. Having demonstrated that in-migrants are helping to replace young, educated out-migrants, however, the next sections look at the demographic structure of rural business owners and proceeds to compare the aspirations and motivations of older and younger, male and female business owners.

#### **5.4 Age of Rural Business Owners**

In the previous section, the loss of the higher educated young people from rural economies was observed but average education levels were sustained by in-migration. This raises the question of whether in-migrants are significantly older than local business owners and whether this will have implications for their ongoing business activities. Counterurbanisation tends to be associated with older people and families (Lowe & Speakman 2006) and Table 5.4 demonstrates that this is reflected in the ages of in-migrant business owners.

**Table 5.4. Comparing the age of local and in-migrant business owners**

Origin	No. Firms	Age Category			
		< 30	30-44	45-65	> 65
Local	589	3.9%	36.3%	56.4%	3.4%
In-migrant	698	1.1%	23.0%	70.3%	5.6%

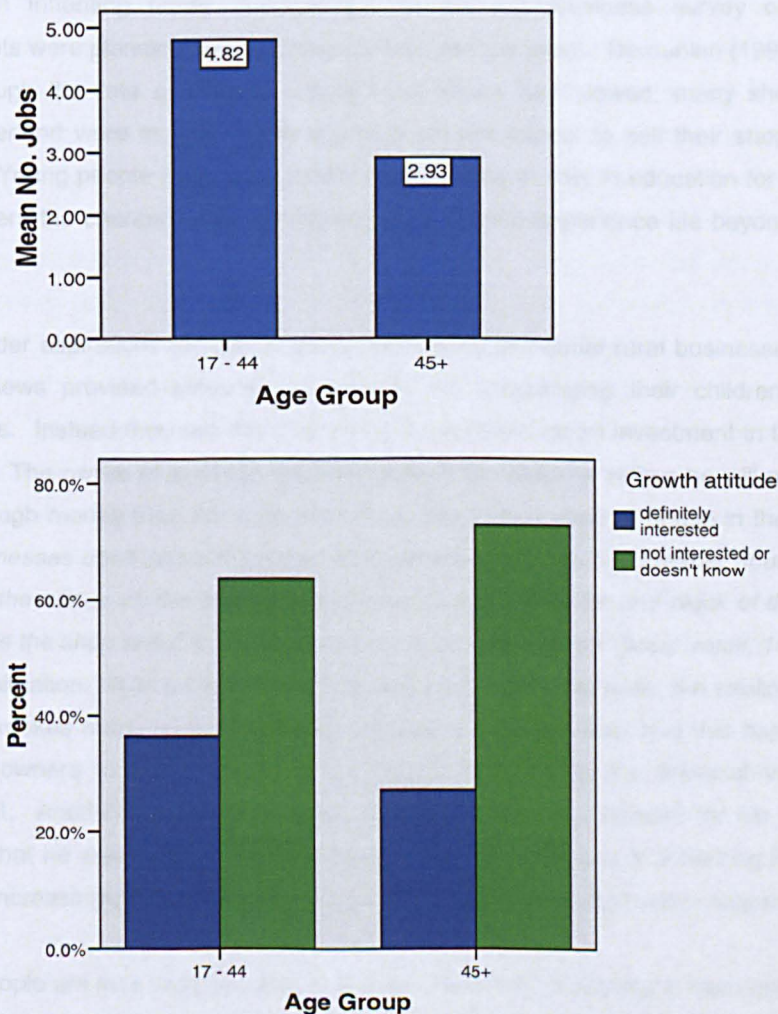
The data here shows that in-migrants running businesses tend to be older than their local counterparts with more than three-quarters of in-migrant business owners over the age of 45. The figures were similar when hospitality firms were excluded<sup>9</sup> from the analysis so any trend of retirees moving to run bed and breakfasts or other hospitality businesses is not skewing these results. To be classed as an in-migrant in this survey, people must have moved into the area as adults so it is perhaps not surprising that their average age is higher. Regardless of the reasons, the fact that in-migrant business owners tend to be older is affecting the rural

<sup>9</sup> With hospitality firms excluded, none of the percentages were more than 1% different to those shown in the table above.

economy. They may bring with them a greater accumulation of knowledge and financial capital but equally they may have fewer years for their businesses to grow and this is reflected in their business outlook.

The statistics show that business owners aged over 45 are less growth orientated than their younger counterparts, contradicting work by Storey (1994, pp122-123) who found that “middle aged owners are more likely to found rapidly growing firms” and overcoming concerns that younger individuals are more likely to be credit-constrained (Sparrow & Patel 2007). As Figure 5.1 illustrates, older business owners are also providing fewer jobs than their younger counterparts. Given that older business owners can be expected to have more experience, wider contacts and be more financially stable, this may be evidence of a lack of motivation rather than a reflection of any specific structural barriers to growth.

**Figure 5.1. Comparing the job creation and growth aspirations of younger and older business owners**



The fact that in-migrants are better educated, have more experience and more capital means that they are potentially pricing younger, local people out of the market. If this is true, the rural economy of the North East will continue to rely on in-migrants to replace retirees because relatively fewer local businesses run by younger people can grow to fill this gap. However, the growing opportunities for young people to leave their local areas has coincided with the growing trend of counterurbanisation among older sections of the population so it could be argued that without these older in-migrants, rural areas would be facing many different problems. Instead, the exodus of young people is being replaced by individuals with higher levels of financial and human capital. If in-migrant businesses are able to spread these benefits throughout rural areas and if they increase the volume of local trade, it is quite possible that all businesses can benefit from a flourishing rural economy. The extent to which in-migrants interact locally is explored in Chapter 7 but we can already begin to see the importance of local interaction.

Another, perhaps associated, trend that is developing in rural areas is a much lower instance of children inheriting family businesses. In the microbusiness survey only 5.5% of respondents were planning for succession in the next ten years. Derounian (1993) also noted that although the rate of closure among rural shops had slowed, many shopkeepers in Northumberland were in late middle age and did not expect to sell their shop as a going concern. Young people now have greater opportunities to stay in education for longer which in turn offers the chance to secure higher paid jobs and experience life beyond their home area.

With broader aspirations for young people and many traditional rural businesses in decline, the interviews provided evidence of parents not encouraging their children to take on businesses. Instead they see the business and premises as an investment in their personal pensions. The owner of a village shop explained that when he retires he will not be able to make enough money from the sale of the business to buy another house in the village. He said *"businesses don't sell and you wouldn't get the returns to buy another house. We want to stay in the village so the best idea would be to stay in the flat and block of the shop. We could lease the shop and if that didn't work, we'd just close down"* (local, retail, 14). This is not a unique situation. With property prices soaring over recent decades, the capital value of the premises makes many rural businesses unviable for a purchaser and this has encouraged business owners to look for alternative means of realising the financial value of their investment. Another shop owner hopes that he will find a purchaser for his business but admitted that he was pleased that his children are not interested in inheriting it because he feels it is increasingly difficult to survive as a small newsagent (*planned in-migrant, retail, 10*).

If older people are less likely to pass on a viable business, especially in circumstances where they are able to cash in on the value of property, this not only has economic implications but it

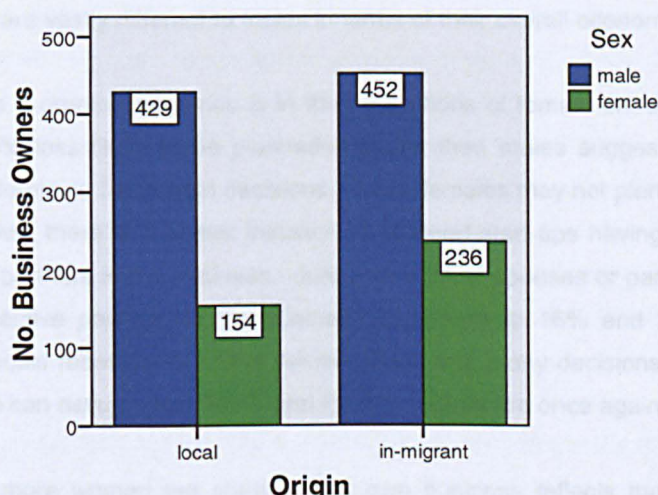
also has significant implications for the built environment. We have seen an ongoing trend of rural pubs, shops and post offices closing and in the majority of cases these are turning to residential uses. For the long term, this is taking away the opportunity for other rural businesses to start as the cost of creating new retail premises would make a new venture unviable. An ageing population of rural business owners appears to be associated with smaller, low-growth businesses with less prospects of inheritance or re-sale when the owner retires. If this is true in all rural areas, there may be a real concern for the viability of rural economies over the coming decades but if we consider the continuing trend of counterurbanisation and the fact that entrepreneurs will continue to migrate into rural areas, hopefully the numbers of new firms will compensate for any lack of growth within individual firms.

### **5.5 Female Entrepreneurship**

Previous sections have already highlighted the diversity among rural microbusinesses and recent trends demonstrate that this includes a better balance of male and female entrepreneurs. Bank records show that an increasing proportion of new businesses are started by women, on their own or in association with others, and their role is emphasised by the growth of WiRE, a designated network for female entrepreneurs across rural Britain. Women played a part in nearly one third of all new start-ups in 2005, a rate that rose to more than half in some rural areas such as Derbyshire Dales, Eden, South Lakeland and Forest of Dean (Barclays Bank 2006). Such parity of business starts between men and women has been a goal of government in recent years and in 2003 a national strategy for women's enterprise was agreed between many economic and business organisations. The Women's Enterprise Task Force ([www.womensenterprise.co.uk](http://www.womensenterprise.co.uk)) continues to promote female entrepreneurship which now provides a target for Business Link operators in most regions (CRC 2007, p91).

GEM data tells us that women account for 5.1% of total entrepreneurial activity in rural areas compared to 3.8% in suburban and 3.4% in urban areas (One NorthEast 2006). In the North East, data shows that in-migration is contributing to a growth in female-run enterprises in rural areas. The graph below illustrates that, from the rural microbusiness survey, only 26% of local businesses have female owners whereas 34% of in-migrant business owners are female.

**Figure 5.2. Comparing the origins and sex of rural microbusiness owners**



Almost 70% of the respondents were males so, numerically they are still the dominant group but it is interesting to see that in-migration is beginning to redress this male domination. The statistics demonstrate that businesses owned by females have significantly lower annual turnovers and females are less likely to want growth. While they may not make such large economic contributions, they are still adding to the diversity of the rural economy and as female entrepreneurs have traditionally struggled to break into rural sectors, there is the potential for further growth as sexism and chauvinism is slowly declining in the business world.

This entrepreneurship among females is concentrated in certain sectors. Almost 40% of female business owners are in the hospitality sector and this rises to 45% (106 out of the 236) for female in-migrant business owners. Almost 23% of females are in retail compared to 25% of males with the next highest percentage of females being in business and domestic services (8% compared to 19% of males). Apart from hospitality, the only sectors where the actual number of females is higher than males is "other personal services" although proportionally, they are well represented in the "health and social care" and "education" sectors but these are relatively small sectors. In-migration is changing the patterns of female entrepreneurship in rural areas as local women are much more likely to be in the retail or personal services sectors whereas in-migrants are increasingly entering the hospitality and professional services.

The fact that 18% of female business owners have other employment compared to just 8.5% of men suggest that their businesses are likely to be smaller. Female business owners are also slightly less likely to be seeking growth (just 27% want growth compared to 32% of males) but they provide a slightly higher number of jobs (a mean of 4.12 compared to 3.26).

Also, women are only marginally more likely to run their businesses from home (62% work from home compared to 56% of males) so it would be wrong to consider that female entrepreneurs are vastly different to males in terms of their overall economic contribution.

Where there is a greater difference is in the motivations of female entrepreneurs. Females are almost 10% less likely to be planned-migrants than males suggesting that males are continuing to dominate household decisions. While females may not plan to start businesses when they move, there is a higher instance of planned start-ups having both husband and wife as active partners in the business. Just over 40% of spouses or partners of planned in-migrants are active partners in the business compared to 16% and 20% for unplanned starters and locals respectively. This demonstrates that many decisions are taken jointly in which case we can assume that family and lifestyle factors are once again significant.

The fact that more women are starting their own business reflects the desire for modern families to have two incomes and the smaller labour market in the rural North East is perhaps forcing more spouses into self-employment. Investigations into household composition and the impact of family issues upon female businesses would require a whole separate study but the key finding from this research is that counterurbanisation is associated with an increasing number of females running rural businesses, adding a further dimension to the increasing diversity of modern rural economies.

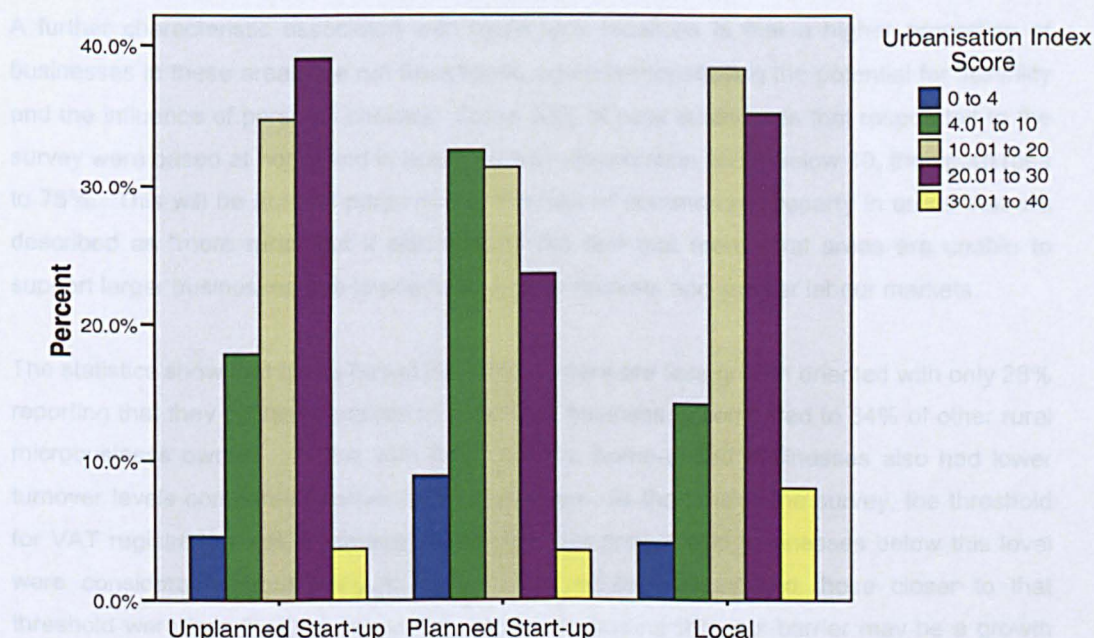
## **5.6 Business Location**

As described in Chapter 4, the sample of businesses included in this study was based on an urbanisation index which enabled comparisons of businesses based on settlement size and the proximity to other larger centres of population. Statistical analyses of growth aspirations, numbers of jobs and turnover levels produced no significant difference between businesses in more or less rural locations. From the interviews, however, there were a variety of advantages associated with more or less rural locations making generalised averages less valuable. Even specific issues were considered advantageous to some business owners yet a restraint to others. For example, lack of congestion was more important to some business owners (*planned in-migrant, manufacturing, 12 & 17*) while those with smaller quantities to deliver at any one time found the cost associated with the extra distance to be more of a burden (*local, manufacturing, 9*).

Interestingly, the above example of business owners who saw their location as an advantage were planned in-migrants and they tend to have greater choice as they are not restricted by an existing home location or local community links. Another example came from a pub/restaurant owner who had searched for premises across the whole country and had

therefore made a decision based on the local market, accessibility, the potential quality of life and the specific features of the property (*planned in-migrant, retail, 25*). Local individuals or those who were already living in rural communities saw certain aspects of rurality as barriers to business growth but they accepted this situation as an unavoidable feature of working in the countryside. Examples included shopkeepers with smaller customer-base (*planned in-migrant, retail, 4; local, retail, 14 & 34*), smaller labour markets (*planned in-migrant, manufacturing, 17; planned in-migrant, professional services, 13; local, hospitality, 2*) and reliance on seasonal trade. Figure 5.3 below shows that businesses located in more rural areas (the blue and green bars) are more likely to be planned start-ups. The pattern is similar when hospitality businesses are excluded so this trend cannot be attributed solely to planned hospitality start-ups preferring more remote areas.

**Figure 5.3. The location of unplanned start-ups, planned start-ups and local businesses**



From the interviews, a range of advantages and disadvantages were associated with a rural business location and there were differences between the perceptions of locals and in-migrants. Locals identified with their local community, understanding the market and people's requirements and trusting others in the community to help and support the business. In-migrants often identified more specific features such as being close to transport infrastructure, the landscape and environmental amenity or the opportunity to work from home, all factors that could be assessed when making the migration decision. On the negative side, in-migrants were more likely to refer to the "backwardness" of rural areas. Two respondents commented how sexism and racism were still prevalent in their local communities (*planned in-*

*migrant, hospitality, 19; unplanned in-migrant, professional services, 26*) and others felt that employees had fewer skills, marketing initiatives were poor and that business standards were generally lower.

Rural areas do provide specific opportunities that were recognised by locals and in-migrants alike. Tourism was seen as an important factor, not just among hospitality firms, and the image of the rural North East has been enhanced by the development of new attractions. A rural identity was also cherished among food and drink producers whose customers associate rurality with quality and authenticity. Negative characteristics such as remoteness and small local markets are accepted as an unavoidable feature of rurality, which for many people is more than compensated by the associated quality of life. Business owners are able to benefit more specifically by inviting clients to attractive office spaces, using rural images in their marketing and enjoying lower costs for property and labour.

A further characteristic associated with more rural locations is that a higher proportion of businesses in these areas are run from home, again demonstrating the potential for flexibility and the influence of personal choices. Some 58% of rural businesses that responded to the survey were based at home and in areas with an urbanisation score below 10, the figure rose to 75%. This will be at least partly due to the lack of commercial property in areas that are described as "more rural" but it also reflects the fact that more rural areas are unable to support larger businesses due to poorer access to markets and smaller labour markets.

The statistics show that home-based business owners are less growth oriented with only 28% reporting that they definitely wanted to grow their businesses compared to 34% of other rural microbusiness owners. In line with these results, home-based businesses also had lower turnover levels compared to other rural businesses. At the time of the survey, the threshold for VAT registration was a turnover of £51,000 per annum and businesses below this level were considerably more likely to be home-based businesses and those closer to that threshold were less likely to be seeking growth, indicating that this barrier may be a growth restraint for this category of rural businesses.

Interestingly, businesses run from home actually create slightly more jobs than those run from other premises but this is reversed where only full-time jobs are considered. A further positive association was that home-based businesses conduct more sales beyond the local area and spend more of their income in the local area making a positive contribution to the regional balance of payments. Home-based business owners are more likely to have a degree or diploma. Grouped together, 41% of home-based business owners compared to 34% of other business owners have one such qualification, supporting recent research by Mason (2008).

It was found that the home-based businesses were significantly more evident in the planned start-up category with 70% of planned start-ups moving to a home where they were able to run their business. With hospitality excluded from the analysis, the bias towards planned start-ups is no longer statistically significant demonstrating the higher propensity for in-migrants to buy properties that are suitable for accommodation or food and drink establishments and this may in turn explain the higher number of part time and casual staff employed by home-based businesses<sup>10</sup>.

As well as being more likely to work from home, planned start-ups are least likely to enter the rented sector which suggests that they are moving to the area with sufficient financial capital available to purchase property and invest in establishing a business. A high proportion of these businesses are in the hospitality sector but the statistics still suggest that potential local business owners might be priced out of commercial property markets in rural areas. This is supported by the fact that some 46% of the rented property sector is occupied by local business owners with 55% of freehold property in the hands of in-migrants (of either type). The rented sector has expanded in rural areas with farmyard (re)developments and barn conversions supported by the continuing power of large estates and farmers seeking alternative sources of income. Professionals in the property sector report that there is still latent demand for new developments but from this evidence, the factors influencing business location are not easy to predict and all types of location and a variety of properties are home to successful rural businesses.

## **5.7 Conclusions**

This chapter began by exploring the diversity among rural business owners and concluded with a section demonstrating that they are spread across a diverse range of rural areas and properties. In Chapter 6, results will show that in-migrants are running businesses across all industrial sectors too. The data available does not break down the sectors in enough detail to discover the extent to which this might be a more accurate explanatory variable and this has important policy implications if the aim is to attract the most ambitious in-migrant entrepreneurs. This research, however, is focused on the impact of in-migration and the important findings are that in-migrants display certain characteristics and are broadening the rural economic base. This added diversity is seen to be a strength, offering both resilience and opportunities to rural economies but it creates problems for researchers and policy-makers alike as traditional agricultural support or “one-size fits all” solutions are unlikely to address the wider needs of rural businesses.

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<sup>10</sup> See Newbery & Bosworth (2008) for additional analysis on this subject.

In-migrants have added to this diversity and the growing numbers of in-migrant business owners has coincided with a higher proportion of older people and females in self employment. The most notable attribute associated with in-migrants is that they tend to have higher educational qualifications and can use these and their work experiences to benefit their businesses. In terms of human capital, in-migrants are having a positive impact upon local economies and there is evidence to suggest that they also have access to greater financial and social capital resources. If entrepreneurial in-migrants are to be advocated as drivers of Neo-Endogenous Development, they need to possess and spread these forms of capital in the rural economy. Chapter 6 therefore explores how this is done in an economic sense before Chapter 7 explores the social relations that enable the transfer of non-monetary resources.

## ~ Chapter 6 ~

### **Microbusinesses and the Local Rural Economy**

#### **6.1 Introduction**

Chapter 5 compared the characteristics of different rural business owners and illustrated their considerable diversity in terms of sector, size and location as well as in the attitudes and backgrounds of business owners. To understand the impact of these businesses on local rural economies requires analysis of indicators such as job creation, income generation, local expenditure and growth. It is also important to investigate whether in-migrants are changing the structure of rural economies in terms of the size and sector of businesses. This chapter therefore seeks to quantify the contribution of both local and in-migrant business owners and to explore the impact that their activity is having on the contemporary rural economy.

Rural businesses have to operate within particular local contexts. Rural areas are gaining population through counterurbanisation and this population is growing wealthier but to achieve a working and vibrant countryside (DETR 2000) there also needs to be new rural business activity. "Between 1995 and 2004 rural districts saw an increase of over 7% in the number of new businesses registering for VAT (or 37,000 per year). This was marginally higher than the rate of increase in urban or mixed authorities" (CRC 2007). In Scotland "rural areas account for 48% of all business start ups" (The Scottish Government 2007) and in Northern Ireland there are 29 business starts per 10,000 people in rural areas compared to 19.4 in urban areas (Murtagh 2006) so numerically, it is clear that rural areas across the UK are now home to a significant and growing number of businesses. The CRC data suggests that this could be part of a counterurbanising trend that may see economic activity shifting away from our urban centres, following the population and wealth into more rural areas. Roden (2008) has also found evidence that rural market towns experience lower rates of growth in employment compared to their rural hinterlands, adding further evidence to suggest that economic activity continues to decentralise.

A recent study (OECD 2005) positioned the UK as the best place in the world to start and grow a business measured against the three criteria of administrative burdens on start ups, regulatory constraints and barriers to competition. However, there are significant differences and additional challenges for new and growing small businesses in rural, as distinct from urban areas, and, in the context of an increasingly globalised market place, between

accessible and remote rural areas (UK Leader+ Network, *not dated*). If a trend of commercial counterurbanisation is developing, it will not impact upon rural areas uniformly nor would we expect it to manifest itself across all business sectors but by analysing key indicators in today's rural economy we might identify key drivers of new forms of rural development.

The Commission for Rural Communities reports that "rural England supports 5.4 million employees, 74% of these are full time" (2007, p80). There are, however, only 4.6 million people working in rural workplaces, demonstrating that the trend of counterurbanisation is happening more quickly in terms of population than it is in terms of employment. Although the national economy is dominated by its urban centres, some 28% of all small businesses are in rural areas (DTI 2005) compared to approximately 19% of the population so in terms of business stocks, commercial counterurbanisation is a reality. These rural businesses provide a large number of jobs, are diversifying and sustaining rural economies and are making a significant contribution to the national GDP.

Moving to the regional level, a study in the North East showed that rural firms are contributing 11.3% of the regions GDP (Whitby *et al* 1999). Using the rural microbusiness database to examine the impact of migration on rural business creation, Table 6.1 shows that there has been a steady increase in the proportion of new business owners that are in-migrants. Of the surviving microbusiness population in 1999, only a quarter of owners who started their business before 1970 were in-migrants compared to almost 60% of those who started their business during the 1990s. The majority of business owners surveyed began running their businesses during the 1990s so the growth in rural business start-ups during that period (CRC 2007; PIU 1999) is linked, at least in part, with rural in-migration.

**Table 6.1. Comparing the years when locals and in-migrants began running businesses**

	No. Firms	Year owner started/took over the business				
		Pre 1970	1970-79	1980-89	1990-94	1995-99
Local	573	75.9%	56.6%	45.2%	40.4%	40.3%
In-migrant	684	24.1%	43.4%	54.8%	59.6%	59.7%
Total Firms	1257	58	159	396	339	305

Table 6.2 summarises the start dates of businesses in different sectors. We can see that the number of successful new starts (i.e. survived until 1999 when the survey was administered) in retail and land-based industries have continually fallen as a proportion of all new business activity while hospitality and other services have seen a continuing increase. This analysis cannot account for start-ups that failed, but it nevertheless provides an indication to back up other statistics showing the decline in primary sector businesses and the growth in a diverse range of service sector activity in rural areas. While it is those business sectors most

associated with local people that are in relative decline, the proportion of local business start-ups appears to be stabilising around the 40% mark so we must avoid making the assumption that growth in the rural business stock is associated solely with in-migrant business owners in these new rural sectors. It is important to recognise the importance of local business owners existing alongside and developing strong relations with the in-migrant business population

**Table 6.2. Comparing the years in which businesses in different sectors were established**

	Pre 1970		1970-79		1980-89		1990-94		1995-99	
	No. Firms	Percent	No. Firms	Percent	No. Firms	Percent	No. Firms	Percent	No. Firms	Percent
Land-Based Industries	12	6.5%	9	5.8%	18	5.0%	14	4.8%	8	3.3%
Manufacturing	9	4.9%	21	13.6%	48	13.3%	30	10.3%	28	11.4%
Construction	18	9.8%	21	13.6%	29	8.1%	12	4.1%	16	6.5%
Retail	85	46.2%	35	22.7%	76	21.1%	57	19.5%	39	15.9%
Hospitality	26	14.1%	29	18.8%	77	21.4%	68	23.3%	65	26.4%
Business/Domestic Services	11	5.9%	18	11.7%	66	18.3%	64	21.9%	41	16.7%
Other Services	23	12.5%	21	13.6%	46	12.8%	47	16.1%	49	19.9%
Totals	184	100.0%	154	100.0%	360	100.0%	292	100.0%	246	100.0%

Having demonstrated some of the general patterns of rural business activity, the economic characteristics of these firms must be examined in more detail. With growing numbers of rural businesses, the research must explore the extent to which they are creating the necessary employment and growth to stimulate rural development.

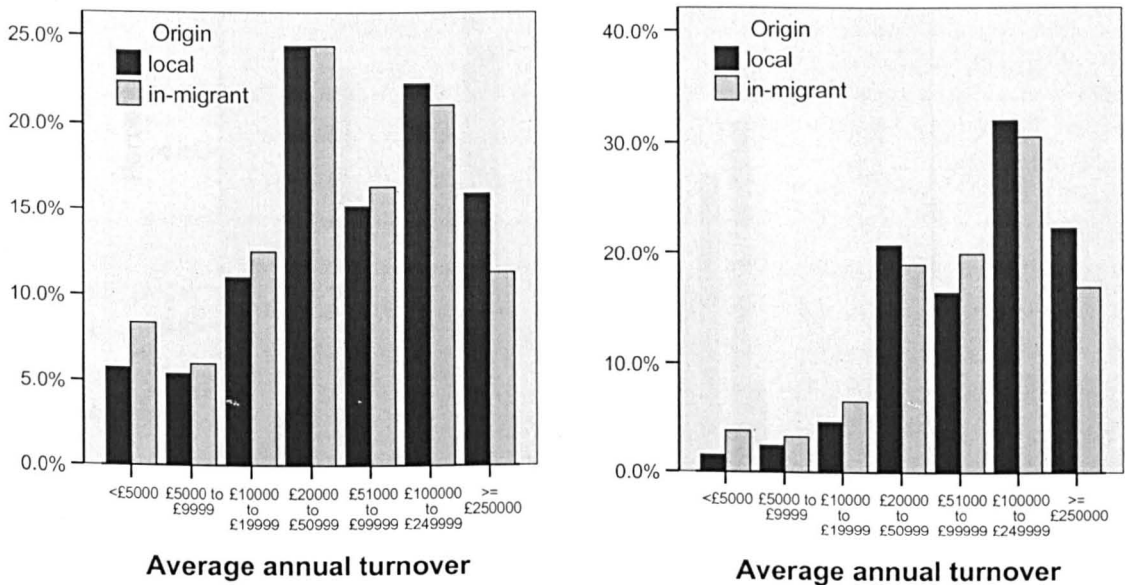
## **6.2 Comparing the Size and Turnover Levels of Rural Microbusinesses**

The introduction to this chapter set out evidence demonstrating that the rural economy has experienced both growth and diversification over recent decades, coinciding with the demographic trend of counterurbanisation. "The proportion of business stock in rural areas exceeds the relative proportion of the resident population at 19.35%" (Countryside Agency 2005, p92). Although this demonstrates that there is a lot of economic activity in rural areas, it also implies that rural businesses are on average considerably smaller than those in urban areas.

The vast majority of businesses, whether located in rural or urban areas, are small; four out of five have fewer than nine employees and turnover less than £250,000 per annum (ONS 2003). The key differences between rural and urban businesses are that rural areas tend to have slightly more very small businesses and fewer very large ones (CRC 2005, p28). In the previous section we saw that just over 11% of microbusiness owners surveyed in the rural

North East had other jobs aside from the business in question implying that they do not generate enough income to support an individual or family income. Further data from the North East shows that 86.6% of the microbusinesses surveyed had turnovers below £250,000 per annum. Rural areas are also associated with a higher occurrence of self-employment and sole traders (CRC 2008; The Chambers 2006). In the North East survey, 34% of rural microbusinesses employed no staff (including full-time, part time and casual staff) although only 17% reported that they worked alone in the business suggesting that many small firms are integrated with family life and there are people that can offer support to the business without being considered as employees.

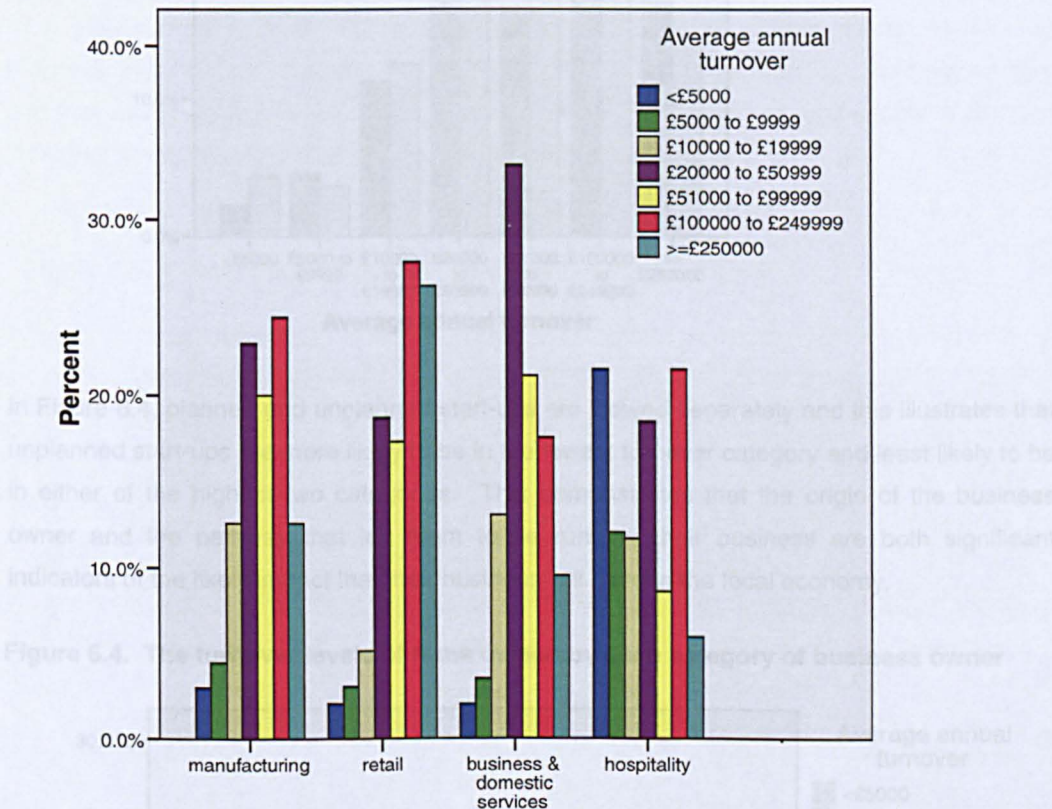
**Figure 6.1. Comparing the average annual turnovers of (i) all local and in-migrant owned microbusinesses and (ii) excluding those with no employees**



The survey data is restricted to microbusinesses but, as they represent the vast majority of rural firms, it is a valuable resource for comparing the people and sectors that generate the highest turnovers. The categorised data for the annual turnover of each business is illustrated in Figure 6.1. This illustrates that firms with higher turnovers are more likely to have local owners while those with lower turnovers are more likely to be owned by in-migrants. To remove any bias based on the higher number of sole traders among in-migrants, those businesses with no employees were removed from the analysis for the second graph. Although there are fewer firms in the lower categories, the distribution between local and in-migrants remains similar.

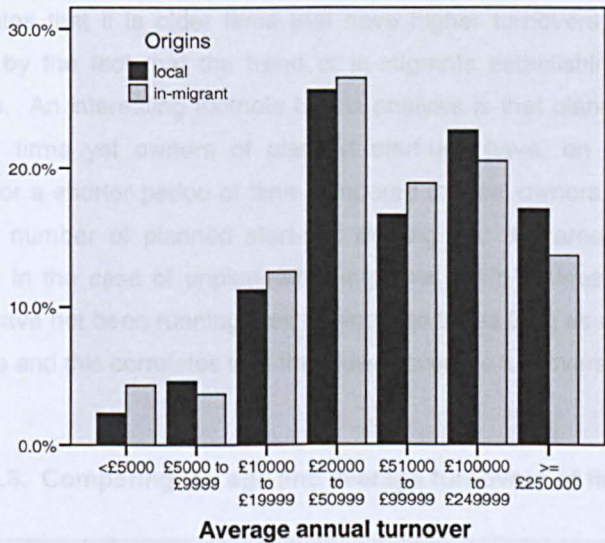
Raley & Moxey's (2000) had previously excluded hospitality firms from some of their economic analysis because many of these firms have lower turnovers. Figure 6.2 below confirms this with higher blue and green bars, so it is important to test the hypothesis that in-migrants may be increasingly likely to set up smaller businesses within the hospitality sector.

**Figure 6.2. Comparing the average annual turnovers across the principal business sectors**



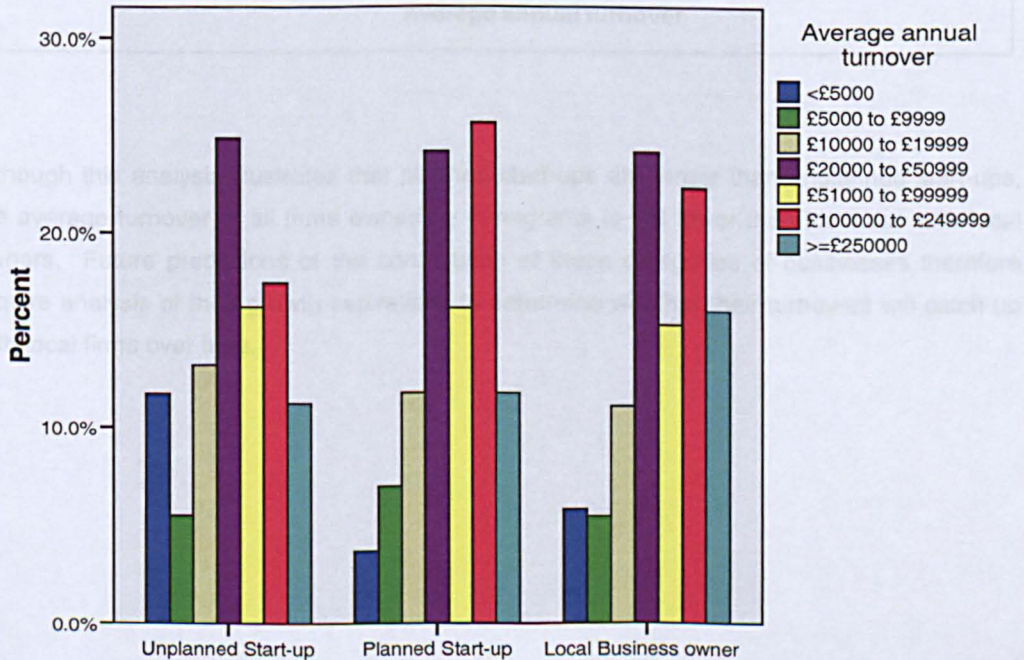
Excluding hospitality firms from the earlier analysis, the graph in Figure 6.3 shows a very similar trend to those in Figure 6.1 above. The only differences are that without hospitality firms, local firms outnumber in-migrants in the £5,000-£9,999 category while in-migrants are slightly more prevalent in the £20,000-£50,999 category. The changes are marginal, however, so the propensity for locals and in-migrants to establish smaller hospitality businesses does not explain the more general pattern of locally owned businesses having higher turnovers.

**Figure 6.3. Comparing the average annual turnovers of local and in-migrant microbusinesses, excluding those in the hospitality sector**



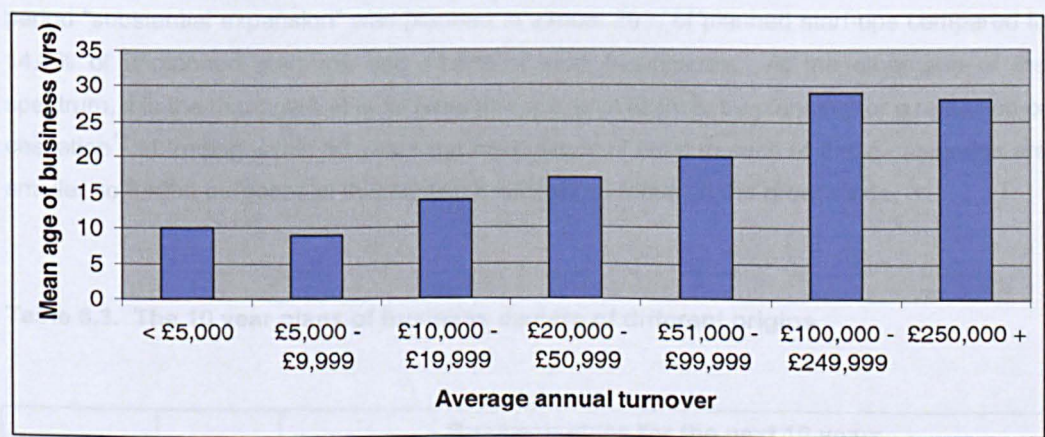
In Figure 6.4, planned and unplanned start-ups are viewed separately and this illustrates that unplanned start-ups are more likely to be in the lowest turnover category and least likely to be in either of the highest two categories. This demonstrates that the origin of the business owner and the pathway that led them to be running their business are both significant indicators of the likely impact that their business will have in the local economy.

**Figure 6.4. The turnover levels of firms owned by each category of business owner**



Older businesses are associated with higher turnover levels and locally-owned businesses tend to be older than those owned by in-migrants. In 2000, firms owned by locals had a mean age of 23 years compared to 19 years for those owned by in-migrants. Figure 6.5 demonstrates that it is older firms that have higher turnovers so such a pattern might be explained by the fact that the trend of in-migrants establishing businesses is a relatively recent one. An interesting footnote to this analysis is that planned start-ups are on average the oldest firms yet owners of planned start-ups have, on average been running their business for a shorter period of time compared to local owners. This can only be explained by a high number of planned start-ups moving into the area in order to run an existing business. In the case of unplanned in-migrants, their businesses are on average younger and they have not been running their businesses for as long as either local people or planned in-migrants and this correlates with their lower average turnovers.

**Figure 6.5. Comparing the age and average turnovers of firms**



Although this analysis illustrates that planned start-ups are larger than unplanned start-ups, the average turnover of all firms owned by in-migrants is still lower than for those with local owners. Future predictions of the contribution of these categories of businesses therefore require analysis of their growth aspirations to determine whether their turnovers will catch up with local firms over time.

### 6.3 Business Plans and Attitudes Towards Growth

In Chapter 5, we saw that not all business owners are driven by growth with many aiming for nothing more than survival and the maintenance of a certain standard of living. From the survey, only 2% of business owners reported that their current profits were insufficient to pay to renew equipment or refurbish premises, with no statistically significant differences between locals and in-migrants, so most businesses clearly have a solid foundation. Unplanned start-ups were slightly less likely to be “managing fairly easily” than either planned start-ups or local businesses but these differences are not statistically significant.

Looking at the hopes of business owners for the next 2 and 10 years also suggests that planned in-migrants are more optimistic about the future. Only 3.6% of owners of planned start-ups expected to have reduced or stopped trading in 2 years time compared to 7.3% of owners of unplanned start-ups and 5.7% of locals. Also, 12.3% of owners of planned start-ups were planning for growth over the next 2 years compared to just 10.7% of owners of unplanned start-ups and 9% of local owners. As illustrated in Table 6.3, over a ten year period “substantial expansion” was planned in almost 20% of planned start-ups compared to 14.4% of unplanned start-ups and 11.8% of local businesses. At the other end of the spectrum, it is the managers of local firms that are least likely to be planning for a reduction or cessation<sup>11</sup> of trading within 10 years but the number of firms in each of these categories are smaller so for the purposes of this section it is better to focus on the growth side.

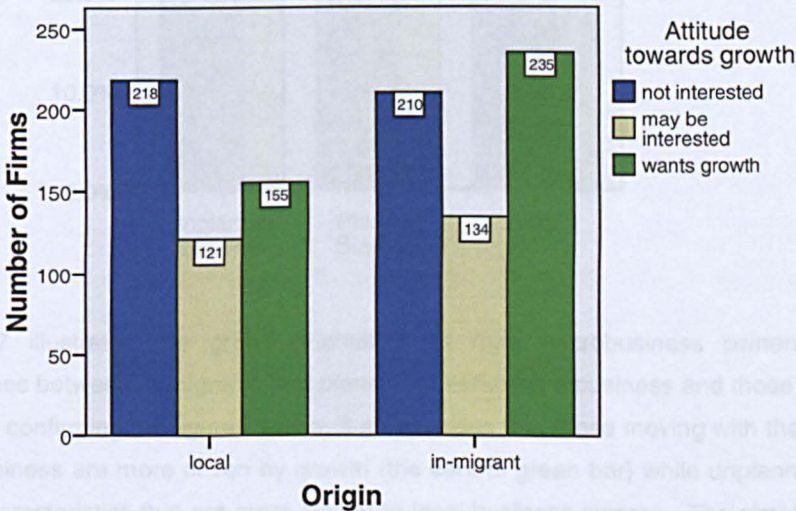
**Table 6.3. The 10 year plans of business owners of different origins**

Origin	Number	Business plans for the next 10 years				
		Expand	Maintain	Reduce	Sell/Succeed	Stop Trading
Local	589	11.8%	37.0%	1.9%	18.7%	9.7%
In-migrant	693	16.7%	31.8%	3.5%	20.8%	12.7%
Planned	281	19.7%	28.3%	2.9%	24.0%	13.3%
Unplanned	412	14.4%	34.6%	3.9%	18.5%	12.2%

<sup>11</sup> Plans for the sale or succession of a business are interpreted in a positive light as they imply that owners are striving to continue the business and prospects for a sale also imply that the business will retain an inherent value as a going concern.

Data from the Small Business Survey (DTI 2005) shows that 39% of SMEs without employees and 56% of SMEs with employees reported that they were aiming to grow. Among rural microbusinesses in the North East, 43% of businesses without employees and 52% of those with employees wanted growth. The question was framed slightly different in the North East survey so the actual figures cannot be compared but the relationship between them confirms that in both cases firms with employees tend to be more growth orientated.

**Figure 6.6. Attitudes towards growth among in-migrant and local business owners**



Statistics from the rural microbusiness survey show that across the rural North East 44% of local business owners are not seeking growth<sup>12</sup> compared to only 36% of all in-migrants. Similarly, 41% of in-migrants are seeking growth compared to only 31% of locals with similar figures for those reporting that they may be interested in growth. Figure 6.6 above illustrates this and displays the actual number of firms rather than the percentages. A chi-square test confirms that these differences are statistically significant within a 5% confidence level. From these results we can forecast that the differences in annual turnover between local and in-migrants' firms will level out and also that in-migrants will employ more people in the future.

<sup>12</sup> In the survey questionnaire, respondents were asked to state whether they were “definitely not interested in expanding the business”, “would definitely like the business to grow” or “would consider expanding the business”. Business growth/expansion was defined as increasing turnover and/or taking on more employees and/or expanding the premises or machinery.

**Figure 6.7. Origin of microbusiness owners and their attitudes towards growth**

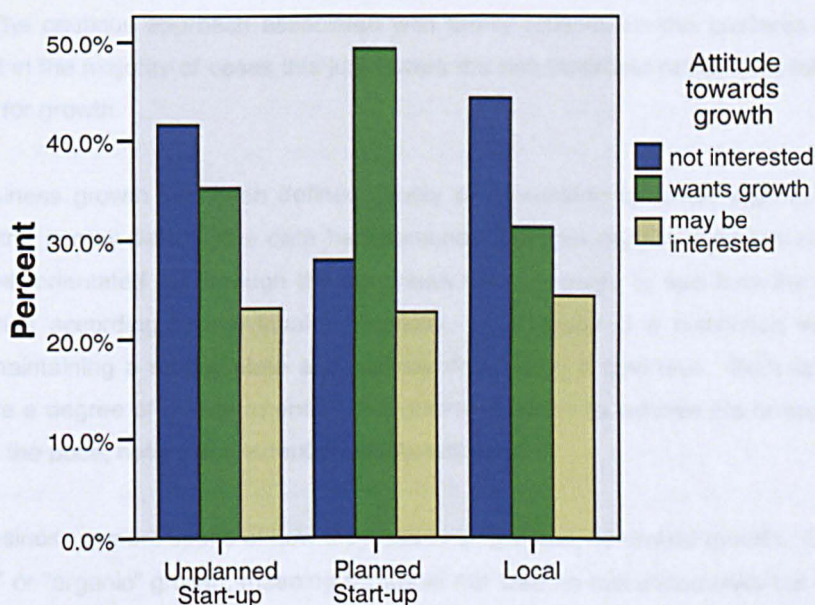


Figure 6.7 illustrates the growth-orientation of rural microbusiness owners and also distinguishes between in-migrants that planned to establish a business and those that did not. As well as confirming the figures above, it emphasises that those moving with the intention to start a business are more driven by growth (the central green bar) while unplanned start-ups display characteristics that are more similar to local business owners. The simple fact that a start-up is planned would suggest that the owner has considered growth and 5 or 10 year ambitions more than someone who has started a business with less clearly defined plans. The fact that in-migrants of either category are more growth orientated than local people, however, seems to indicate that they are introducing a more entrepreneurial and more positive approach to running their businesses and this is undoubtedly beneficial to local economies.

### **6.3.1 Why are Some Business Owners More or Less Growth Orientated?**

The Countryside Agency reported that “a third of rural micro-firms may hold little ambition to grow profits or take on employees” (2003, p13) and this is in part linked to the centrality of households. Where there are no large overheads in terms of labour or property costs, individuals are able to be flexible and accept lower profits so long as their businesses are able to support their family livelihood. The family is undoubtedly an important consideration for many business owners but it need not prevent growth. It may stall growth plans and lead to cautious growth but even where business owners are not driven by profit-maximisation, they recognise the need for ongoing business development. Other more physical problems such

as a lack of space, small markets for output or difficulties in recruiting essential staff are more likely to prevent growth because the cost and risks of addressing these problems are much greater. The cautious approach associated with family reliance on the business is always evident but in the majority of cases this just lowers the risk threshold rather than taking away any desire for growth.

So far business growth has been defined simply as increasing turnover, staff or premises based on the survey data. This data has demonstrated that certain business owners are more growth orientated but through the interviews we can begin to see how the pursuit of growth varies according to individuals' situations. In Chapter 5 a distinction was drawn between maintaining a steady state and actively developing a business. Both approaches may require a degree of growth to enable the business owner to achieve his or her personal targets but the pace, nature and extent of growth will vary.

Several business owners spoke of how they had seen gradual, controlled growth. One spoke of "natural" or "organic" growth, meaning he would not take un-calculated risks but wanted to ensure that the business was in a position to move forward before making a significant financial investment or other commitment. Another owner said of his business *"It's grown organically rather than pushing a lot of money at growth" (unplanned in-migrant, manufacturing, 4)*. Partly this was due to family restrictions as his wife would not let him re-mortgage their home but although this has led to a slower rate of growth it has helped to secure strong foundations for the business.

Another example of a business owner wanting to be in control of growth came from a food manufacturer. He said, *"It's not to say if we had a professional person coming in we couldn't be twice the size we are now, but we've grown slowly, we've adapted to what we're doing, we've not had to suddenly employ half a dozen staff and find that our market disappears, we've grown slowly but we've grown well" (local, manufacturing, 20)*. In this case, the owner wanted to ensure that he was personally in control of his business development and not taking risks that were influenced by factors outside of his control. The distinction between growing rapidly and "growing well" is a valuable one, especially for small businesses in areas where their markets may be subject to significant fluctuations.

This need to be in control is predominantly linked to other aspects of the individual's life. One sole trader explained how the risks are so much greater than working for another firm as, even with insurance, everything comes back to his responsibility (*planned in-migrant, professional services, 13*). The independent nature of many rural business owners is linked to this desire to manage their risks and responsibilities. In most cases it is not only the individual but his or her responsibility extends to family members, staff and customers.

One business owner considered expansion but said *"My husband didn't want the extra work...or extra debt probably more than anything"* (planned in-migrant, retail, 3). With a young family and a limited rural market, costly expansion would have been a significant risk. Having almost reached full capacity within their own premises, the obvious step was to move into a bigger shop but the one-off cost and the transition period would have a far greater impact on a smaller business than larger ones. The owner also explained that *"it's not very often premises become available, if we don't go for it now it's unlikely we'll have any other opportunity."* The lack of opportunities for expansion combined with the associated high costs and risk certainly create blockages in rural economies and this is where development policies might best be targeted.

Growth can be a daunting prospect for many rural business owners. Especially when business is good, the prospect of change can be seen as an unnecessary risk. The owner of a tea-room said, *"at times we think we can't deal with any more customers"* (local, hospitality, 8) and another business owner explained how growth would require a new member of staff, a website and rethinking the way that he worked (planned in-migrant, professional services, 13). Finding the time to address each of these issues while continuing to run the business alone is challenging and can restrict potential business development. Larger firms have structures in place to recruit staff or hire IT consultants but when taking on a new member of staff means doubling the workforce, the responsibility that is placed on that new recruit is substantial and demands careful planning. Some entrepreneurs may take a gamble but where the success of the business and in turn the livelihood of the owner is at stake, it cannot be done faint-heartedly.

One problem for small businesses is that there are seldom any clearly defined methods for managing growth at the most basic level. As one business owner explained, *"The problem is, you start out with one then two people and the office grows but nobody's ever sat down with me and said this is how a modern office is run, I'm not sure you can get advice on that"* (in-migrant, manufacturing, 16). There are almost certainly inefficiencies in this process as individuals have to try out new software, new procedures and new people, whether they are clients, suppliers or staff. He hopes to build an extension to the premises saying that growth was important because *"A lot of money is in stock downstairs, if we can turn that over faster, everybody's happy."* These issues do not prevent growth but they can slow down the rate at which business owners are comfortable in pushing for expansion.

A business owner who has gone through this process on more than one occasion explained that he now offers consultancy advice to other small firms and said *"you begin to realise the knowledge you've accrued over a relatively long time period has a value even if it's just to save people wasting their time going round to find out what you know"* (local, professional services, 11). This inefficiency of accruing knowledge can be overcome with the help of

supportive personal contacts but whether it is close friends or consultants, this advice is both valuable yet difficult to quantify and break down.

A clear exception to the risk-averse nature of business owners with family responsibilities was demonstrated by someone taking the decision to leave her full time job and work full time in a small business which, until then, had been struggling to take off. She explained that after the foot and mouth outbreak she felt *"we had to stand our ground"* (*unplanned in-migrant, retail, 5*) and this resilience has clearly paid off as the business has subsequently grown significantly. It is doubtful that many others would have taken the same move with a teenage daughter and a house still under renovation and she confessed that *"it looked like complete suicide at the time"* but because both partners worked in the business, they were able to support each other in their joint decision. These examples of different attitudes towards growth illustrate that individuals' perceptions of risk are clearly important for the development of their businesses. Larger organisations have shareholders or directors to share the responsibility for major decisions but independent business owners have to rely on their own conviction. While many business owners are cautious, however, in many cases they are still innovative and driven to succeed.

### **6.3.2 Achieving Growth through Innovation or Diversification**

There are many perceived and actual barriers to achieving growth in rural areas. Burgess (CRC 2008, p12) lists 14 challenges and barriers identified from meetings with rural and economic practitioners across England and these include factors relating to recruitment, funding, premises, transport, affordable housing, bureaucracy, planning restrictions, low wages and the loss of young people. From the survey data, statistics show that firms with a turnover in the £20,000-£51,000 per annum bracket were also significantly less likely to be growth orientated. In all other categories, owners of firms with larger turnover were more likely to be seeking growth but only 22% of businesses owners in this turnover band were growth-seeking. This suggests that there is a barrier where it may require a considerable jump in order to grow to the next level and it is perhaps not a coincidence that at the time of the survey, £51,000 was the threshold turnover for VAT registration. Despite this, only a third of respondents in the microbusiness survey said that they were not interested in growing their business and this further analysis highlights that even business owners who feel that they are unable to sell more of their existing product range were striving for growth. This is taken as an indication that these individuals are basing growth aspirations on innovations that extend beyond simply increasing production.

When asked whether they thought they could sell more of their current range of products, in-migrants were more likely to have a positive outlook. 41% of in-migrants thought they could sell more of their current product range compared to 33% of local business owners.

Moreover, of the in-migrants that felt they could not sell more of their products, 37% still reported that they wanted growth compared to 16% of local business owners in the same situation<sup>13</sup>. This would seem to imply that in-migrants are better able to consider expanding their product range and generating business growth through different methods. Indeed, 13.4% of all in-migrant firms (rising to 20% of planned start-ups) compared to just 6% of locals, felt that they could not sell more of their current products yet still sought to grow the business. If they are running at full capacity in the marketplace and seeking to expand beyond this, it is fair to assume that certain types of in-migrants are more highly motivated and innovative entrepreneurs.

Looking beneath these initial findings, the data allows further assertions about the types of in-migrants who are innovative, based on the above definition. Of in-migrants who think that they cannot produce more of their current products, 63% of those with degrees want growth compared to 54% of those without higher education. In-migrant business owners with turnover above £100,000 are significantly more likely to want growth (91 businesses in this categorisation are seeking growth compared to 38 not seeking growth) and those with turnovers in the £10,000-£20,000 and £51,000 to £100,000 are also more likely to want growth, even when they cannot produce more of their current products. Just 18% of business owners working alone want growth in such circumstances and of the main business sectors, only in-migrants entering the retail sector are more likely to be seeking growth in the situation where they feel they cannot produce more of their existing product. In this sector, the product is not restricted by the business itself so growth can occur through the introduction of new product lines without the same expenditure as in manufacturing or hospitality for example. Other services such as education, health, recreation and sport all highlight relatively higher degrees of innovation but these are based on small numbers of businesses so no firm conclusions can be drawn. Overall, however, business size and education appear to be significant factors in the likelihood of in-migrants being able to seek growth despite a perception that they cannot produce more of their existing products.

At the other extreme, in-migrant business owners are also more likely than locals to recognise that they could sell more of their products but have no desire to grow. Over 30% of in-migrants who were not growth oriented said that they could sell more of their product. This was 10% of all in-migrant businesses compared to just 6% of local business owners who were in a similar position. As with job creation, we see in-migrants outnumbering locals at both ends of the scale, there are more highly motivated business owners seeking growth and business development along with the provision of more jobs but there also a higher number of in-migrants that are sole-traders and are happy to trade at a sub-optimal level. This appears

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<sup>13</sup> On the questionnaire, the question about attitudes towards growth came just after the question about whether the firm could expand within its current product range so it is reasonable to assume that the respondents made this connection and were not simply saying that they would like to grow without giving thought to how they may achieve it.

especially true as business owners grow older so it is important that in-migration is not just associated with an ageing population (Lowe & Speakman 2006) but that younger in-migrants are able to develop successful businesses which have a longer time to develop into high-turnover and higher employing firms.

From the interview data, it is possible to investigate these findings in more detail. There were many examples of microbusinesses demonstrating innovative behaviour, from farm diversification projects, the development of new products, the targeting of new markets and the development of improved technologies and working practices. In one case (*in-migrant, manufacturing, 17*) a business grew by reducing the range of products that were made. By specialising in the higher profit, niche products, the firm was able to increase production and develop a reputation as a specialist in a particular field. Reviewing each of the 40 respondents, only 5 of the 16 local businesses (3 of whom were in the manufacturing sector) had plans for a significant investment to expand their premises or the scope of their business activity. By comparison, half of the 24 in-migrant businesses had either made such an investment in the last year or were planning to do so within the next 2 to 3 years.

With a relatively small sample, these results are not statistically significant but analysis of the rationale behind these decisions demonstrates the importance of individuals' attitudes in terms of business growth. With older business owners, it is easier to understand why they may be less growth orientated or innovative. Four interviewees had retirement very clearly in their minds and since they had no obvious successors their personal goals were just to maintain their standard of living until they could claim their pensions. In each case the premises were rented and the business was perceived to have a low value so any major investment was unlikely to make a significant difference to the value of the businesses. These sentiments were shared by both local and in-migrant business owners and although future ambitions such as "*just to keep going until I retire*" (*local, retail, 33*) may suggest that the business is not a major contributor to the rural economy, this owner still employs two staff and provides a valuable service to the local community.

For other business owners, the decision to stay at a similar size is based on a risk-aversion strategy. With sole traders or partnerships, an additional member of staff would change the dynamics of the business and in two interviews this concern was coupled with the need to retain a reputation for high quality and professionalism which had been built up by the individuals themselves. Entrepreneurship is not just about new firm formation and growth but it incorporates all business approaches that lead to survival, whether that requires specialisation, expansion or diversification. In rural areas, the size of local markets and the distance to customers and/or suppliers can restrict growth so business plans have to take account of this. Two local manufacturers explained that their focus was on supplying good quality and good service to their local markets because the cost of transportation and

marketing and the level of competition in other regions made such expansion untenable. Business owners have to be realistic and once limits are established, growth can be managed within those achievable parameters.

Innovation, like entrepreneurship (GEM 2006), can usefully be divided into two categories – necessity and opportunity. Among farmers, we have seen a lot of necessity entrepreneurship as they have established new businesses, sometimes connected to the farm and sometimes quite separate. Others who start businesses that hit difficult periods may also have to diversify to seek out new opportunities. A consultancy firm did just that after an initial source of work ended and they were unable to secure new clients without spreading into new fields (*unplanned in-migrant, professional services, 1*). In these examples, the opportunities for innovation all came from personal contacts, either from previous work or from social networks. A family friend introduced a new client (*unplanned in-migrant, professional services, 1*), a farming friend offered diversification advice (*local, manufacturing, 20*) and another farmer was able to work with a family member to establish a diversification business on the farm (*local, manufacturing, 6*). Close friends offer support in times of need but they are often less helpful for opportunity innovation.

Where businesses are seeking to expand into new markets, it is easier to take advantage of weaker ties and contacts in other business networks for innovation as the prospect of expansion makes the business an attractive proposition for other networkers and these more distant contacts will be exposed to wider pools of useful information. Examples of weak tie networking include attending trade shows (*planned in-grant, manufacturing, 17*), enlisting a new agent to seek out new sales (*planned in-migrant, manufacturing, 12*), attending regional meetings of potential clients (*unplanned in-migrant, professional services, 29*) or extending advertising (*un-planned in-migrant, hospitality 30; local, hospitality, 31*). Such activities are attempts to raise the business profile and get to know people who will be able to create or at least signpost opportunities for expanding business. Among close contacts, these actions are not required as the social capital within closer groups of friends reinforces reputations and ensures that individuals will help one another and share useful information. In-migrants may be better placed to interact with these weaker networks as they tend to have more widespread strong ties that can inform them of events and opportunities beyond the local region but comparisons of networks will be explored in more detail in Chapter 7.

The innovativeness of rural businesses has been the subject of considerable research (e.g. Camagni 1991; Cooke & Willis 1999; Deakins 2007), but more data is required to draw direct comparisons between local and in-migrant business owners. This section has illustrated that in-migrants appear to have more positive and more innovative outlooks but further details on patents, new product development, expansion into new markets and new production processes would all add detail to these findings. While the positive outlook of in-migrants is

considered a good thing for rural development, the next section explores the job creation of these firms to test whether the wider rural population is reaping the benefits in terms of new employment opportunities.

#### **6.4 Employment Creation in Rural Microbusinesses**

The data on growth aspirations are indicative of how business owners approach their businesses and give a sense of the future trajectory of the rural economy, but an assessment of the current situation requires analysis of other indicators too. Employment is a critical measure of economic development as it reflects individual livelihoods as well as business growth and productivity. Rural firms are traditionally smaller than those in our towns and cities and job opportunities and career development may be more limited in rural areas. In 2005 the average firm located in rural areas employed 6.2 people including the owner (ONS 2006). This compares with 16.3 workers in the average urban firm (CRC 2007, p84). This section therefore aims to explore the numbers of jobs created by rural microbusiness owners. As well as contrasting different business sectors and local and in-migrant business owners from the survey data, regional statistics are introduced to provide estimates of the total employment numbers across the rural North East.

The Commission for Rural Communities tells us that rural England is home to 5.4 million employees of which 74% are full-time and 26% are in part-time employment. More pertinent to rural economies is the statistic that there are 4.6 million people employed in rural workplaces. Over the period 2003-05 employment in rural firms registered on the Inter-Departmental Business Register increased by nearly 6%, exceeding the 2.7% increase recorded in urban firms (CRC 2007, p80). There are more businesses per head in rural areas (CRC 2005) and rural areas have higher rates of employment, 78% compared to 74% for urban areas (CRC 2007, p81) indicating a vibrant business culture. There are higher rates of part-time work compared to urban areas which may suggest that the jobs available are less well paid, lower skilled or less secure. However, with less than 3% of part-time workers reporting that they could not find a full time job, "part-time employment appears to be more a matter of choice than necessity in rural England" (*ibid*, p83).

While part time employment may be a choice for many rural residents, there is other evidence to suggest that rural jobs are less well paid. The rural mean household income was £34,175 in 2007, higher than the urban level (CRC 2007, p67), but mean income falls by up to £3,500 when measured at rural workplaces rather than rural residency (*ibid*, p69). In 2006 it was reported that full-time weekly earnings in the most rural areas lag behind those in the most urban by £130 a week (CRC 2006, p4). In addition we see a much more complex pattern of

employment across rural England with higher levels of self-employment and part-time and home-based working (CRC 2006; The Chambers 2006).

Focusing on the North East region, in 2004 there were 91,640 people in full-time and 31,808 in part-time employment in rural areas, making a total of 123,448 jobs. These jobs were provided by the 9,049 registered businesses in the region's rural areas, of which 84% were microbusinesses (Countryside Agency 2005). We can therefore estimate that there are some 7,600 registered microbusinesses in the rural North East and the survey data used for this research has 1,294 responses of which 738 were VAT registered giving a sample of approximately 10% of the total registered rural microbusiness population.

From the survey it is possible to analyse job creation in terms of full-time and part-time positions and to differentiate between family and non-family employees. There is also a category for the number of casual staff so throughout the analysis it is important to clarify at each stage exactly which data is being used. These figures are all about staff and therefore do not include the business owner but if the business owner does not work for anyone else (Question B11 in the survey) he or she can be considered to work full-time in the business. Some 87% of business owners have no other employment so where data is extrapolated to refer to aggregate employment levels, this factor must be included with the remainder assumed to work part-time in their businesses.

Before introducing comparative statistics relating to different categories of businesses, an overview of employment provision is provided. The mean number of full-time jobs created by each business (excluding the business owner) is 1.1 and the mean number of part-time jobs is 0.91. Some 51.7% of these firms have no full-time employees and 38.7% employ no staff of any description<sup>14</sup> and excluding businesses with no employees at all leaves 768 microbusinesses with an average of 1.8 full-time and 1.46 part-time employees. Although these figures are specifically referring to full-time and part-time employment, it was considered that when excluding firms with no employees, all categories of staff should be zero because this would best reflect those business owners who are sole traders with no connection to the labour market.

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<sup>14</sup> Only 16.8% of respondents said that they "always worked alone" but this question stipulated that occasional help should be acknowledged so figures for numbers of employees are considered to be a more accurate reference.

**Table 6.4. The mean number of full-time jobs provided by firms in each sector in the rural North East (excluding firms with no employees and excluding the business owner)**

Sector	No. Firms	Mean Number of Full-Time Employees	Mean Number of Part-Time Employees
Land-Based Services	36	2.11	1.06
Manufacturing	82	2.44	0.94
Construction	58	2.50	0.72
Retail	215	1.66	1.74
Hospitality	180	1.36	1.79
Business/domestic services	92	1.72	1.14
Health/Social/Education	36	1.89	2.19
Other	71	2.00	1.21
<b>All Firms with employees</b>	<b>770</b>	<b>1.80</b>	<b>1.46</b>

The table above illustrates that businesses in the hospitality sector provide the fewest full-time jobs (this is also true when firms with no employees are included). Along with other service sector businesses, they are creating higher numbers of part-time jobs. By contrast, it is land-based, manufacturing and construction businesses that are creating the most full-time jobs. Excluding the hospitality sector from the analysis, the survey includes 588 non-hospitality firms with staff and these have a mean of 1.94 full-time and 1.35 part-time employees. Although these are relatively low figures, we must remember that this survey was restricted to microbusinesses which are defined as having ten or fewer full-time or equivalent staff.

A further pattern that partly explains the data above is the propensity for owners of manufacturing and construction businesses to employ family members on a full-time basis. The higher rates of part-time employment in service sector businesses are also reflected by higher than average rates of part-time family employment. In the hospitality sector, 52% of businesses involve the business owner's spouse or partner as an active partner or employee (this increases to 77% if businesses with no staff are excluded from the analysis). In other sectors under 30% of businesses with employees have a spouse or partner actively involved and between 16-17% of these businesses employ any other family members. It is clear that family employment is significant among rural microbusinesses and this may assist in their resilience (Phillipson *et al* 2002). From a policy perspective, there are concerns that these are not openly competitive jobs but equally, without the job-creation, more people would be searching for jobs with the result that they either displace other rural employees or they are forced to work outside of that rural area.

With some of the sectoral differences partly explained by the propensity for firms to employ family members, further analysis is required to identify whether there are any clear differences

in the employment creation of rural microbusinesses. When firms with local and in-migrant owners were contrasted, a comparison of means leads to the conclusion that there is very little difference in the employment creation of each category of firm as illustrated by the figures below.

**Table 6.5. Comparing the mean number of full-time and part-time jobs in businesses owned by local people and in-migrants**

		Local	In-migrant
<b>All firms</b>	Full-Time	1.14	1.07
	Part-Time	0.93	0.89
<b>Excluding firms with no jobs</b>	Full-Time	1.81	1.80
	Part-Time	1.45	1.47
<b>And excluding hospitality sector firms</b>	Full-Time	1.90	1.98
	Part-Time	1.32	1.40

Indeed, the raw statistics show that local firms create a mean number of 2.07 full and part-time jobs while in-migrant owned firms provide only 1.96 jobs. Moreover, among local business owners, availability of staff is perceived to be a greater barrier to growth than among in-migrant business owners, suggesting that local business owners would, in many cases, like to employ more people. For broader rural development objectives, this highlights the importance of local firms and demonstrates that if in-migrants are only replacing indigenous businesses, the net impact would be a small reduction in rural employment. The fact that indigenous people are still able to run businesses and many of them outperform in-migrants demonstrates that there is the potential for the two groups to co-exist successfully, increasing trade and sharing knowledge skills and opportunities within the local area.

**Table 6.6. Comparing the mean number of full-time and part-time jobs in locally owned businesses, planned start-ups and unplanned start-ups**

		Local	Planned Start-ups	Unplanned Start-ups
<b>All firms</b>	Full-Time	1.14	1.41	0.83
	Part-Time	0.93	1.14	0.72
<b>Excluding firms with no jobs</b>	Full-Time	1.81	1.97	1.64
	Part-Time	1.45	1.57	1.39
<b>And excluding hospitality sector</b>	Full-Time	1.90	2.25	1.81
	Part-Time	1.32	1.35	1.45

When we break down in-migrants into the additional categories of planned and unplanned start-ups, we notice that planned start-ups have higher numbers of jobs in every case with the exception of part-time staff in non-hospitality businesses. Although the fact that it is a survey of microbusinesses means that the figures remain small, with all firms included in the analysis, a One-Way Analysis of Variance (ANOVA) test to compare the means confirms that the differences are statistically significant with a probability  $p < 0.001$  ( $n = 1,244$ ). This line of the table is illustrated in the graph below and, with the extra bar illustrating the total number of jobs including full-time, part-time and casual staff, it demonstrates that a considerable proportion of the job creation in the rural North East has its origins in decisions that occurred at least 30 miles away from the site of the present business.

**Figure 6.8. A graph comparing the mean number of jobs between locally-owned businesses, planned start-ups and unplanned start-ups**

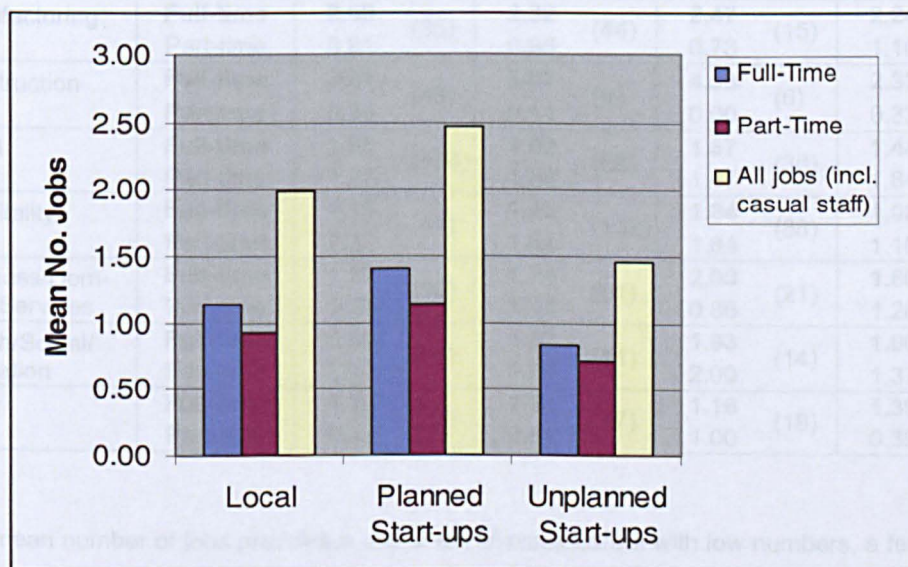


Table 6.7, below, combines the statistics on employment creation between different sectors and between local and in-migrant business owners. In some sectors there are too few in-migrant business owners for statistical comparisons to be worthwhile but it seems that in general, in-migrant business owners employ slightly more people in the service sector industries that are more recent additions to the rural economy. Retail and manufacturing have been features of rural economies for much longer and this may explain why local businesses owners are creating slightly higher numbers of jobs in these sectors. Some of these differences are small but the statistic that stands out from this table is that in the three biggest sectors, retail, hospitality, and business/domestic services, it is in-migrants who planned to start a business when they moved that are employing the most full-time staff. By contrast, unplanned start-ups display quite similar results to local businesses. In-migrants

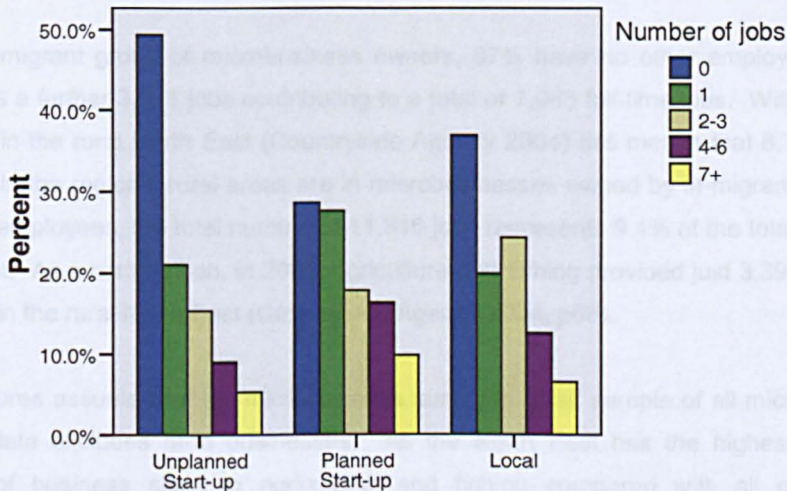
who did not intend to start a business at the time of their move are behaving in a similar way to local business owners suggesting that during the time between migration and business start-up, they have developed more local characteristics or attitudes.

**Table 6.7. Comparing the job creation of local and in-migrant business owners in different business sectors (The data excludes businesses with no employees of any kind and the figures illustrate the mean number of employees excluding the business owner. The figures in brackets represent the number of businesses in each category, e.g. there were 23 land based industries with local owners)**

Sector	Job type	Local	In-migrant	Planned	Unplanned
Land-Based Industries	Full-time	1.82 (23)	2.67 (12)	4.00 (5)	1.71 (7)
	Part-time	0.70 (23)	1.75 (12)	3.00 (5)	0.86 (7)
Manufacturing	Full-time	2.60 (35)	2.32 (44)	2.47 (15)	2.24 (29)
	Part-time	0.91 (35)	0.98 (44)	0.73 (15)	1.10 (29)
Construction	Full-time	2.31 (48)	3.67 (9)	4.33 (6)	2.33 (3)
	Part-time	0.85 (48)	0.11 (9)	0.00 (6)	0.33 (3)
Retail	Full-time	1.68 (124)	1.62 (88)	1.87 (38)	1.44 (50)
	Part-time	1.77 (124)	1.68 (88)	1.47 (38)	1.84 (50)
Hospitality	Full-time	1.15 (47)	1.43 (132)	1.64 (88)	1.02 (44)
	Part-time	2.32 (47)	1.61 (132)	1.84 (88)	1.16 (44)
Business/Domestic Services	Full-time	1.70 (30)	1.74 (61)	2.00 (21)	1.60 (40)
	Part-time	1.20 (30)	1.13 (61)	0.86 (21)	1.28 (40)
Health/Social/Education	Full-time	0.80 (15)	1.32 (41)	1.93 (14)	1.00 (27)
	Part-time	0.60 (15)	1.59 (41)	2.00 (14)	1.37 (27)
Other	Full-time	1.10 (72)	1.30 (47)	1.16 (19)	1.39 (28)
	Part-time	0.81 (72)	0.64 (47)	1.00 (19)	0.39 (28)

The mean number of jobs provides a useful set of statistics but with low numbers, a few high employing firms could skew the analysis so the analysis continues with categorised data for numbers of employees. The graph below shows the number of full-time jobs provided by each category of business owner and illustrates that planned start-ups are least likely to be sole traders and that a slightly higher percentage of these firms have in excess of 6 full-time employees. By contrast, unplanned start-ups are most likely to provide no full-time jobs.

**Figure 6.9. A graph contrasting the employment profile of microbusinesses with different categories of owner**



The graph above confirms that planned start-ups are more likely to have higher numbers of employees. Although the smallest category, representing only 276 (22%) of the 1,243 firms included in this analysis, they account for just over 30% of all firms employing 4 or more staff. This graph also illustrates that the main reason for in-migrants providing a lower mean number of jobs than locally owned firms is the high propensity for unplanned start-ups to be sole traders. Removing all businesses with no employees from the analysis gives the mean number of jobs in locally owned microbusinesses as 3.14 compared to 3.16 in businesses owned by in-migrants. As before the differences are small and not statistically significant<sup>15</sup> but it confirms the importance of both local and in-migrant business owners in creating rural employment.

#### **6.4.1 Aggregating Employment Creation in the Rural North East**

So far the analysis has compared the data within the survey but given that the survey included almost a fifth of all rural microbusiness in the North East, it is possible to make some estimates as to the real numbers of jobs that are provided by each category of business. Caution should be exercised here as it is not a complete survey of the region's rural businesses but given that only microbusinesses were included in the sample (i.e. businesses with 10 or fewer full time equivalent staff) the figures are likely to underestimate the true impact of in-migrants as rural business owners. Assuming this survey to be representative, with 7,601 microbusinesses in the region 4,105 (54%) will be owned by in-migrants<sup>16</sup>. Based

<sup>15</sup> A one-way ANOVA comparison of means gives a figure of 0.803 indicating that the difference is not statistically significant.

<sup>16</sup> Work by Groves-Phillips (2008) in parts of Wales confirms this to be a fair estimate.

on the mean number of jobs from Table 6.6 above, this implies that there are 4,392 full-time and 3,653 part-time jobs created by in-migrant rural microbusinesses owners.

Of the in-migrant group of microbusiness owners, 87% have no other employment so this represents a further 3,571 jobs contributing to a total of 7,963 full-time jobs. With 91,640 full-time jobs in the rural North East (Countryside Agency 2004) this means that 8.7% of all full-time jobs in the region's rural areas are in microbusinesses owned by in-migrants. Including part-time employees, the total number of 11,616 jobs represents 9.4% of the total for the rural North East. As a comparison, in 2002, agriculture and fishing provided just 3,398 (3.7%) full-time jobs in the rural North East (Countryside Agency 2004, p66).

These figures assume that the microbusiness survey is a fair sample of all microbusinesses but this data excludes farm businesses. As the North East has the highest percentage (27.7%) of business stock in agricultural and fishing compared with all other regions (Countryside Agency 2004, p54), it clearly remains important and one might expect a lower proportion of in-migrants to enter this sector. Adjusting the total number of rural microbusinesses in the North East (7,601) to exclude agriculture<sup>17</sup> leaves 5,496 non-agricultural microbusinesses, of which it is estimated that 2,968 (54%) are owned by in-migrants. Using this figure, it was calculated that non-agricultural rural microbusiness owners who have moved at least 30 miles into the area as adults have created a total of 3,176 full-time and 2,642 part time jobs. Adding the 87% of owners who are considered to be employed full-time in their business, this makes a total of 5,758 full-time jobs. Although a very specific category, this makes up 6% of the 91,640 full-time jobs in the rural economy of the North East and that is still almost 70% higher than the total full-time employment in agriculture in the region. Assuming that the other 13% of owners take a part-time interest in their business, there are also 3,028 part-time jobs which is 9.5% of the total for the rural areas of the North East.

Similar figures were found in the pilot study which concentrated on Northumberland and assumed the reduced dataset to be representative of the region (Bosworth 2006). Introducing the categories of planned and unplanned start-ups to these regional figures it is possible to estimate the number of jobs whose creation depended upon extra-local decisions. Planned start-ups comprise 22% of the survey so applying that to the 5,496 non-agricultural microbusinesses in the North East gives us 1,209 such firms. These employ, on average, 1.41 full-time and 1.14 part-time staff so we can estimate that 1,705 full-time and 1,378 part-time positions are created as a result of in-migrants coming to the area with a clear intention to start a business. If we estimate that an additional 1,052 in-migrant business owners are also working full time in their businesses, the 2,757 full-time jobs makes up 3% of rural

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<sup>17</sup> Assuming that the 27.7% statistics applies to microbusinesses as well as to the whole rural business population.

workplaces in the North East. In total, over 4,000 full and part-time rural workplaces in the region exist as a result of extra-local decisions and in-migration.

The tables below summarises the job-creation of planned and un-planned start-ups and local microbusinesses. These figures exclude the business owner and reveal the striking conclusion that in-migrants have created more jobs than local microbusiness owners. Also, among in-migrant firms, it is planned start-ups that are responsible for the most full-time and part-time positions.

**Table 6.8. The employment creation of different categories of rural microbusinesses**

	Percentage of firms from the survey	Estimated number of firms in the rural North East	Mean number of jobs provided from the survey data	Estimated total number of jobs
Planned Start-ups	22%	1,209	Full-time 1.41 Part-time 1.14	1,705 1,378
Unplanned Start-ups	32%	1,759	Full-time 0.83 Part-time 0.72	1,460 1,266
Local Firms	46%	2,528	Full-time 1.14 Part-time 0.93	2,882 2,351

	Estimated number of firms	Estimated total number of jobs
All In-migrant firms	2,968	Full-time 3,165 Part-time 2,644
Local firms	2,528	Full-time 2,882 Part-time 2,351

Because agricultural firms are not included in the database, we cannot definitively state that in-migrants are creating more jobs than local people across the whole rural economy of the North East but this analysis provides clear evidence that in-migrants are a hugely significant driver of a modern rural economy based around a sectorally diverse set of businesses. Indeed, this sectoral diversity is a potential advantage for rural economies so this is explored in more detail in the Section 6.5. Firstly, however, as well as the numbers, we must investigate more about the characteristics of the jobs that are created among rural microbusinesses.

#### **6.4.2 The Characteristics of Rural Jobs**

So far the analysis has concentrated on all jobs but to better understand the impact of different firms, we need to understand more about the nature of the jobs provided. National statistics show that rural workplaces tend to pay below average wages (CRC 2007) so it is important to understand whether people are choosing lower wages in return for better working

conditions, whether the jobs are less skilled or whether rural workers are simply underpaid. The microbusiness data shows that only 37.6% of in-migrants compared to 48% of local business owners operate a PAYE scheme and 73.6% of locals and 74.1% of in-migrants reported that they have never felt the need to access support for staff training and development. Each of these statistics suggests that rural employees are undervalued and this is a concern for the sustainability of a buoyant rural economy.

From the interviews, approaches towards recruitment and staff were able to throw light on these questions and it was apparent that personal contacts were very important for recruitment. Recommendations from other members of staff, contacts through friends and family or simply "word of mouth" were consistently mentioned. Where advertising took place, it was almost exclusively the local newspaper, the local Job Centre or local shop windows. This is very positive for rural development as it demonstrates that the jobs being created are going to individuals with connections to the local rural community and we might therefore assume that they are helping to address rural unemployment. On the negative side, however, many of these jobs remain part-time and/or low skilled so the real impact for rural workers is less clear.

When asked about factors that restrict growth plans, staff shortages were more likely to cause problems to local business owners than in-migrants. Of those that sought growth, 42% of local business owners reported that staff shortages were restricting growth as opposed to just 32% and 34% of planned and unplanned start-ups respectively. In each case, the principal reason was cited as the cost of taking on new staff but among in-migrants, a perceived lack of skilled staff was almost twice as likely to be mentioned as among local respondents. Although the actual numbers are low, this was not one of the options provided on the list so the fact that several people saw fit to add this detail to the category of "unsuitable" staff suggests that it might be more significant. This not only suggests that in-migrants are introducing and demanding new skills in rural areas but it might also suggest that the skills do not exist for these businesses to develop indigenously.

This attitude was borne out by interviews with business owners, especially in the professional services sector. One explained that he only advertises locally for administrative staff but now that he is considering taking on another qualified professional, he was looking to the professional body at the regional level. He felt that he might find an older professional willing to work part time in the local area but did not expect to find a full-time person without searching across a wider area because *"the professional people...are more likely to want to work for a city firm where the money is"* [planned in-migrant, professional services, 13]. This is more a reflection on the nature of the work and the relative scarcity of qualified professional workers compared to administrative staff but just as rural areas suffer from scarce local demand, the thinner spread of experienced workers can also limit growth.

Another business owner who has traditionally employed local staff on a part-time basis in his factory explained that he will soon need to recruit an additional full-time member of staff at a higher level and he felt that he would have to look further afield. He identified one local source of trained labour but beyond this, there was an immediate reaction that for higher skilled employees, he would have to look towards Newcastle and pay the associated higher wages. One wonders the extent to which the lower rural wage creates the impression that individuals are less able or whether there is genuinely such a difference in abilities. Green (2006, p115) explained that the limited range of job opportunities in rural areas has led some people to "trade down" and "make do" in the local labour market, findings which seem contradictory to business owners reporting that they have to look beyond the local area for higher skilled work. Groves-Phillips (2008) also discovered that, on average, rural in-migrants are moving to jobs with lower Standard Occupation Classifications. If the local labour market cannot meet the needs of these people, this may explain the high proportion of unplanned start-ups amongst in-migrant owned businesses, the only other option being to continue commuting back to urban areas.

One of the main reasons that rural firms are less likely to employ higher level managerial staff is because the small size of the operation would result in a very high level of responsibility being placed on that individual. Such relationships demand high levels of trust and commitment that would be difficult to build up in a short time. This is almost certainly why so much recruitment is done through word of mouth. Many interviewees emphasised that they have to trust their staff and some also spoke of the need for flexibility which requires employees to live locally.

In the hospitality sector this trust is not just about the ability to work diligently but staff are left with keys to people's houses, have access to visitors' rooms and may be relied upon to welcome guests if the business owner is away. There was a very clear distinction made between the level of trust required for staff who have access to personal space and those who only work outside or in defined business premises. One in-migrant commented, *"There are local people but I'd have to know them personally and be totally happy...A gardener, I wouldn't be so particular because they're not actually in my house"* [planned, in-migrant, hospitality, 19]. This also implies that local people are more likely to have this unquestioning trust from being embedded within their local communities whereas this in-migrant, although wanting to trust people and develop closer links within the community, was more overtly calculating about the risks involved.

Other business owners also described how taking on staff through personal contacts can improve the working environment. One said *"people came recommended. They're excellent staff, conscientious and hard working. There's no element of shop-stewardism or anything,*

there's no jobsworth attitude, we're very lucky" [unplanned in-migrant, manufacturing, 4]. Another, recognising the responsibility associated with recruitment, said "because it's a family business you are always wary about taking people on...in a small company if you take somebody on it matters because if that person isn't right it has a bigger impact on everyone... we're quite relaxed, not stressed, not pushy, I want to keep that" [planned in-migrant, manufacturing, 17].

Although wages may be lower in smaller, rural firms, the business owner's desire for a better working environment is reflected in his or her attitude towards staff. There is a desire to treat staff well for many reasons. Several business owners commented on the importance of staff retention, especially where they have invested time and money in training but for many it was the desire to be different from big companies and to ensure that staff are happy and feel genuinely involved in the business. As well as improving the working environment, it ensures that staff can contribute in different ways. One interviewee said that he always encourages staff to offer suggestions and this has led to improvements in production and he acknowledged, "I wouldn't have thought of that...If that makes them happier, it makes things flow a lot better...It's silly to have an ego on that, a good idea is a good idea" [planned in-migrant, manufacturing, 17]. This comment came from someone who had previously been unhappy in a city job where he was frustrated by poor management so we can see how the attitudes of rural business owners can impact upon different aspects of their management style.

While small businesses have to rely on their staff to a greater extent than bigger firms, this is often reciprocated in business owners trying to ensure that their full-time staff have secure jobs. The owner of one business explained, "we've got two employees, we can pay their wages but that doesn't leave a lot left for me and my wife" [unplanned in-migrant, manufacturing, 28]. Expansion to take on staff is always a tough decision as you are investing in someone, relying upon their ability and taking on a significant responsibility as the provider of that person and often his/her families livelihood. Such tough decisions were seldom taken lightly and as a result business owners spoke with pride about the longevity of their staff, especially where they have invested time and money in training. Interestingly, two planned in-migrants expressly referred to the desire to retain staff when they had invested in training (manufacturing, 12 & retail, 3) yet another who had been a part of the local community for longer (unplanned in-migrant, hospitality, 27) explained that she accepted that staff had to move on to progress their careers. As this business only paid the minimum wage, she was pleased to see her staff progress and that she had been able to offer young people in the village the chance to start their careers.

In summary, although there are fewer opportunities for higher level jobs and rural wages are on average lower than those in more urban areas, there are other benefits associated with

rural working. Not all of these are detectable from statistical data and further interviews with staff as well as business owners would provide interesting information on the extent to which low wages are a problem or whether individuals feel that they are adequately compensated in other features of their employment. One major change in the rural labour market, partly linked to in-migration, is that opportunities now exist across a wider range of business types and the changing balance of rural business sectors is explored in the next section.

### **6.5 In-migration and the Local Economic Structure**

In-migrant business owners are represented in each sector (including the smaller sectors not listed separately in Table 6.9 below) but there are noticeable differences in how they are divided between the sectors. Table 6.9 illustrates both the raw numbers and the percentage split of local and in-migrant owned businesses with some interesting comparisons emerging.

**Table 6.9. The sectoral split of businesses with local and in-migrant owners**  
(Any sector with less than 50 businesses surveyed has been grouped as "other")

Sector	Local		In-migrant	
	Number	Percent	Number	Percent
Land Based Businesses	35	5.9%	27	3.9%
Manufacturing	55	9.3%	85	12.2%
Construction	83	14.0%	20	2.9%
Retail	174	29.4%	137	19.6%
Hospitality	81	13.7%	197	28.2%
Business & Domestic Services	68	11.5%	134	19.2%
Other	95	16.2%	98	14.0%
	561	100.0%	698	100.0%

Local business owners are considerably more likely to be in retail and construction, both sectors that typically have a strong local market. Conversely, in-migrants are much more likely to enter the hospitality sector where many firms will be targeting non-local markets. Although the difference is less pronounced, the same could be said for manufacturing. Business and domestic services covers a range of possible work but the predominance of in-migrants, who we know to be better educated and more highly qualified, raises hopes that many of these are professional, knowledge-based firms.

Within the hospitality sector, almost 20% of business owners had other employment and many of these firms had much lower turnovers compared to other sectors. The table below contrasts the turnover of local and in-migrant businesses in each of the four principal categories and shows us that 50% of local hospitality firms had annual turnovers below £20,000 and the percentage for hospitality firms owned by in-migrants was almost as high. A

similar pattern is evident in terms of their job creation with 41.3% of local and 33% of in-migrant hospitality firms providing no employment.

**Table 6.10. The annual turnover of local and in-migrant firms in each sector**

		Average Annual Turnover (£)				
		< 20,000	20,000-50,999	51,000-99,999	100,000-250,000	> 250,000
Manufacturing	Local	19.6%	19.6%	9.8%	<b>31.4%</b>	<b>19.6%</b>
	In-migrant	20.3%	25.0%	26.2%	20.2%	8.3%
Retail	Local	8.0%	17.4%	18.0%	<b>28.6%</b>	<b>28.0%</b>
	In-migrant	13.0%	20.6%	16.8%	25.2%	24.4%
Hospitality	Local	<b>50.0%</b>	16.7%	5.6%	19.4%	8.3%
	In-migrant	<b>43.0%</b>	19.3%	9.9%	22.4%	5.2%
Business & Domestic Services	Local	19.4%	29.9%	22.4%	20.9%	7.5%
	In-migrant	18.2%	34.8%	20.5%	15.9%	10.6%

For the hospitality sector, it appears that the sector rather than the origin of the business owner most influences the size and ambition of the business. In other sectors, however, it is possible to detect a clearer differentiation between locals and in-migrants. There is a higher proportion of local firms in both the retail and manufacturing sectors have annual turnovers in excess of £100,000. If the economic benefits of in-migration are to be maximised, it is important to consider why in-migrants are lagging behind their local counterparts in these two sectors. In-migrants report stronger desires for growth, a greater willingness to seek business advice, they are better educated and they have access to wider markets so the potential for them to outperform locally owned firms is evident but in reality, these attributes are not reflected in bigger turnovers or higher levels of employment.

In the manufacturing and retail sectors, unplanned start-ups were approximately 4% more likely to have turnovers in excess of £51,000 compared to planned in-migrants. In the business and domestic services sector, planned in-migrants were slightly more likely to have turnovers above the VAT threshold but the differences were very small. Where there is a notable difference, however, is in the hospitality sector with planned in-migrants more than twice as likely as unplanned in-migrants to have turnovers above £51,000. Planned start-ups are contributing a significant amount to the tourism economy and this is perhaps associated with the fact that they are not serving a local market but are able to rely on external contacts to generate business. For other sectors, the range of locals, planned and unplanned in-migrants suggests that policy cannot be selective but must ensure that all groups of individuals have the best opportunities for entrepreneurship.

The rural area itself is reported by some to restrict growth beyond a certain level. Local business owners may have had longer to overcome this and been able to develop the business and property at a time when it was easier to do this in the countryside. Several in-migrants explained that growth tends to require a move towards urban settlements. One

business is running out of storage space at its current site and the owner said that they are considering taking an industrial unit in the nearby town (*planned in-migrant, professional services*, 16). Another has moved from a remote to a more accessible rural location but said that if they grow any further, he is considering taking premises in the city (*planned in-migrant, manufacturing*, 22). Another business outgrew the converted farm premises so had to open an additional call-centre in the nearby market town (*unplanned in-migrant, professional services*, 29). In each of these examples, the business owners wanted to retain an attachment to the rural area but if planning policy is preventing development, this is an issue for local government to consider. The figures above demonstrate that there is scope for growth, especially among in-migrant business owners, and professionals in the property industry have said that they see demand for rural business space continuing to grow so for the rural economy, it is vital that these ambitions are facilitated.

There has been widespread growth in the hospitality sector with room occupancy rates increased from 54% in 2001 to 59% in 2005 (One NorthEast 2005) and in 2006 visitors spent £73.2 million on accommodation in the North East (One NorthEast 2008a). Two interviewees commented on the need for a larger, flagship property in Northumberland which perhaps reflects the difficulty of growth beyond a certain level. The figures above demonstrate that these businesses are generating the lowest turnovers so while tourism is beneficial to the rural economy, it is important not to focus too heavily on a sector where businesses are not only smaller but their owners are also the least growth orientated<sup>18</sup>.

When the analysis turns to the job creation of different sectors, hospitality is again near the bottom. The table below illustrates the mean numbers of full-time jobs created by businesses in each sector. In-migrants tend to provide more jobs in this sector but the mean number remains below 1. In line with the higher turnover levels, local firms tend to provide slightly more jobs in the retail and manufacturing sectors while the job creation of business and domestic service firms is low for both local and in-migrant businesses.

**Table 6.11. The mean number of full-time jobs provided by local and in-migrant business owners in each of the 4 main business sectors**

		Mean Number of Jobs
Manufacturing	Local	1.685
	In-migrant	1.329
Retail	Local	1.209
	In-migrant	1.083
Hospitality	Local	0.675
	In-migrant	0.959
Business & Domestic Services	Local	0.823
	In-migrant	0.817

<sup>18</sup> 30.5% of business owners in the hospitality sector want growth compared to averages of 35% in manufacturing, 37% in business and domestic services and 32% in retail.

In a time of economic uncertainty, a broad base to the rural economy can offer some insurance against external difficulties. This breadth of economic activity is also helping to stimulate other local businesses which are able to capitalise on new demands from rural businesses and rural residents alike. Slee (2004) explained the impact of consumption as a driver of the rural economy, with new opportunities for traditional employment as well as new markets for other rural businesses. Many examples of this are evident in the North East with new restaurants and even a Chinese takeaway in rural villages, diverse recreation businesses and farm shops and organic producers tapping into new demands from modern rural residents.

With a growing diversity of businesses in rural areas, at least partly associated with migration flows, the next section continues by exploring how this affects trading patterns. Arguably a greater diversity of businesses can enable more trade to be conducted in the local region but this will depend upon other factors such as the spread of knowledge and the development of networks among businesses, their suppliers and their customers. Also, the footloose nature of certain businesses that are now able to operate from rural areas may enable wider markets to be accessed in more specialist sectors.

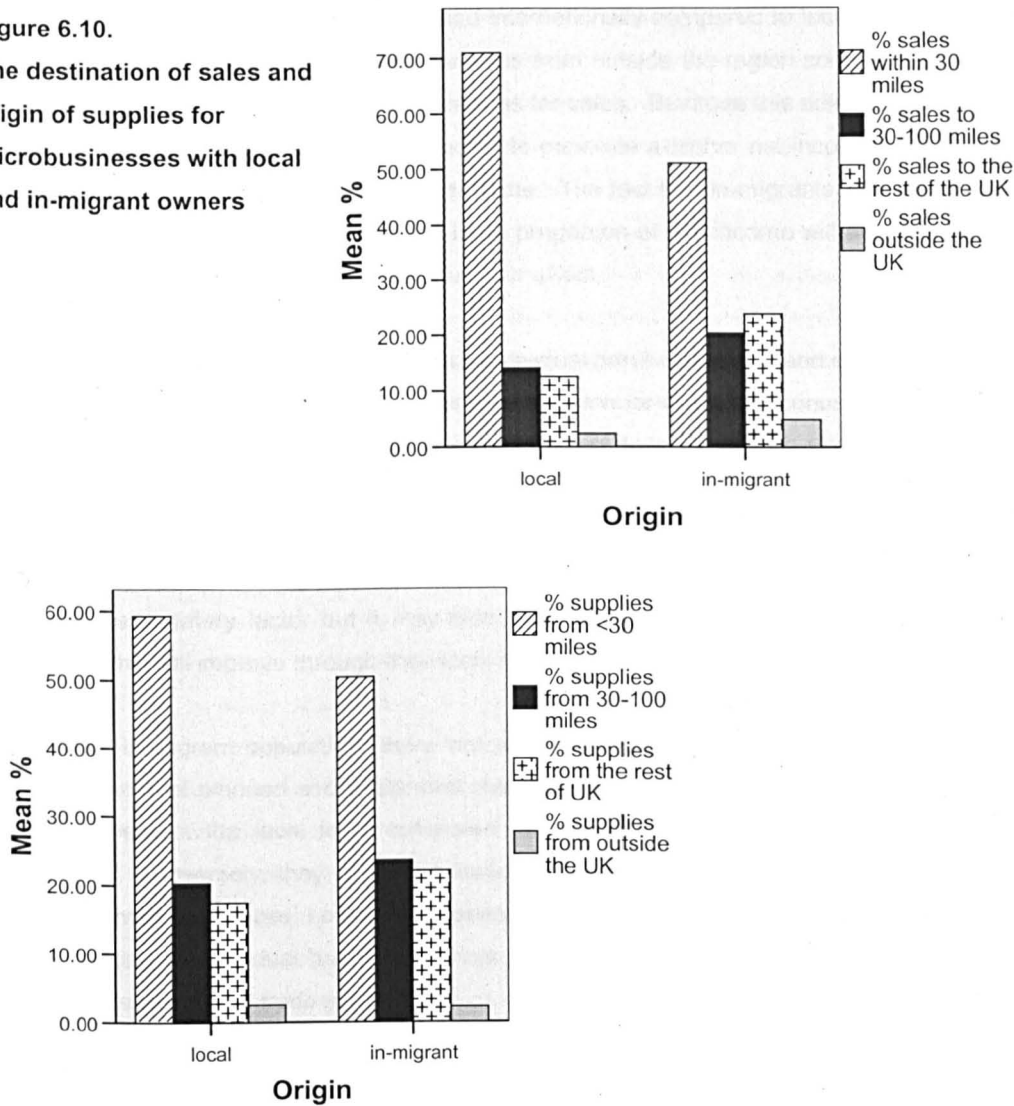
## **6.6 Trade and Local Multipliers**

Employment, turnover and growth are key economic indicators but modern rural economies require additional attributes to compete against the economies of scale associated with larger, more established commercial centres. In relation to rural development, we have to consider whether businesses transfer resources within the local economy. A firm may be successful at introducing good working practices and new sources of information, but the benefits are minimal if that business has no local connections through which these attributes may be shared. This does not mean sharing trade secrets but simply trading with local firms will create local multiplier effects and integrating with local business networks can provide access to new sources of information and new ideas.

There is a growing body of literature on networks in rural economies but for the purposes of this analysis, the trading patterns of rural microbusinesses are used as an indicator of their local and extra-local outlooks. Acting locally and maintaining access to other extra-local resources lies at the heart of Neo-Endogenous Development. The Rural Insights Business Survey (CRC 2007a) reports that firms based in villages or hamlets are most likely to have their main supply base in the local area. The opposite is true, however, for their main customer base which demonstrates that rural firms are more successful than their urban counterparts at introducing new income and then retaining it in the local economy. This is not to say that they introduce more income, just that the income generated is more likely to be

from a non-local source and is more likely to be spent in the local area. From the following graphs it appears that in-migrants as well as locally owned firms are successfully achieving this in the North East.

**Figure 6.10.**  
**The destination of sales and**  
**origin of supplies for**  
**microbusinesses with local**  
**and in-migrant owners**



Respondents were asked to estimate the proportion of their sales and purchases made at the local, regional, national and international scales and this allows analysis of trading or economic relations. With actual turnover figures, it would be possible to calculate a multiplier effect associated with local and in-migrant firms too. Although only estimates on the part of the respondents, their perspective of where key markets are located is still very useful for thinking about their various networks. From the data it was possible to determine that in-migrants conduct a lower proportion of their trade at the local level (defined as a 30-mile

radius) than their local counterparts but, as Figure 6.10 illustrates, local trade is the most important for both groups.

The second finding from these graphs is that more of the income generated by in-migrants originates from outside the local economy. They make 50% more sales regionally, and double the proportion of sales nationally and internationally compared to locally owned firms. In-migrants also purchase slightly more supplies from outside the region compared to locally owned firms but this difference is not as great as for sales. Because this difference is greater in terms of sales, in-migrants can be expected to generate a higher net income through their extra-local trade compared to locally owned firms. The fact that in-migrants still rely on local markets for a lot of supplies means that a large proportion of this income will also be retained in the local economy creating a positive multiplier effect.

These figures are only proportionate to each individual firm's total sales and expenditure so to test this more accurately in relation to income generation for the local economy would require details of the monetary value of the sales and expenditure. Despite this weakness, the analysis provides a good indication of microbusinesses trading patterns and especially the business owners' perspectives on the geography of their key markets. Phillipson *et al* (2002a) conclude that in-migrants' awareness of other market opportunities is likely to be a significant explanatory factor but it may also be due to a lack of local knowledge, so it is hoped that this will improve through their local involvement.

Among the in-migrant population, there are only small aggregate differences between the trading patterns of planned and unplanned start-ups. Planned start-ups have more suppliers and customers at the local level compared to unplanned start-ups but fewer than local businesses. Conversely, they conduct a lower proportion of their trade at the national level. Given the small differences, however, it appears that the business sector and more personal factors relating to individual business owners are better indicators of the likelihood of more local or more extra-local trade patterns.

Looking at the different business sectors, the largest difference in trade patterns between local and in-migrant business owners is evident in the manufacturing sector. Over 50% of the output of local manufacturers is sold within a 30 mile radius compared to just 41% for in-migrant manufacturers. The additional 10% of non-local output is spread across the regional, national and international markets. The other sectors with noticeable differences are retail, business and domestic services, recreation, culture and sport and other personal services. Each of these are tertiary industries where it is assumed that the greater importance of personal connections leads indigenous business owners to focus more closely on their local markets while in-migrants are able to maintain and develop relationships further afield. This expansion of local economic potential is a valuable aspect of entrepreneurial in-migration and

in the following chapter the potential for extra-local opportunities to be introduced to local business owners through new networks and greater dynamism in local economies will be explored further.

An additional indicator of trade patterns is the education qualifications of business owners. Those with degrees are more likely to source goods in national and international markets and they are also the most likely to sell into markets beyond the region. Excluding the higher proportion of females in the hospitality sector, there is little difference between the genders and there is also little difference between age groups although the data suggests that older business owners may conduct slightly more trade beyond the region.

A study in the West Midlands (Martin *et al* 2007) suggested that approximately 42% of rural firms had their main supplier base within 30 miles. This lower figure may simply reflect the better accessibility of other markets but it may also indicate that there is a stronger local focus among rural businesses in the North East. Whatever the cause, it indicates that there is a higher local multiplier in the rural economy of the North East and although in-migrants are slightly less likely to conduct trade locally, they still compare favourably with the average local trade of all rural firms in the West Midlands.

If the causes of this local focus are more personal, it is the social relations, embeddedness and attitudes of rural business owners that might better explain these trading patterns. Also, if more trade is conducted locally, we might assume that this is reflected in a higher degree of local knowledge exchange and co-operation between firms but each of these assumptions can only be tested by delving deeper into the experiences of the individuals concerned. In discussions about trade, business owners expressed preferences to source local supplies where possible, but especially in the case of planned in-migrants, this was never at the expense of quality (*planned in-migrant, professional services, 16; planned in-migrant, hospitality, 19; planned in-migrant, retail 25*). For sales, many more factors including the business sector, business owners' social networks and the ambitions of business owners were important so the following chapter will develop these ideas in a less economic context.

The key finding in this section is that both local and in-migrant business owners place a significant value on local markets which indicates that they are integrating and that in-migrants are becoming locally embedded. In-migrants also conduct more trade at the national level which is not only good for the regional balance of payments but it is also associated with a stronger desire for growth. A one-way ANOVA test confers a very high significance between desire for growth and both national sales and national supplies. This brings us back to the area where in-migrants appear to be having the most impact – their desire for growth. Employment and turnover statistics may illustrate only small differences at the aggregate level, but if in-migrants running businesses at the turn of the century have been

able to realise the growth that they aspired to, we can expect that this thesis will actually be underestimating their contribution today. The final section of this chapter therefore concludes by exploring potential barriers to this growth as this is considered to be the key focus for policy.

### **6.7 Conclusions – Unfulfilled Growth Potential in the Rural Economy?**

The data in this chapter has described the business creation, turnover, employment and trade patterns associated with local and in-migrant business owners. There appears to be a vibrant rural economy with an increasingly diverse range of businesses, healthy levels of job and business creation and growing turnover levels. The role of policy should therefore be to enable business formation to continue and for growth aspirations to be achieved. This concluding section is therefore used to highlight reported barriers to growth which need to be addressed if the full potential of the rural economy is to be realised.

While Chapter 5 demonstrated that growth is not the dominant motivation for all business owners, this chapter has illustrated that over a third of rural microbusinesses are growth oriented and some of them are particularly innovative in their approaches to growth. Both local and in-migrant business owners are creating jobs in the rural economy and trade patterns suggest that both groups are generating valuable trade within and beyond the local region. However, in his recent report, the rural advocate is concerned that rural areas are not fulfilling their economic potential and stated that “targeting areas of underperformance in rural economies could perhaps double the £325 billion currently earned each year by rural firms, reduce worklessness and poverty and help close the persistent gap between rural and urban wages” (CRC 2008, p3).

Among business owners that were seeking growth, in-migrants were more likely to cite staff shortages and lack of capital as constraints but there was no statistically significant difference in terms of space constraints between the locals and in-migrants. Statistics were not available to distinguish any other growth constraints but qualitative research suggests that work-life balance, family issues, bureaucracy and risk aversion are all influential factors. These factors are often related as with a business owner whose reluctance to expand beyond their current comfortable state was partly due to the risks involved with taking on new staff or larger premises and partly due to his desire to focus on the local area without having to travel long distances and be away from his family for long periods of time (*planned in-migrant, professional services*, 40). The risks for small firms of recruiting additional staff have been discussed and similar risks are faced when small businesses invest in exploring potential new markets or new products. Not all business owners will have the ambitions to pursue such routes but this is not unique to rural areas. A strong economic base requires

both steady-state and expanding businesses so although attitudes to growth are useful indicators of entrepreneurial spirit and future trajectories, they should not be used to make value judgments about businesses.

Examples in Chapter 5 showed that business owners who are not actively pursuing growth are still capable of expansion should the right opportunity arise. The aim of policy should be to create the conditions for such opportunities to arise. Independent business owners need to be encouraged to make their own decisions but have the support infrastructure in place so that if they choose to employ a new member of staff, they are able to access the appropriate advice and where they are looking to expand into bigger premises or invest in machinery, the availability of finance could be improved. Where a business owner developed bigger premises without having planned such a move, it was encouragement from landlords who were able to secure a Defra grant that made the expansion possible. Another business owner who was slowing down towards retirement moved into office space with a leading client because they were keen to work more closely. Larger organisations have the capabilities to create opportunities for business owners who might otherwise be less ambitious and the critical factor for this to work is the personal and social relations that bring together different individuals and organisations.

The next chapter therefore explores how the networks of local and in-migrant business owners compare and whether these networks can overcome certain barriers to growth. As well as the larger organisations mentioned above, this may include support from friends and family, contacts through former employment or interactions with customers and suppliers. If these are realistic vehicles for the creation of economic opportunities, it will provide meaningful evidence to support Murdoch's (2000) assertion that networks can stimulate rural development and if these networks connect the local with the extra-local, it will also add weight to the theories of Neo-Endogenous Development.

## ~ Chapter 7 ~

### **The Business and Social Relations of Rural**

#### **Microbusiness Owners**

##### **7.1 Introduction**

The earlier sections on embeddedness in Chapter 3 demonstrated that social and economic relations cannot be considered as independent entities (Granovetter 1985). Business owners are involved in many networks that are made up of diverse relations, incorporating both social and economic rationales. The extent to which people are aware of, and able to, reflect explicitly upon how their relations affect their business activity varies considerably. Most business owners take a common sense approach to getting their work done as best they can and learning from others whenever interactions might arise. What is less clear is how these interactions arise, how they benefit businesses and the extent to which interactions are purposefully generated for business aims or whether they are connected to non-business activities. This chapter will explore the factors that influence the patterns of both social and business relations in terms of their geographies, their intimacy, their formality or informality and the benefits that they can provide.

One indicator of the shape of business owners' networks may become apparent from reference to their attitudes towards their local areas and this is explored in Section 7.2 before more detailed analysis of connectivity and the contrasting characteristics of independence and interdependence among rural business owners is provided in Section 7.3. In this context, Section 7.4 continues by exploring different sources of business advice and Section 7.5 considers the rationales that influence business owners' choices. Section 7.6 examines whether these choices vary depending on the needs of business owners and the stage of their business before the concluding section re-examines the implications of the strong and weak, formal and informal, embedded and arm's length ties that make up the networks of rural business owners. Within each of the sections, in-migrant and local business owners are contrasted and the findings are drawn together in the final section to address the overriding question of whether local and in-migrant business owners are participating in networks that are stimulating the rural economy.

## 7.2 "The Local" in the Motivations of Business Owners

When researching the geography of business owners' networks, attitudes towards the local area can provide a useful context from which to understand their behaviour. It is hypothesised that actors embedded within their local community are more likely to support other local businesses, work together and share goals that are centred on the community. If this is true, we can then expect that co-operation, local trade, access to knowledge and the spread of innovation might all contribute to the promotion of rural development above and beyond that described in the previous chapter. Table 7.1, below, summarises responses to a set of questions from the microbusiness survey which ask business owners to score the importance of various business goals out of ten. From these results, it is possible to compare the attitudes of local and in-migrant business owners.

**Table 7.1. The motivations for running a rural microbusiness**

Goal	Origin	Importance (Mean score out of 10)	Significance (One Way Anova Test)
Maximise Income	Local Return In-migrant	7.3168 7.1826 6.6979	0.021
Satisfy Income	Local Return In-migrant	7.7753 7.8609 7.6632	0.697
Waiting for a Job	Local Return In-migrant	0.7290 0.7304 0.5851	0.553
Employ Family Members	Local Return In-migrant	2.1389 1.7739 1.2743	0.000
Employ Local People	Local Return In-migrant	4.1312 3.8174 3.4323	0.006
Provide a Local Service	Local Return In-migrant	6.2110 5.9826 4.9323	0.000
Develop Own Ideas	Local Return In-migrant	5.3259 6.3652 5.6545	0.024
Intrinsic Enjoyment	Local Return In-migrant	5.0017 5.4696 5.0780	0.268
Flexibility of Time	Local Return In-migrant	5.7942 5.8174 5.8491	0.795

The most significant finding here is that local people are more likely to consider that their businesses should benefit the local community. Return migrants, with former connections to the local area, are also more likely than other in-migrants to place a higher value on the provision of local employment and local services. A statistical comparison of the mean scores between local, return and in-migrants reveals that those highlighted in bold text are significant to at least a 1% significance level. Each of these has a non-profit, local focus demonstrating the perceived importance of supporting business activity in rural areas. Local people also report the strongest desire to maximise income so it is not a reflection of a purely benevolent attitude. We are not seeing a trade-off between striving for personal income and serving the local community, the two goals can and do go together. Indeed, a correlation of the combined data for "employ local people" and "provide a local service" with the data for maximising income suggests that there is a positive relationship between these goals.<sup>19</sup>

While the statistics indicate that local people are intrinsically more attached to the needs of the local community, many in-migrants make clear efforts to become an integral and supportive part of that community. A desire to support the local area often coincides with other business aims but it is not always clear which is the dominant motivation. Indeed, one respondent, when asked whether profit or a desire to support local produce was most important, said *"the two reasons worked together, in fairness we're very lucky, we have a very good butcher locally, a fish merchant, a local dairyman, a good deli..."* and added *"if you can get stuff that's as good you should be using local business, it's good for everybody"* (planned in-migrant, retail, 25).

One in-migrant business owner explained that local service providers *"tend to be very good,"* and added *"because they're local, they're accountable"* (planned in-migrant, hospitality, 19). Referring to business interests in Newcastle, a local business owner said *"we use my trusted market town team of accountants"* (local, professional services, 11). Another local business owner uses a nearby retailer for almost all of her food supplies and because they have known each other for many years, she knows that he will go out of his way to help her and he in turn can rely on regular trade. The same respondent also commented on her accountant/ secretary, saying *"you just hand everything over to her"* (local, hospitality, 31), trusting this individual with a lot of business responsibility. Trust is clearly an important aspect of the service that a local business can offer but in these quotes we can see the in-migrant making a slightly more abstracted business decision, thinking about the accountability of the local firm, rather than relying on trust developed through being an established member of that community. The in-migrant is able to rely on the local social capital that will ensure a local tradesperson does a good job even though he or she has not yet become an established part of that community to have the personal trusts that other members might have.

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<sup>19</sup> Pearson Product Coefficient:  $r = 0.25$ ,  $n = 1281$ ,  $p < 0.01$  (two tailed)

Another in-migrant commented *"it is very important knowing the tradespeople around that area...to be able to pick up the phone and know you're speaking to a plumber and say 'it's not urgent come when you can,' or 'there's water everywhere, can you come right away?' That's very important"* (planned in-migrant, manufacturing, 12). In the professional services sector, another in-migrant said, *"I'm working more with very small companies and sole practitioners, I find that brings the cost down and also you can build up the personal bit and you've got somebody that will work all weekend for you if its necessary to get a job finished"* (planned in-migrant, professional, 16). Personal relationships have clearly developed between these business owners and other tradespeople but they still refer to the importance of the service for their businesses rather than showing a preference to support local firms for any other reasons. The second quote also acknowledges that building up personal relations is a secondary advantage that might bring longer term benefits but it is not the determining factor. A further in-migrant commented *"the electrician will match any price so why would we not use them, we get the after service as well. I would say we use local services 100% of the time"* (planned in-migrant, hospitality, 21). Again, a business decision is being made and the choice is based primarily on price and service.

In the hospitality sector, a part of this local attachment is linked to their business offering. Using local foods for breakfasts and providing recommendations for other local businesses enhances the service they provide to tourists as well as benefiting the other local establishments. One bed and breakfast owner explained *"we use where possible local porridge oats, and there is Lindisfarne mead so if people haven't tried that they can have a go. The bacon and sausages are bought from the local butcher and if people love them that much they can go into the nearby town and buy them"* (local, hospitality, 2). A local guesthouse owner said *"we try to do dinners with a 30 mile food radius"* (local, hospitality, 31) and explained that she always tells her guests where they can buy the food that she serves because she wants to support her suppliers' businesses. The recognition of quality helps the individual businesses but the decision to source local foods also has a clear and recognised reciprocal advantage for other local businesses. Knowing the other business owners from being a long established member of the local community had built up trust in their service and in return, the guesthouse owners were pleased to be sending additional business to their suppliers.

A further business owner explained *"we try to use local produce, our milk's from a farm [nearby], we use local shops...for ham and bread and things"* (local, hospitality, 8). There was no reference to whether these cost more or less than other outlets and unlike the earlier bed and breakfast example, the potential marketing benefits of using local produce were not maximised. It was quite simply a desire to support the community where she had always lived combined with the knowledge that she was buying quality produce. A local shopkeeper demonstrated a similar attitude saying that the reasons for stocking local products were

twofold; *"I find there's the satisfaction [of buying locally] and you have to find things that people can't pick up in the supermarket" (local, retail, 14)*. The second point was principally a business decision but in the conversation he expanded on this to demonstrate that he held a desire to provide an outlet for local producers who were not big enough to sell to the supermarkets and a choice for local people who wanted something other than mass-produced goods. In both examples, there was a clear perception that a desire to support and serve local suppliers and customers was influencing behaviour more strongly than profit-maximising ambitions but the success of each business clearly demonstrates how these need not be conflicting motivations.

Section 6.6 in the previous chapter demonstrated how in-migrants are more likely to look further afield for suppliers and interviews confirmed this. A guesthouse owner explained, *"We do use local eggs, sausage and bacon but we find that it's not as good as what we can get elsewhere so we get it in from Cumbria. There are local sources but a lot of the time it's very expensive" (planned in-migrant, hospitality, 19)*. Another, referring more to places for eating out, said, *"Our food offering is getting better here but I would say it's our weakest link" (planned in-migrant, hospitality, 21)* and a more recent arrival commented that *"Northumberland has very few good eating places" (planned in-migrant, retail, 25)*. This perception of quality is very subjective so it may be that in-migrants' have different expectations or they may lack the local knowledge and contacts to find the best produce. Whichever the reason, this anecdotal evidence confirms that in-migrants are not instinctively as loyal to local markets but it takes time to develop close contacts and local knowledge that might subsequently change behaviour. Section 7.6 of this chapter examines the contacts that have been influential in the critical developments of businesses and confirms that in-migrants rely on more extra-local links, especially in the early stages of their business development.

With an increasing range of business activity in rural areas, certain types of business will not be able to find essential suppliers locally. Although specialist or higher value inputs often need to be sourced outside the region, in the majority of cases rural businesses are able to use the local market in some way. One local business owner explained, *"We now use a local man for the pots and a local company for the 4.5 litre trays, whatever we can source locally we do, whatever we can't can come from Italy or Germany" (local, manufacturing, 20)*. A local brewer buys ingredients from across the country because different flavours require ingredients to be sourced from different areas but he uses local firms whenever possible for other products and services. An in-migrant manufacturer in the electronics sector sources supplies from around the world saying, *"It's not that we target specific areas, it's just where you can find it" (planned in-migrant, manufacturing, 17)*. For the less technical supplies, he is able to use firms in the local area because economically it is illogical to source low value, less important goods from further away. He also uses local service sector firms so this

demonstrates that the local economy will always see some benefits from new businesses, even when the owner has no strong desire to support the local economy for altruistic reasons.

The local focus of in-migrants appears to depend upon the nature of their business. As well as the clear trading decisions about where they can best source their inputs, the desire to integrate with the local economy also depends upon whether this is important for their sales. Business owners with no local market for their goods tend not to invest time and money in local networking and not be exposed to other local firms. The owner of a firm with sales across the UK and very little in the North East explained, *"I don't think there'd be any point in us being in the local chamber of trade, it's not as if we've got a shop on the High Street or anybody would seek our opinion about trading in [the local town]"* (planned in-migrant, manufacturing, 12). Another said, *"Because we don't particularly sell in this area or this country and the raw materials we need we can't get from this area, it didn't work for us"* (planned in-migrant, manufacturing, 17). Consequently, we would not expect these business owners to feel the same reciprocal obligation to support local firms but this does not mean that they are not becoming embedded within their locality.

Despite conscious decisions not to participate in local business networks, in-migrants in this situation tended to recognise that their businesses were good for the local area as they provided employment and the people working in the rural community were spending money with other local businesses. These were not trading relations in the sense of business to business dealings but it demonstrated that the businesses were generating local flows of money. Furthermore, there were examples of in-migrant business owners who sponsored local events in the full knowledge that it was not a logical marketing decision but they held personal desires to support their local community. One commented that *"supporting the local community...has to be part and parcel of any rural business because a lot of those people are actually working for us as well...and they like to see that their company is helping and supporting people in the local community"* (unplanned in-migrant, professional services, 29). After this altruistic explanation, the respondent added that *"it's important that people think quite well of us so that when we do need extra staff, people hear positive things about us so you can get people through the door."* This is perhaps a clear demonstration of Granovetter's (1985) assertion that economic and social behaviour cannot be viewed independently of each other as one's contacts and reputation are grounded in a multiplicity of relations.

Where in-migrants are entering sectors where they rely on local business, it appears more important to be seen to support the local community and local businesses. One respondent explained how his company sponsors the local playing field, while another recent start-up produces a seasonal product to support an annual village festival. Each of these are examples of how business owners seek to raise their profile locally but established local business owners can feel a more intrinsic pressure to support the local community. A

shopkeeper explained that *"you've got to be involved in the community; you've got to be seen to be joining in with the coffee mornings and things like that in the village"* (local, retail, 34). Another local shopkeeper sells tickets for community events, explaining that he felt an obligation from the community. He was generally pleased to help but it is clear from his words that he felt that he had little choice: *"You become very involved, like it or not, because everything that happens from a whist drive to a child's carol service, you are involved, you're expected to sell tickets, put posters up and do things"* (local, retail, 14). These expectations are the result of strong local embeddedness where the unwritten social rules are dictating the behaviour of certain business owners. Where businesses rely on the local community for their core trade, it is even more important to adhere to these rules and maintain good relations.

In the hospitality sector, consumers may not be local but many visitors will learn of places to visit through other local businesses so once again it is important for businesses to be seen to be supportive of the collective local tourism industry. One in-migrant was aware of the potential difficulty of being accepted by other established bed and breakfast operators and commented that *"the good thing about here was this was known as the guesthouse, even though it hadn't been run as a guesthouse for a while, so we had rite of passage to run a guesthouse...I think there might have been a little resentment if we'd just opened a house"* (planned in-migrant, hospitality, 19). For the actual running of the business, the local market was not necessarily important but to become established and benefit from local networks and to assimilate into the community at a personal level required a sensitivity to the established local community.

One hypothesis in this thesis was that, for in-migrants, local patterns of networks would develop over time but the research has demonstrated that in many cases, in-migrants are taking steps towards becoming embedded from a very early stage in their businesses. Where local connections are not important for the business, embeddedness may strengthen over time through employment and non-business activities but where the business relies on aspects of the local economy or local environment, in-migrants need to access these from the outset and this leads to them making particular efforts to engage with people and develop their local knowledge. Local people who already have friends and family in the area will tend to rely on these networks to shape their initial business actions and it is their business networks that might develop more slowly because they do not recognise the same immediate need as in-migrants. By actively engaging with the local community at an early stage, in-migrants are able to access local stocks of social capital and as social capital is built up through use (Putnam 2000; Westlund & Bolton 2003), it could therefore be argued that they are actively contributing to local social capital, both through local engagement as well as through the introduction of more extensive personal networks.

While in-migrants are participating in local networks from a very early stage, their local trading relations do tend to grow over time. The early local interactions are principally aimed at building up local knowledge and getting to know relevant people. A good example of this approach comes from a business owner who initially continued to use trusted suppliers from Wales but upon trying local companies, they discovered that the quality and service was equally good and this saw a gradual shift in the pattern of their trade towards the local market (*planned in-migrant, retail, 25*). Another in-migrant has continually widened her supplier base within the rural North East to the extent that she had to extend her premises (*unplanned in-migrant, retail, 5*). At the outset, she approached the local Council and discovered a network of related businesses and through regular interactions within this network, her business has grown and developed a strong reputation.

Despite the footloose nature of many businesses, geographical proximity still appears to be important to many people. Regular personal contact builds trust between people and with that comes a willingness to do a little bit more. The business owner that commented "*I'm working more with very small companies and sole practitioners, I find that brings the cost down and also you can build up the personal bit and you've got somebody that will work all weekend for you if its necessary to get a job finished*" also said "*it's become a global marketplace, even for a small rural company like us...we don't work face to face with customers, it's all direct mail or internet*" (*planned in-migrant, professional services, 6*). This contrast demonstrates that in an age where communication can span great divides, personal connections in local areas continue to be valued, albeit in different ways, and this helps to explain why business owners all develop some local relations.

Experiences of business owners will vary considerably between different locations as tensions can be raised through additional competition and changes to an established economic pattern. This was most evident in sectors such as tourist accommodation providers where local and in-migrant business owners are in direct competition for the same business. A bed and breakfast owner commented that incomers are able to buy up better premises, adding, "*I think in some cases they're money grabbers who've jumped on the tourism bandwagon...They're just there to make a quick buck, they're trying to make as much money as they can without putting any effort in to it*" (*local, hospitality, 2*). Another guesthouse owner in a coastal village lamented the high proportion of second homes and the impact that this change is having on the local economy.

Despite these comments, however, direct competition from in-migrants was never cited as a fear for existing business owners. Instead, local business owners were pleased to see new ventures re-invigorating the local economy. Social changes, increasing house prices and the different lifestyles of new rural residents were a much greater concern, for the viability of community events (*unplanned in-migrant, hospitality, 27*) and local shops (*local, retail, 14*)

and for the potential for children to live and work locally (*planned in-migrant, retail, 10; local, hospitality, 31*). This research does not ignore these concerns but by highlighting the economic benefits of entrepreneurial in-migration, it proposes a more balanced approach to the understanding of counterurbanisation.

In conclusion, while local people feel a stronger sense of responsibility and stronger pressures to support their community, in-migrant business owners are making different efforts to integrate into these communities. By making these efforts and combining this with wider opportunities for trade and other forms of knowledge exchange, in-migrant business owners are adding a valuable new dimension to rural economies. Unlike purely residential migrants, the fact that they are engaged in both social and economic roles enhances their local embeddedness but because they are expressing a choice, they do not appear to feel the same obligations as local owners. Instead, by choosing to integrate, they are able to win favour in the local community and benefit from their mix of local and extra-local networks. With different motivations for networking activity, we must proceed to examine whether these lead to materially different outcomes in terms of the value of local and in-migrant business owners' networks. The nature and extent of information, trade and co-operation that occurs among rural businesses will be explored in more detail ahead but before that, the independent attitude of rural business owners is examined alongside the ways that these individuals participate in and develop diverse networks of relations.

### **7.3 Independence and Interdependence among Rural Business Owners**

The desire to work independently ranks highly for many small business owners so we must understand the significance and meaning of "independence" before we can appreciate how co-operation and networking can develop. Table 7.1 (page 240) provided some evidence for the importance of independence. Relatively high average scores are attached to "developing own ideas" and "flexibility of time" and in the interviews, family issues and the need for a work-life balance were often mentioned. There were many examples of the desire to work independently with one respondent commenting, "*pension, commuting, steady wage, the things that many people want almost killed my spirit*" (*local, professional services, 11*). Other examples included, "*I didn't want to go back to working for a big company*" (*unplanned in-migrant, retail, 23*), "*I went to work in an agency in Newcastle and I didn't like the environment and so took the choice to become self employed*" (*local, professional services, 38*) and "*I decided that if I was going to do admin I'd rather do it in my own business and have the freedom to be where I wanted to be when I wanted to be*" (*planned in-migrant, professional services, 16*). Perhaps the clearest example comes from someone who left a city job saying, "*certainly at the start of it I didn't do it for the money, it was to do with not having anyone to*

*answer to really and all the benefits of working for yourself and managing your own time" (local, professional services, 40).*

The decision to work independently from larger organisation tends to impact upon the ongoing mentality and management style of these business owners. As explained in Chapter 5, the motivation is often just survival rather than significant expansion. The business owner wants to support his or her income and the livelihood of their families and failure would have a much more personal impact, both financially and in terms of

lifestyle, reputation and pride. The desire to carry on, even where it is a struggle to survive is perhaps best summed up by the following quote:

*If we were to pack up tomorrow...probably nobody would buy the business so you'd just have to walk away from it and everything you've put into it is lost."*  
(unplanned in-migrant, manufacturing, 28)

This business owner is proud that he has managed to survive and support his family as well as providing local employment and the business has developed to be a part of his life. If he were to give up the business, the personal attachment would make it a lot more difficult than just resigning from a job, even though the income from alternative employment may be higher.

People make significant sacrifices to ensure the survival of a business and this is often preferred instead of asking for help from public funds or external support. Where it is only personal incomes that are at stake, it is easier to make these sacrifices. One interviewee said, *"My salary (from another job) was having to pay to keep the business open. We thought this is not right, this can't go on"* (unplanned in-migrant, retail, 5). In a bigger company with staff, suppliers and creditors, it is often impossible to have this degree of flexibility but independent business owners can develop a resilient attitude. This was confirmed in research by Phillipson *et al* (2002) and Bennett *et al* (2001) in the aftermath of the foot and mouth crisis in the North of England where the family unit was able to survive on reduced incomes in order to ride out the difficult times.

New figures from the Federation of Small Businesses (BBC News Report, August 2008) suggest that smaller businesses will also be more resilient during the current economic downturn. In the example above, the interviewee resigned from her other job to work full time in the unprofitable business, and admitted that *"it looked like complete suicide at the time"*. In reality, the business has developed successfully to support her and her husband but such a step was only possible because of the strength of the family bond and the knowledge that they were only taking personal risks and neither relying on nor endangering others. This

ability to take risks is also associated with the fact that business owners can realise personal rewards and satisfaction, not just higher profits for partners or shareholders.

All businesses must be independent to some degree. While it can be valuable to share knowledge and co-operate, businesses all have trade secrets and private information that is deemed too valuable to share and individuals' characters will also vary. One business owner who saw no value in co-operation said, *"They're only after a slice of your profit"* (local, manufacturing, 36) and another was concerned that too much collaboration was risky *"because a rival business owner might just be looking to purchase"* (local, manufacturing, 6). In the hospitality sector where differentiation is largely on issues of quality and service, this becomes increasingly evident. Although business owners tend to engage with other local businesses, they are less communicative with direct competitors. When rivals visited a tea-room they were described as *"spying"* but the same interviewee admitted that *"If we go on holiday we tend to always call on a few tea-rooms and spy on them!"* (local, retail, 8).

A guesthouse owner said, *"I think to share my trade secrets with people means I've lost my edge, I've still got to keep something hidden away from everybody else, I don't want people knowing exactly what I do, not unless they come and stay here"* (local, hospitality, 2). She continued by explaining her irritation with inspectors saying, *"I sometimes get annoyed with the tourist inspectors, they sometimes give ideas and they say 'you could try this,' but I think 'why's she saying this? somebody is obviously doing that'."* She feels that it is unfair that they can steal her ideas and pass them on to total strangers. She co-operates with some local guesthouse owners, passing on recommendations when she is full and discussing aspects of the business together, but she wants to be in the position to choose these contacts. This choice may depend upon direct friendships or just perceptions about whether other individuals are adhering to her preferred social rules or business standards.

If there is sufficient trust between two businesses owners, they will be happy to co-operate on a personal level and when recommending alternatives, it is also important that the recommendation is sound so as not to leave a bad impression with a potential future customer. One business owner explained that when they were full and recommended an alternative that was not up to the expectations of the customer, it reflected badly on them and added, *"they came back and bit my head off because it wasn't good quality"* (planned immigrant, retail, 25). Independence, in this sense, is more about having the choice of who to interact with rather than choosing not to interact with anyone. Partly this is a social decision based on friendship and trust and partly it is a business decision as people are judged by association as well as on their own direct service.

The idea that reputation can be enhanced by friends and associates as well as by the individual and his or her personal activities is recognised by social capital theorists (e.g. Field

2003). This demonstrates the importance of local communities developing strong positive relationships and avoiding the danger of being held back by an over-reliance on restrictive or excessively local associations. Alternatively, a local community can develop trusting, information-rich networks which allow business owners to benefit from local cohesion without being restricted by local obligations. Chell (2001, p27) describes an idea of "collective independence" where friends and family provide the necessary support without the need for participation in other formal or business networks. With collective independence, co-operation is based on the mutual understanding, respect and friendship that are derived from embeddedness within a local community where business owners recognise and share certain identities and challenges. With this collective attitude, local problems can be addressed and through the strengthening of local networks, both individuals and the community as a whole can enhance their reputation and their social capital.

The critical point here is that, compared to employees in bigger firms, independent business owners are able to make more personal choices about the people with whom they interact, the frequency of interactions and the nature of trade and information that is exchanged. Independent attitudes may deter people from joining formal "networking" groups but there are many examples of different forms of personal connections impacting upon business activity. Chell (2001, p224) explained that "the image of the lone but heroic entrepreneur has been criticized as being a part of legend and myth." Group processes and social interaction are both important for entrepreneurs. In this research there is, at one extreme, the entrepreneur who described himself as an *"inveterate networker,"* actively maintaining a strong range of personal contacts because he feels that *"no problem is unassailable, if you've got the right network you can pick up the phone and get it sorted"* (local, professional services, 11). Another group of businesses in a small village have joined together to hold regular meetings which can offer support and information to those involved. The chairperson commented that *"it gives us a kind of focus as businesses in the village"* (unplanned in-migrant, retail, 5) and also explained how their stronger voice had allowed them to hire consultants and bid for funding for certain local improvements, actions that would have much more difficult unilaterally. At the other extreme, those business owners who had negative comments about networking still described a range of interactions that materially benefitted their businesses.

One expression of the desire for independence is often reflected in a lack of confidence in professional services. Several small businesses surveyed feel that they receive poorer service from other organisations for several reasons, often perceiving themselves as the least important clients. One interviewee said, *"There's no such thing as good bankers and good accountants nowadays, they just want your money. The bank charges a fortune for handling cash, you only see them once a year when they want to sell you more life assurance and pensions then they charge you £200 for the privilege of coming out to see you!"* (planned in-migrant, retail, 10) Another said of his bank, *"They are clueless on the export side, we've got*

*a Euro account, there are constant problems with a lack of knowledge, we have a business manager that's allotted to us and he knows nothing about exporting" (planned in-migrant, manufacturing, 17).*

Perhaps this frustration is associated with the fact that small business owners have to offer a higher level of service to their clients in order to compete yet do not receive a similar level of service in return. This may also help to explain why rural businesses often try to use other local services where possible. Almost all of the interviewees expressed a preference to use a local service where it existed, so long as they were sufficiently competent. As well as trusting in the quality and service that local firms can offer, one person explained that he knew he could trust another firm to work late for him to ensure that a job was finished, something that would be much less likely to happen, or more costly, if he were a small client with a bigger company. The trust between the two business owners clearly has a financial value but it is generated through their individual relationships and a reliance on each other's businesses that has developed over time. They both understand the independent nature of their businesses and can work together within that context. The relationship has developed organically through the mutual advantages of trading together, not through an initial desire to establish co-operative networks.

The desire to work independently is also evident in people's attitudes towards business support agencies. One person commented about Business Link that *"they don't understand small businesses, we want to get on and run things ourselves" (local, manufacturing, 35).* While Business Link probably do have a good understanding of many small businesses and appreciate that many owners enjoy their independence, it does provide a significant obstacle in terms of service delivery. Some people take this independence to such an extreme that they miss out on valuable information. Actively disengaging from larger organisations is not uncommon. The owner of a holiday cottage explained her frustrations with regional marketing saying *"I'm so cynical, when these glossy things come, I just throw them in the bin, because I'm a small concern, I don't need a lot, it's a different ball game, but if there's something I miss out on, I get narked!" (in-migrant, hospitality, 18).* Even with a cynical attitude towards some advisors, another business owner described a slightly more balanced approach:

*"You get an awful lot of failed businessmen become experts and work for Business Link and you can tell that in the advice they give, or they're career civil servants and they've never had a real job, how can you give advice when you've never actually done it? I know you can get some very good people like that, but there are times you've got to question the advice they give" (in-migrant, manufacturing, 17).*

With independence often comes the motivation to prove oneself without resorting to outside contacts for support. One person moved because he was offered a specific business opportunity. With no planning and the decision to move being influenced by both a desire to leave one job and the opportunity to pursue a different career path, there was no cross-over and no desire to maintain linkages. When asked if he would go back to previous contacts to ask for business advice, he responded, *"There's probably an element of pig-headedness, you want to sort things out yourself"* (planned in-migrant, manufacturing, 17) confirming his independent outlook. With few business contacts in the local area, he continues to operate with a relatively independent approach and any interaction with local businesses is assessed on the grounds of quality and value, the same as with any other national or international firm.

Where interaction is forced upon business owners, there is often more resentment. In the hospitality sector, for example, there were many complaints about inspectors, including occasions where they were trying to be helpful. Two people described them as "nitpickers" (including one person who had been a judge for local tourism awards) and clearly resented outsiders coming into their premises and being critical. Of these, one was a local person and the other had lived in the area for many years and set up the business after she was established in the local community. In each case, both were very happy to speak to close friends about new ideas from furnishing the property to marketing the business but they were less comfortable with strangers coming in and voicing their personal opinions.

Interestingly, two recent in-migrants who run guesthouses both gave more positive comments regarding inspectors. One explained, *"The first [inspector] we had, we said we're new to this, this is what we've got...and he was a really good guy and he said to us...what you need to do here is maximise the potential of the best rooms by putting in an en-suite and making the other one a dedicated en-suite which is what we did"* (planned in-migrant, hospitality, 19). She added, *"It's obvious really but it's nice coming from someone in the business"* demonstrating how they valued the reassurance as well as the material advice that was provided. Another in-migrant said, *"We're very lucky because, by and large, inspectors come here who I've got to know, I'd say they are very switched on...they understand the reality of running a business, many of them have been in management of hotels, they come from a good base and I like that"* (unplanned in-migrant, hospitality, 21). Through involvement in tourism networks and with a different attitude towards business development, she was better positioned to deal with inspections.

This difference between local and in-migrant business owners is perhaps related to the fact that in-migrants are more likely to use support services and be more comfortable with the idea of seeking advice. When business owners have the attitude that they are incomers, new to the area and new to the business, they are more likely to be looking for advice on how to develop their businesses. This is especially evident in hospitality because it is a sector that is

already strongly represented in the local area and many newcomers to these businesses do not have direct experience of the business. The contrast with locals is perhaps heightened by the fact that locals feel threatened by the influx of competition (*local, hospitality, 2*) and this leads them to fall back on local knowledge and local networks, the attributes that are least associated with in-migrants. Local business owners have stronger networks within which they can remain relatively independent but as this section has demonstrated, even those with the most staunchly independent attitudes, benefit from a variety of business and personal relations.

The next section explores these various sources of advice and support that are used by both local and in-migrant business owners. This sheds light on whether rural businesses have access to sufficient contacts, either through personal relations or more formal institutions and Section 7.5 continues by investigating the reasons that business owners choose to pursue different opportunities for information-seeking and business support. Subsequent sections then explore in more detail the extent to which these are strong or weak, formal or informal, purposive or passive relations and whether different types of relations are used for different purposes or generate different outcomes.

#### **7.4 Where do Business Owners go for Advice?**

In order to investigate the various ways in which business owners are able to accrue valuable information and other resources for their businesses, both the microbusiness survey and interviews provide valuable data. The first part of the analysis focuses on the survey data and deals principally with organisations that exist to provide business support. Subsequently, through analysis of interview data, the significance of interactions at all levels is highlighted and the potential for useful knowledge and contacts to develop out of diverse interactions becomes evident, regardless of whether the business owner has planned for such an outcome.

In Section 5.3 we saw that in-migrants were more likely to consider seeking business support. From the survey data it was also possible to investigate where different firms might go for advice and a comparison of local and in-migrant business owners is set out in Table 7.2 below. Apart from agricultural groups, local people report a lower propensity to seek advice from any source. The differences are smaller for the Chamber of Commerce and Local Enterprise Agency which may indicate that these organisations are more successful at engaging at the local level. The fact that unplanned start-ups have been more likely to use organisations such as Business Link, TECs, Enterprise Agencies, Chambers of Commerce and Local Authorities, however, suggests that all of these bodies are successful at engaging locally but that local business owners prefer to retain a higher degree of independence while

in-migrants already in the local area will more readily seek out these sources of business support.

**Table 7.2. The percentage of each type of business owner that has sought different forms of business advice**

	Rural Development Commission	Local Enterprise Agency	Business Link	Training & Enterprise Council
Local	8.5%	13.6%	23.8%	18.3%
In-migrant	14.4%	15.4%	33.1%	25.3%
Planned Start-up	16.7%	14.2%	29.2%	18.1%
Unplanned Start-up	12.9%	16.3%	35.9%	30.2%

	Chamber of Commerce	District Council	County Council	Agricultural Advisory Body
Local	6.3%	9.5%	4.2%	7.5%
In-migrant	7.5%	13.5%	8.1%	5.4%
Planned Start-up	5.0%	12.5%	7.5%	6.0%
Unplanned Start-up	9.3%	14.1%	8.5%	4.9%

	Private Sector Advisor	Trade/Professional Organisation	Industry Contacts	Family and Friends
Local	43.1%	17.1%	22.8%	14.9%
In-migrant	47.0%	23.1%	31.8%	20.0%
Planned Start-up	50.5%	28.1%	33.1%	23.5%
Unplanned Start-up	44.9%	19.8%	31.0%	17.6%

Aside from the comparative analysis, this table also indicates that there is a low take-up of business advice across the microbusiness sample, and this is especially true for publicly funded business support services. The fact that in-migrants are engaging with these bodies more than local people is an indication that they are keen to develop their personal and social capital but unless the numbers of users increases across the board, a high proportion of the potential advantages will continue to be missed. From a policy perspective, it seems critical to address this issue and attempt to provide services that will appeal more strongly to rural businesses. This advice should not take the place of private sector consultants, however, who are also valuable components of the rural economy.

From the interviews, many local people starting businesses expressed the value of knowing the local market or the business that they were buying or inheriting. Whether inheriting from family members (*local, retail, 14; planned in-migrant, hospitality, 24*) or buying a business having previously been the shop manager (*local, retail, 34*), the benefits of having an

established reputation and not incurring major start-up costs are significant. One person was able to work for a summer season in the business before taking it over, gaining experience of the job and also an understanding of the market and the potential for success before a major commitment was made (*local, hospitality, 8*). Another business owner had experience of working in the same sector in the same village so knew her customer base and was confident of local support (*local, hospitality, 27*). Even where there was no overlap with a previous owner and no experience of working in the same line of business, two local people who took on retail premises had built up knowledge of these businesses simply by being members of that community (*local, retail, 7 & 33*). With this degree of familiarity among local people, they are seeking less advice from outside their existing networks of friends but, because of this familiarity, they may be missing out on other opportunities.

Local people accessed more external advice on occasions where they were setting up a totally new business or a business where high levels of investment in plant and machinery were required. A farm diversification business also required planning permission and this involved hiring a professional firm who were then able to recommend other agencies that provided funding towards the new development (*local, manufacturing, 6*). In this example, the planning consultant was recommended by a farming friend and once outside of this group, new flows of information became available and interaction with Business Link and Defra followed. In-migrants are not tied into such strong local networks at the outset and their desire to create connections leads them towards various network organisations and advisory bodies as these are most identifiable and approachable. One business owner described exactly such an approach:

*"We targeted these formal networks, we didn't know what else to do. We didn't have any contacts, we didn't know which networks would be best so in the first year we just went to all of them and then decided which to stick with...That was mainly based on where we got business from" (unplanned in-migrant, professional services, 1).*

Such outlooks help to explain the contrast between local and in-migrant business owners but additionally, there are significant variations between migrants who planned to start a business and those for whom the decision occurred at a later stage. Planned start-ups are most likely to rely on family and friends or other industry contacts which would appear to demonstrate that they are maintaining more extra-local linkages<sup>20</sup> and contacts from previous places of work or residence. As planned in-migrants are the category of business that is associated with the higher job creation and growth aspirations, this supports Chell & Baines (2000) view

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<sup>20</sup> If parallels are drawn with international migration, the destination of planned start-ups may be associated with existing personal contacts (e.g. Ram *et al* 2007) but it is fair to assume that a significant proportion of their family, friends and industry contacts would be linked to their place of origin.

that extra-local ties are important for growth. Halfacree (1994) identified that a quarter of all long distance migrants had a previous connection or familiarity with their destinations so undoubtedly some connections with family and friends will exist at the local level. If they have migrated into the area in order to develop a business, however, it is fair to assume that previous industry contacts are located elsewhere along with at least three-quarters of personal contacts based on Halfacree's finding, so we can assert that planned start-ups are providing extra-local connectivity.

The higher take-up of support from unplanned in-migrants may indicate that access to support services is only perceived to be valuable within a local area. Migrants planning to start a rural business when they move tend to rely on less formal sources of information and support. There can also be a trade-off between the value of seeking business support and the value of using that time to start working. Where business-planning had ensured that work existed at the outset, one interviewee explained that he did not apply for any grants because he did not have time (*planned in-migrant, professional services, 13*). A local start-up with a greater need for funding to develop larger business premises recognised that the application process was costly, both in terms of time and money, but as he was able to do this through his local Council and had the requisite local knowledge to employ consultants to secure the grant, it was the right business decision (*local, manufacturing, 6*). The number of rural business ideas that develop outside the rural area suggests that there may be scope for these services to be better connected between regions and between urban and rural areas.

Owners of planned start-ups are able to use their previous work experience and contacts in many beneficial ways. The statistics show that planned start-ups are more likely to seek advice from industry contacts and trade or professional organisations and a former teacher explained, "*I'm in the very fortunate position that when changes are happening...I know I can get on the phone to all the chief examiners and they're good enough to spend whatever time it takes with me to talk through what's happening and how things are changing exactly, I don't have to work it out as an outsider*" (*planned in-migrant, professional services, 16*). Two other consultants explained that they had been able to develop contacts in Newcastle before launching their businesses. This publicised the business and generated potential clients from the outset, essential requirements both in terms of cashflow and market exposure.

One in-migrant planned to start his business while working for another firm in the same sector so was also able to take work and clients directly from previous contacts. Although valuable at the outset, he explained how the nature of his work meant that he very quickly began taking on more and more rural clients and the connections with city business became less valuable. Nevertheless, he continued to work for certain contacts in the city because he recognises the importance of these links for non-trade advantages such as information exchange, referrals of rural-specific work and having access to other consultants that he may

need to work with on larger projects. Explaining the transition, he said, "*I've done one or 2 small jobs for colleagues in Newcastle but it's mainly rural now*" (*planned in-migrant, professional services, 13*). He went on to explain, "*It's not that the rules are different; it's just different type of work and different people... You get to know what [certain rural organisations] want... you build up experience in specific areas.*" In this example, the transition to developing stronger connectivity with the rural economy was a fairly quick one. The nature of his work is intrinsically connected to the local economy so it was important that he not only developed rural expertise but that he interacted with rural people.

From tea-room and guesthouse owners consciously looking for ideas when they visit other properties to business owners joining professional networks, the independent business owner is characterised by an ongoing desire to acquire ideas and knowledge that can help with his or her daily job and improve the service or product that they are offering. While all business owners may be alert to these opportunities, not all can be expected to have the same access to valuable interactions and this is where public agencies and business advisors appear to be most useful. A good example of this was the business owner who approached the local Council who in turn recommended a local network of associated small businesses who in turn provided valuable trading opportunities (*unplanned in-migrant, retail, 5*).

Another example of the value of public agencies comes in the form of the financial assistance they are able to provide. Considering more recent start-ups, the microbusiness survey shows that 36% of business owners starting after 1994 applied for a grant. Some 63% of these businesses considered seeking business advice, including general advice and sector specific advice but this cannot be directly compared because the question only asked if they "considered" seeking advice and anybody obtaining a grant would automatically be seeking advice, even it was only about accessing that funding. The advantage of linking funding and advice services was demonstrated by higher numbers of recent start-ups seeking advice from organisations such as Business Link or Training and Enterprise Councils compared to professional organisations, Chambers of Commerce or local or regional Councils.

Many business owners join these trade organisations and see many different benefits. In some cases there are financial advantages but it also offers a support network by providing contact with people in similar situations. Even where an individual is not actively participating in events, general knowledge about their business sector provides them with certain assurances about the likely future and general good practice. This may be picked up via magazines, websites or contact with other members through everyday business dealings. Such interactions may not always be referred to as knowledge exchange or business advice but they provide the bedrock of connectivity that enables stronger relations or more complex patterns of networks to develop. Indeed, one successful business was started after its owner read a magazine article describing the potential for specific forms of farm diversification

(*planned in-migrant, manufacturing, 22*) so these seemingly inconsequential interactions can have highly significant outcomes.

While few business start-ups are linked to magazine articles, several other business owners referred to what they perceived to be quite mundane incidences having an impact upon their business development. Shopkeepers commented on how they react to requests from customers for different products and people use their everyday experiences to influence business decisions. One shopkeeper said "*there was an old fashioned shop in Beamish and one in Yorkshire with the big rows of sweets and I think when people come in the shop that's what really catches their eye*" (*local, retail, 7*). No formal training event would give this information and if every shopkeeper had the same idea, it would no longer be effective, but this demonstrates that business owners are always alert to ideas that they like and are looking to try different things to improve their businesses. A tea-room owner, guesthouse owners and the owner of a holiday cottage all referred to the importance of looking at what other people are doing and expressing their personal preferences as a means of differentiating their offering to customers. It is in sectors where the personal touch is less significant that business owners have to make a greater effort to facilitate knowledge exchange.

In agriculture and other traditional rural businesses, succession through families often provides a critical flow of knowledge and long-established businesses are also most likely to have developed stronger local relations that can provide essential support and advice. We saw in Chapter 5 that where these networks are unable to provide advice, local business owners are travelling elsewhere to satisfy such needs, either in the shape of university courses or other forms of training. This means that unless training is essential, it is likely to be less attractive to rural firms and, due to the distance, publicity for such courses may not reach rural firms as readily as urban ones. People that have lived and worked elsewhere, however, are likely to be more aware of training courses and networking events and be more familiar with the need to build them into their regular working schedule. Even if they do not continue attending, they will have accrued knowledge in the past that can continue to be beneficial and where certain aspects of training or less formal knowledge exchange are perceived to be valuable, in-migrants might be more likely to initiate them in their new surroundings.

While in-migrants are often able to call upon a geographically more diverse range of contacts than local business owners, their involvement in the local rural economy is enabling other rural business owners to access a wider range of information and ideas. This may occur directly, with in-migrants being involved in local networks, but it is also happening indirectly with in-migrant businesses and residents demanding different products and services. One business owner explained that there would not be an Indian takeaway in his village without

the influx of wealthier people with different tastes (*planned in-migrant, retail, 10*) and another explained how their demands for high quality ingredients has supported the trade of local suppliers and also encouraged them to seek out new and better produce (*planned in-migrant, retail, 25*). Two other in-migrants described their roles in encouraging co-operation among village businesses (*planned in-migrant, hospitality, 19; unplanned in-migrant, retail, 5*) demonstrating the ways in which their influences can have a beneficial impact upon the local business community.

While business owners are almost always alert to new ideas, they are not necessarily looking for opportunities to co-operate or exchange knowledge on a more personal level. Some enjoy the independence that running a small business can provide, but even these people cannot operate in isolation. Where a career move was sparked by both a desire to leave one job and the opportunity to take on a new business, there was no cross-over and no desire to maintain linkages (*planned in-migrant, manufacturing, 17*). Another person found himself in a position where his previous employment had come to an end somewhat unexpectedly and then had to rely on other personal contacts and experiences to find work. He explained, "*I didn't want to go back to working for a big company...The only other business I know anything about was running a pub because my grandfather had one in Liverpool*" (*unplanned in-migrant, retail, 23*). Having made this decision, he then found out from a friend that a pub was coming on to the market so he was able to buy it fairly quickly. In both examples, the clear separation from previous employment resulted in few business contacts that could help the new enterprise so the closer ties of family and friends were more influential.

Having established that there are a range of opportunities for sourcing advice and information for business development, the reasons for accessing different networks are explored in the following section. The advantages associated with formal associations or informal networks of friends and family are quite different but it appears from the evidence that among rural microbusiness owners, decisions are not necessarily based on the merits of each type of network but the individuals concerned, their mutual trust and the opportunities for regular interactions are all significant factors.

### **7.5 The Reasons for Participation in Formal and Informal Networks**

The previous section demonstrated that significant knowledge exchange occurs between rural business owners and many other actors. With this in mind, people's attitudes towards engagement with different groups are now explored in an attempt to understand whether certain business owners are more able or more willing to participate. One key distinction that can be drawn is between formally arranged groups and more informal connections that might arise through social or business contacts. The motivations for participation in each of these

groups are quite different. Where there is a cost for joining a formal network or it is clearly defined as a business group, a rational business decision tends to be made but informal connections arise through many other processes.

When "networking" is mentioned, it tends to be the formal, organised networking events that come to mind for the majority of business owners with reactions varying from *"my stomach's turning at the thought of it"* (unplanned in-migrant, professional services, 26) or *"I do do a little bit of it but I don't particularly like it"* to *"I get a real kick out of other entrepreneurs and other business people and helping to signpost them, I love that kind of networking process"* (local, professional services, 11). One response from a successful and innovative business owner was that *"networking just means with the computers"* (local, hospitality, 27) demonstrating that it is not essential for everyone to understand the process or the theory behind networking in order to run a successful business. This business owner consults with customers, benefits from involvement in the local community and has wider business relationships that could be described as networks but her understanding of the term demonstrates that her "networking" occurs through day to day interactions rather than planned activities.

When asked about networking, a shopkeeper said, *"I don't do it...I don't really have to do it,"* before explaining, *"I know the people who come in the shop and just communicate with them as and when"* (local, retail, 33). The fact that he is in a position where he knows his customers, understands their requirements and is able to discuss new product ideas with them demonstrates that he has a very strong network incorporating the most valuable people for his business. Because he sees them on a regular and largely informal basis, this "communication" is not perceived to be a form of "networking". Indeed, if it was recognised as networking it would almost certainly be less effective as his customers would resent more formal interrogation about product lines and he acknowledged that he does not like to talk directly about work with friends in the community.

Many respondents made a clear distinction between the importance of a good network of contacts and the separate value of sales and marketing events. Where business activity has few connections with the local area, several respondents still felt that it was important to be contributing to the local economy. One business owner referred to the importance of both contacts and networks (local, manufacturing, 36), implying that he makes a different assessment of each. At one stage he referred to the value of the informal economy and having people pass on the company name and he clearly had a different attitude towards these contacts as opposed to formal networking groups with which he may or not interact depending upon his assessment of their merits.

In a similar vein, a guesthouse owner commented that regardless of the people, *"if they've got practical ideas you listen"* which reflected her general attitude toward networking: *"It's good...as long as you're dealing with the right people it's all right. As long as you've got confidence in who you're talking to really"* (local, hospitality, 31). Business owners interact with the people that they consider to be most valuable to them or those people in whom they have the most trust or respect. When formal organisations are often more remote from individuals' lives, it can be difficult for them to engage in such an effective manner. Formal organisations do have an important function but it is important to recognise that they cannot perform the same role as closer friends and family and trust or respect has to be earned through other means.

A good example of the perceived dichotomy between formal and informal networks comes from a manufacturer who dislikes organised networking events and chooses not to seek formal business advice. He said that networking *"means to go out and cultivate contacts who are able to provide you with a service, get your name out and about"* and also explained that, *"we've never taken any direct advice...I like to think I'm savvy enough with business and cash and finance"* (local, manufacturing, 20). At the informal end of the spectrum, however, he has asked members of the local community to taste his products, he has been able to develop a good relationship with a local butcher, he has sought advice from friends within the same industry sector and family members have provided other forms of advice and support. This demonstrates that even where business owners have a dislike of "networking" in a formal sense, this does not mean that they are totally independent or isolated in their business.

Within a more formal approach to networking, there are many clearly defined, rational decisions taken. Bennett (2007) confirms this logic, reporting that motives for joining formal networks are dominated by seeking specific service benefits while marketing and making contacts are of secondary importance. On the flip side, it was "not using the service" and "not finding the service useful" that were the most cited reasons for allowing memberships to lapse. In the North East, one respondent said, *"I need to know what they can offer me before I go there, otherwise you're wasting your time"* (unplanned in-migrant, retail, 32) and another explained, *"We're paid members of [one network] because we want to move down the digital route...I wanted to be part of that so we know what's going on and what local firms are doing"* (planned in-migrant, professional services, 16). For the in-migrant who went to all the networks he could find before choosing which to stick with (unplanned in-migrant, professional services, 1), it was clearly considered to be important for his business that these opportunities were properly researched despite the costs in terms of time and money. These "purposive" approaches provide a distinct contrast to networks of friends and family that are based on very different foundations.

The distinction between "purposive" and "passive" networking can extend into the social arena too. In-migrants describe how they have to make certain purposeful efforts to integrate with the local community. One person explained how he knew that he had to make new friends when he moved into the rural community and explained, *"I'm on the local church council, a local fishing club, the golf club at Hexham, I sing in the church choir, I belong to Lions...I try to use these local contacts to promote the business but I'm quite aware that I don't want to bore people"* (in-migrant working in local, manufacturing, 6). Such an attitude is typical of many people who move to the countryside because business reasons are not always the primary motive for integrating into a new community but there is a need to be proactive if an individual wants to become embedded.

Formal networks that actually offer a valuable service were also mentioned positively. These tended to be sector specific such as the Federation of Retail Newsagents who arrange reduced prices for members, the Society of Independent Brewers who provide access to wider markets for small breweries and Northumbria Larder which provides advice and marketing for local food producers. In most cases, the benefactors of these services were not active participants in the organisation except for accessing those specifically identified purposes. The starkest example of this was someone who joined a One NorthEast-sponsored group simply to get a credit card payment system installed cheaply and never subsequently engaged with the organisation (*local, hospitality, 8*).

Where active participation did occur, this was seen to be a separate decision to that of the direct business advantage because there is usually no need to attend meetings to benefit from offers provided to members. A member of the Federation of Retail Newsagents attends meetings *"because I find that it's helpful to know what's going on in the trade, there's all sorts of things going on that unless you go along to meetings you don't know about"* (*local, retail, 14*). Because it has benefited him over the years, he continues to support the organisation adding, *"I'm on the giving side now, I have sufficient knowledge of the trade to advise people what to do."* His continued participation is almost certainly adding little value to his own business but he has developed strong connections and feels a responsibility to continue his involvement. This perhaps demonstrates that involvement in formal trade-based organisations can be governed by more personal decisions and in-migrants are able to use this as a means of integration. A member of a local tourist group said, *"I am more up to date but it doesn't particularly help me with my business, it's more the other way round, it helps any board that I sit on that I run my own business"* (*planned in-migrant, hospitality, 21*). Participation in this group enhances the reputation of the business and generates useful contacts but principally, it is an altruistic decision based on a personal desire to be involved in the tourism community.

It is not only the positive decisions that employ rational business logic. The owner of a holiday cottage said of a local network, *"I just felt it was a lot of bed and breakfast landladies griping, it wasn't my scene so I stopped going"* (unplanned in-migrant, hospitality, 18). A brewer said, *"I joined the Chamber of Commerce and I didn't see any benefit from it...they invited me to meetings and meet and greet but they just weren't people I could sell beer to"* (unplanned in-migrant, manufacturing, 4). We have already seen how the local or extra-local focus of a firm's trading patterns can influence their network participation. A business owner with sales across the UK and very little in the North East explained, *"I don't think there'd be any point in us being in the local chamber of trade, it's not as if we've got a shop on the High Street or anybody would seek our opinion about trading in [the local town]"* (planned in-migrant, manufacturing, 12). In the latter case, the decision refers to what he can offer as well as what he might gain from participation, so despite some of the comments that people may say about formal networking, they still make rational assessments about each opportunity that arises.

Such decisions occur on a regular basis with another respondent saying, *"We had an invitation the other day from the business club to go to some hotel, basically to network, see what was available and then meet everyone else that had different businesses. Apart from having to pay to go, it didn't appeal. We know people in businesses and if they want us they get on to us, on the grapevine, and if they don't, they don't, it's as simple as that"* (unplanned in-migrant, manufacturing, 28). Although these assessments take place, many are done so informally that it does not register as a clear business decision. Business owners quickly learn where they can develop potential clients and pick up valuable information and they tend to rely on their own experience to judge when and where to participate.

Even where a business owner was initially cynical about the concept of local networking, a rational economic decision becomes apparent when he expands on his reasons for non-participation:

*"I used to go to these networking lunches, the first thing you realise is that ¾ of the people there are from government agencies justifying each others jobs and departments. Because we don't particularly sell in this area or this country and the raw materials we need we can't get from this area, it didn't work for us, I can see the benefit...but you've got to have the sort of business that would benefit and I soon worked out that we had nothing in common with the other companies"* (planned in-migrant, manufacturing, 17)

In a less formal context, if the rationale for coming together is specifically about business, participation becomes a business decision. A shopkeeper explained *"In this village in particular, there's probably myself and the butcher who'd spend money on advertising but*

*other people don't seem to bother" (planned in-migrant, retail, 10).* This lack of effort on the part of others discouraged him from trying to initiate a collective effort. The attitude of, *"They don't bother so why should I go in and see them" (ibid)* partly explains why many local networks arise out of major issues that threaten the stability of local communities. Without such a focus to pull people together, the laissez-faire attitude of individuals and the desire for fairness in terms of time and effort can dissuade the establishment or the ongoing functioning of business networks.

In-migrants can be an exception to this rule, however, as they can provide the stimulus that the existing business community requires. A local start-up may already know many members of their local business community so not feel confident about changing accepted behaviour but people with business experience from elsewhere are better able to influence other business owners. In two villages, quite different networks have developed and both have seen significant input from in-migrants. In one case, the in-migrant is chair of the village organisation explaining that she felt it was important to get involved to be seen as a supportive member of the community. She is also the most computer literate and has the opportunities to travel to meetings elsewhere so is clearly a valuable asset to that group. In the other village, an in-migrant bed and breakfast operator realised that there were several other guesthouses nearby so encouraged them to recommend each other if they were full. Encouraging this co-operation has benefited their business but it also helped them to be accepted in the local community so there was a personal reason that provided the impetus for the in-migrant to make that first move towards co-operation that local business owners appear more reticent to do.

This is not to say that local business owners are not co-operative or that they cannot initiate co-operation but personal benefits are rarely the driving force for action. The shopkeeper mentioned above was much more willing to participate when the stimulus for co-operation came from a community event. He was pleased to explain what he and other business owners did to help the community and was not ashamed to admit that it was a successful event for his business as well. Rather than boasting about his achievement, he was able to describe the success in the context of supporting a community event and doing something altruistic, a much more virtuous story than a successful marketing campaign run by an individual businessperson.

Such attitudes and behaviour are perhaps associated with the reserved British characteristics of modesty and an unwillingness to talk about money or success (Fox 2004). Many business owners with a strong group of contacts across different areas and different sectors tend to offer a negative response when asked about their opinion of "networking". It can be seen as big-headed to say that you have a strong network, and admitting that you actively "network" equates to saying that other people are interested in your business or that you are mixing

with an important group of people. Many business owners who are keen to succeed independently are not the types of people who want to tell everyone about their success, one commented that people who are overtly involved in networking events can be seen as “smarmy” (*planned, in-migrant, manufacturing, 22*) or self-important. Resilience and independence are much more strongly associated with Britishness than brashness or self-aggrandisement (Fox 2004).

When money or business time is involved, many people’s attitudes change. Independent business owners are often uncomfortable in formal networking arenas and this may partly explain their instinctively negative responses. Co-operation with local people or friends in other businesses can be dealt with in an informal context, often away from clearly defined business time or space. These relations are beneficial but because the social relationship is at least as strong as the business need, it is seen as little more than common sense to help each other out, certainly not an aspect of business behaviour that merits a specific name or detailed study.

The dividing line between formally organised business networks and more informal connections is a fuzzy one. One respondent linked the independence of small business owners with their reticence towards networking:

*“The problem is, especially in the brewing world, we all set up because we’re individuals and we want to do our own thing. We do co-operate when it suits, usually when somebody else browbeats us about the head. We’ve all just sent beer off to the Bolton beer festival and the bloke at the beer festival said, look, one of you has got to put it all together, shove it on a pallet and send it down to me...but that has happened so yes, we do cooperate with one or two of the brewers when they put on a beer festival and things like that” (unplanned in-migrant, manufacturing, 41)*

The quote above demonstrates that co-operation is welcome but it takes a stimulus to pull people together. In this case it was the organiser from Bolton, in the previous example it was the organiser of a community event. Whereas there was a clear reluctance for the shopkeeper to take the initiative in co-operative action, here it is simply the individual focus of business owners “doing their own thing” and not considering alternatives that precludes co-operation.

The above quote comes from a business owner whose initial reaction to the concept of networking was “*curl my nose up really.*” Later, he explained how he had received other valuable support from within his business sector. It was not just about the benefits that his business could gain but there was a genuine appreciation of the co-operative spirit:

*"I received a lot of encouragement from other brewers when we started off, they were very very helpful, one of them [had a problem] and if he hadn't told me I'd have almost certainly got that [same problem], they'd been searching for the problem for months and he came up with the answer and let us all know straight away...Everyone's very helpful...as long as you are prepared to listen to them, you come up with best practice then" (unplanned in-migrant, manufacturing, 41).*

Interestingly, his attitude changed slightly when the conversation moved on to formal networking events. Because it is a formal event, the business mentality begins to take over and he wanted value for money rather than just accepting that co-operation was valuable in the longer term. Saying, *"there were 20 or 30 microbrewers there and we were telling them what we were doing, I couldn't help feeling that we were educating them more than they were educating us"* demonstrated his frustration with organised networking and he explained that, *"If we turn up to an event, you get more out of the chat over the bar than anything else."* This example perhaps best sheds light on the distinction between formal networking which is considered to be a chore, and informal networking which is not driven by business motives.

Reciprocal behaviour between businesses across different sectors is partly driven by business needs but tends to be more altruistic as there is no direct competition at play. One business owner explained, *"It's very important to support the local guesthouses because they do a lot of marketing and if we've got our brochures there it helps them no end knowing they can send people for a meal here and they know they can rely on us"* (unplanned in-migrant, retail, 23). In this example, the importance of supporting the people running guesthouses in the local tourism sector was emphasised far more than the reciprocal benefits that the business would receive.

A similar example was given by a pharmacist who explained, *"There's a trade association, they produce a leaflet every year which has some of local businesses in it, it's about £20 a year membership... It puts yourself on the map, these get left in Bed and Breakfasts and whatever. It is useful because somebody books in with a bed and breakfast, in confirming the booking they'll send out the information so we've got a prescription...that somebody's posted through to us so that when they're here next week I've got [it] ready for them"* (planned in-migrant, retail, 3). She receives a small benefit from the advertising but is also pleased to be able to support the wider community of a remote rural area.

As Putnam (2000) explained, one of the most critical elements of social capital is to give without necessarily expecting reciprocation. For this attitude to develop requires a strong level of trust, either between actors or held commonly and governed by a shared goal. This is very different to the assessments made regarding the value of organised networking or businesses participating in a particular activity.

Where there is a problem that needs addressing or an opportunity to support a good cause, most business owners come together to co-operate. It is where these stimuli do not exist that business co-operation becomes less pervasive. The shopkeeper was encouraged by an external cause, the brewers helped each other to overcome a problem that may have affected more businesses and the village network was set up to try and boost visitor numbers and trade with support from the local estate. Each of these instances of co-operation required a trigger but did these networks exist beforehand? From the three examples here, the answer appears to be "yes". For the brewer to phone around people when he identified the problem implies that there was an informal circle of friends in the industry who regularly helped each other in small ways. The village community already had social groups and the business owners communicated informally about relevant issues in the village. The shopkeeper expressed his unwillingness to try and initiate co-operation but he clearly knew the people concerned and had there been any issues that affected them collectively, the relations were in place for a group to develop.

These examples demonstrate the value of local embeddedness. Through ongoing local relations, business owners are able to exchange information and support one another and their local communities without the need for formal organisations that incur management costs and because the relations have a history, there is an implicit degree of trust that facilitates greater co-operation from the outset. The contrast between local groups of family and friends who are able to contribute to a business with no ulterior motive and organised networks where business decisions determine participation helps to explain the different attitudes towards each type of network. The first example is enjoyable, it occurs through the natural relations that people form through their lives but the second is removed from the normal activity of daily life. Some people enjoy formal networking, some are able to benefit significantly from it but even in these cases, participants recognise that it is a business activity that they are doing and in most cases this changes the behaviour of actors. It seems that there is a fine line between what constitutes acceptable integration and what constitutes more assertive or overbearing behaviour.

The formal approach to business networks may be one reason that in-migrants find them more accessible. One couple who recently left Newcastle and bought a bed and breakfast have become very active in their new community but explained, "*We both could have been on the Parish Council or the development trust as a trustee which integrates you more, then you get the locals say 'what are those buggers doing telling us what to do?'*" (planned in-migrant, hospitality, 19). In more formal business networks, however, the fact that the structure exists to support the economy as a whole, in-migrant business owners find them more approachable. By running a business they are already contributing to the local economy so feel that they are entitled to participate in these activities and the business mentality that many people associate with such organisations can help in-migrants to mix in an environment

where strong local embeddedness may not have the same degree of influence and networks are perceived to be less introverted.

This contrast between embedded social networks and formal networks is one of many that can be drawn. Uzzi spoke of embedded and arm's length ties and while the above examples highlight the importance of embeddedness in the local community, Uzzi's embedded ties can also exist beyond a local area where an actor is embedded within other defined groups. In the literature review, embedded ties were compared with strong ties (Chell & Baines 2000) but from the examples above, the shopkeeper had relatively weak ties with some of the other business owners in the village but because they all shared a desire to support the community, the fact that they were embedded brought them together. This suggests that strong and weak ties are subtly different from arm's length and embedded ties. Atterton (2005) discovered the dangers of overembeddedness where strong ties developed in the local area at the expense of those relations that provided extra-local connectivity but considering strong ties and embeddedness separately, we can see that the potential for Neo-Endogenous Development is strongest where business owners have a wide range of relations *and* they are embedded in their local communities.

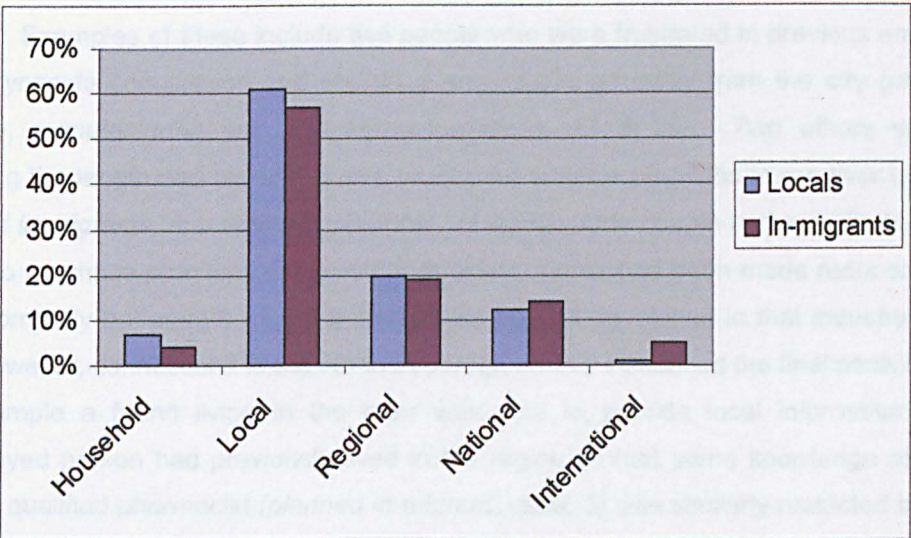
Having established that there is diversity in the rationales for networking as well as in the types of network groups that exist, the following section seeks to explore the types of relations that are used by business owners at different stages of their business development. This can not only highlight differences between the networks that are available to local or in-migrant business owners but, using the typology set out in Figure 3.2 (page 100) and considering strong, weak, embedded or arm's length ties, it can also highlight how individuals use these different relations in different ways and for different purposes.

## **7.6 Knowledge Exchange in the Development of Rural Businesses**

Having detailed the attitudes of different business owners towards the local area, towards independence and interdependence, and towards formal and informal sources of business advice, this section aims to identify in much more detail the benefits that are derived from their diverse interactions. From the interview data, over 400 critical moments have been identified where a business owner's contact with another individual or organisation has had a material impact on their business. This may have influenced the start-up, the location, taking on staff, finding new trade or new suppliers, developing business skills, or acquiring local knowledge or market opportunities. These were elicited by asking questions about the key people during every stage of the life-history of the business. Not every contact could be mentioned but there should be no bias between interviews as the same procedure was

implemented with similar questions and the same degree of probing into the underlying relations that impacted upon the business.

**Figure 7.1. The geography of critical incidents among local and in-migrant business owners**



Looking at the geography of the interactions in Figure 7.1 above, we can see that in-migrants used slightly more extra-local contacts although the differences are small. Looking beneath the aggregate figures, in-migrants develop more local contacts in hospitality businesses yet they rely on more extra-local contacts in manufacturing. Tourism in Northumberland relies on local knowledge and embracing the value of the local area so it is perhaps understandable that in-migrants make a greater effort to engage with local actors while local business owners need to widen their networks to attract new visitors and improve their business with the aid of outside influences. In the manufacturing sector, local businesses are more likely to understand local markets and be able to trade successfully within that remit whereas in-migrants seek to maximise the benefits of their wider networks. These two examples demonstrate that analysis of the aggregated numbers of critical incidents is perhaps not the most insightful approach but within this context, it is possible to explore other factors surrounding the critical incidents such as the nature of the relationship, how it originated and the actual benefit accrued to the business.

This section continues by comparing the characteristics of valuable relations between local and in-migrant businesses. It is divided into sub-sections that cover the different aspects of business development as this can shed the most light on the ways in which individuals are able to benefit from the diverse relations that they accrue throughout their lives. The most obvious step that each business owner has taken is the decision to run their own business so the start-up period is examined first before sections on developing new trade and recruiting new staff are used to explore the ongoing interactions of business owners.

### 7.6.1 Business Start-up

Considering the three groups of business owners that have been identified, it is clear that planned in-migrants are most likely to have been influenced by non-local factors when choosing self-employment. Six of the ten planned in-migrants interviewed made their decisions to start a business in the rural North East based on professional and career choices. Examples of these include two people who were frustrated in previous employment in the Tyneside conurbation and sought a new challenge away from the city (*planned in-migrants, manufacturing and professional services, 17 & 26*). Two others spent time searching the length and breadth of the country for suitable premises to run their businesses (*planned in-migrants, manufacturing & retail, 11 & 25*). One couple had specific training and sought to purchase premises and another business owner had been made redundant from a larger company but sought to use the expertise he had developed in that industry. In each case, however, connections to the North East region have influenced the final decision. In the first example a friend living in the area was able to provide local information and the unemployed person had previously lived in the region so had some knowledge of the local area. A qualified pharmacist (*planned in-migrant, retail, 3*) was similarly restricted in terms of business opportunities and wanted to move to the North of England for family reasons so once again, the resulting business emerged as the result of a combination of factors.

While certain local factors, including family connections, can influence planned in-migrants, more general community influences are less strong. With unplanned in-migrants, however, there is an increasing propensity for friends in the local community to influence business start-ups. Based on Groves-Phillips (2008) finding that there is an average time lag of 6.4 years between migration and starting a business, the opportunity for local influences among unplanned in-migrants is apparent. Among businesses that had started since 1990 in the microbusiness survey, planned in-migrants were least likely to use private sector advice and most likely to rely on trade and professional organisations. As professional bodies are less likely to be local organisations and tend to be most easily identifiable, this may be the direct result of planned in-migrants having fewer local relations through which to access such advice.

Two business owners had moved to the rural North East to take employment opportunities but subsequently found themselves unemployed and with strong connections in their respective local communities, and perhaps due to their financial circumstances, they were unwilling to move (*unplanned in-migrant, retail, 23; unplanned in-migrant, manufacturing, 28*). The necessity entrepreneurship that arose saw each individual making a risky investment but they have both developed their businesses and created new jobs. This is evidence that introducing people through local employment as well as business start-ups is critical to the rural economy.

As well as recognising that in-migrants' decisions to run a rural business occur in different locations and are influenced by both local and extra-local factors, we should avoid assuming that local people are only taking decisions that are set within their locality. Of course, for some, close friends and family are critical such as the shopkeeper who was able to call on relatives to help fit out the property and also explained, *"I've had nothing but help off people, I don't know whether that's because I'm local...it's possibly because I've lived here all my life"* (local, retail, 7). For others, however, where the local community is unable to provide the same impetus or support, key ideas have originated from outside the local area and examples include three farm diversifications that have been triggered by a meeting in Leeds (local, manufacturing, 20), a university course in Sunderland (local, manufacturing, 9) and involvement in a regional public sector organisation (local, professional services, 11). In many cases, family and local community issues are the most important for local people but as business owners, they are increasingly aware of the opportunities to find new ideas, new suppliers and new markets further afield.

Looking at the different categories of relations, the decision to start or take over a business tends to be set in the context of closer personal and family relations and perhaps close business relations from previous employment. The scale of the decision demands that the prospective business owner has a reliable support network and as a new venture, advice and confidentiality may both be important. From the interviews, husbands and wives, parents, friends in a local community and friends in previous employment were all referred to by different business owners as providing encouragement, advice, financial support or working in partnership at the outset of the new business venture. Less formal relations tend to provide different advantages as the business develops.

It is difficult to draw firm conclusions about the dynamics of start-up decisions from a small sample so the subsequent sections explore other moments where a business developed in a specific way. This enables a greater number of interactions to be included in the analysis and a more detailed comparison of the types of relations that provide different outcomes. Also, the business start is not always a clearly definable moment. The interviews included local and in-migrant business owners who began their businesses while continuing in other employment and other examples of sons inheriting family businesses make judging a clear start date more difficult. The following sections therefore examine new market development and staff recruitment to explore the relations of different business owners.

### **7.6.2 Developing New Trade and Markets**

Having explained that close friends and family are most influential in decisions concerning business start-up, trade and marketing are thought to rely on more extensive and weaker ties (Chell & Baines 2000). From the research, in-migrants appeared to be better placed to

access broader markets through international trade fairs (*planned in-migrant, manufacturing, 17*), the use of national sales agencies (*planned in-migrant, manufacturing, 12*) and the retention of valuable professional networks in other regions (*unplanned in-migrant, professional services, 29*). Local business owners, on the other hand, were more likely to feel restrained by their geography and focus on improving their product range and quality and maximise their sales at the local and regional scale. Reasons for this included the cost of transportation (*local, manufacturing, 9*), lack of knowledge of other regions (*local, professional services, 37*), and the cost of increasing sales to sufficiently serve another region (*local, manufacturing, 4 & 6*).

Formal organisations, especially centred on a specific business sector, can provide useful marketing opportunities, especially for local producers who may otherwise lack the contacts or knowledge to expand into new territories. In the brewing industry, a national association enables small brewers to sell to larger companies who would otherwise demand too much volume or offer too low prices. Northumbria Larder for food producers and the "Passionate People, Passionate Places" campaign for tourism in the North East are other examples of collective organisations that provide marketing that exceeds the capacity of individual small businesses. For local people in particular, these organisations are able to widen horizons and enable business to develop beyond local or regional boundaries.

Without knowledge of another region, a greater investment is required to expand into a new territory but in-migrants were more likely to have relations that could introduce occasional trade from outside of the local area and with this introduction, the potential to expand becomes more achievable. These introductions can occur from almost anywhere from customers passing on recommendations to closer friends and family providing contacts to potential new customers. In one example, friends visiting America extolled the virtues of holidaying in Northumberland and recommended a specific bed and breakfast (*planned in-migrant, hospitality, 19*), another in-migrant provided consultancy advice to a friend living in the South West who was looking to open a shop in the North East region (*unplanned in-migrant, professional services, 1*) and a third maintained contacts in Gloucestershire that provided a source of new work for his new company (*planned in-migrant, professional services, 13*). A fourth example, again from an in-migrant, illustrates how local connections can also provide new opportunities. A business owner with national markets and contacts was developing a new product based on an idea derived from his local church group (*planned in-migrant, professional services, 16*). As well as demonstrating how local and extra-local networks are beneficial to business owners, these examples also illustrate the overlap of the business and social networks which, for in-migrants, can have wide ranging geographical coverage.

A range of friends and neighbours provided direct business or passed on contacts to new customers for business owners across the different sectors. Whereas business start-up is a major decision where only closer, more trusted relations or established formal organisations will be involved, people will more readily offer recommendations that can help generate new trade as these are not associated with the same degree of risk or responsibility. This demonstrates that weaker links, including the weakest category of transactional relations (see Figure 3.2, p98), can be especially valuable for the marketing of a business and the business owners interviewed were all acutely aware of the importance of ensuring customer satisfaction in order to generate positive feedback and return or referred custom.

For some business owners, however, marketing and business development is restricted by a local market and in these examples, we have already seen how local relations and reputation are most important. For these businesses, transactions and community relations are often blurred with the result that expectations for local custom and expectations of a good service are not simply based around one-off transactions but around ongoing relationships. It is for these reasons that shopkeepers and publicans like to be seen to support local events and they also recognise the need to interact with their customers in a different way. As one shopkeeper explained, *"For the millennium wall hanging, the kids had to draw what they thought was the centre of the village and 8 out of 10 of them did the shop rather than the church or anything else"* (local, retail, 34) and he explained that the shop was seen as more than a business and he therefore had to retain that cultural role in the community in order to succeed.

As with business start-ups, there are huge differences between sectors that target very different markets but these insights demonstrate that business owners are aware of the relations that can provide different contacts and opportunities. Where business owners lack extensive contacts, they can benefit from larger organisations because the weak ties that these provide are sufficient for marketing needs. In the next section, we shall see that for recruitment, where higher levels of trust tend to be required, business owners benefit from network relations in different ways.

### **7.6.3 Staff Recruitment**

Granovetter (1974) found that over 60% of the professional, technical and managerial workers he interviewed reported obtaining their jobs through personal contacts and Department of Social Security figures for Britain show that around 38% of job seekers had contacted friends as a means of a job search (Hannan 1999). Similarly, Reimer (1997, p401) noted that "the use of friends and kin to identify prospective employees is pervasive all over the world." If rural in-migrants are to create local employment, it is apparent that they need to develop local relations and become locally embedded.

Throughout the interviews, personal contacts were very important for recruitment. Recommendations from other members of staff, contacts through friends and family or simply "word of mouth" were consistently mentioned. A common sentiment was "I don't think we've advertised at all, it's very much local word of mouth" (*planned in-migrant, hospitality, 24*). Where advertising did take place, it was almost exclusively the local newspaper, the local Job Centre or local shop windows and this was true for both locals and in-migrants. In Chapter 6, the implications for local employment provided the focus for analysis but in this section, the implications for the business owner are most appurtenant. The origin of their contacts, be they via word of mouth or through more formal channels, are explored to understand whether local or in-migrants are better placed to find staff and whether they have access to wider networks offering trustworthy and beneficial advice.

From the interviews, local business owners were more likely to rely on friends and family whereas in-migrants, especially planned in-migrants who had had less time to become embedded into their local communities, were more likely to approach local newspapers or Job Centres. In part, this is explained by the fact that local people are more likely to have family close by and also that identifiable village services are often owed by local individuals with a connection to their community and these businesses are most able to recruit informally. Nevertheless, the findings from the critical incident analysis demonstrate that recruitment is approached differently by in-migrants and their willingness to advertise outside of familiar social circles may help to explain why they are less likely to cite recruitment and staff shortages as barriers to growth. For local businesses, especially where they provide a service to the local community, a degree of sensitivity is required in the recruitment process as turning down an applicant may upset a section of customers. Such dilemmas associated with a strongly embedded business are summed up in the following quote where the business owner is restricted in his recruitment process by pressures from the local community, something that less embedded individuals would not experience:

*"It's very difficult in a small business in a village because if you advertise and you get 2 applying and they're both customers you get onto dodgy ground, which I've been before, because you employ one and the other one doesn't come back. You've got to say would you like a job and not advertise it. You can lose friends very easily by doing that" (local, retail, 34).*

We have seen that local business owners tend to have fewer educational qualifications than in-migrants and in certain areas there are perceptions that local people are more traditional and even "backward" but equally many of the higher level city-based employees are resident in rural areas. It seems that this aspect of counterurbanisation is having a much slower transition into rural economies with counterurbanisers either commuting or setting up their own businesses, not working as employees for other rural businesses. In the one business

where this had happened it was because the business owner needed someone with business experience and his father-in-law had just moved to the countryside with retirement in mind. These circumstances meant that the in-migrant was prepared to help with a family business and not demand city wages as he had a personal interest in the business.

The family is especially important with higher level jobs. In small firms, the owner places high levels of trust and responsibility upon key staff and other examples of this include a son-in-law working alongside his father-in-law and subsequently taking over the business (*planned in-migrant, manufacturing, 17*), a son and a couple inheriting family businesses where the fathers continued to work for them (*planned in-migrant, hospitality, 24 & local, professional services, 37*), and a marketing agency whose expansion was the result of the owner's son joining the business. The owner of this business explained that before her son joined, "*I just assumed I'd retire, it's different now completely*" (*local, professional services, 38*). Having also commented on the small pool of suitable labour in the area, it is apparent that she would not have considered such expansion in any other way but because it was a family member, they shared trust and ambitions and knew each other's abilities so were able to cross many of the barriers that would otherwise have existed.

Moving outside of this comfort zone, business owners find it considerably more difficult to recruit staff into higher positions. One person involved in training hopes to identify a suitable person who might subsequently take on the business saying, "*I seriously see myself winding down a bit. I would love to find somebody who would do it with my overseeing it or my input*" (*local, professional services, 15*). The desire to see the business succeed and the personal involvement influence the way that individuals approach such decisions and once again, this business owner expressed the need for that individual to be trustworthy and someone that would continue to uphold the values associated with the business. By contrast, if a business owner cannot make these choices, they may feel that their identity and independence is challenged. One such business owner explained, "*We had one other person here for a while who was foisted onto us really by a client who we were very glad to see the back of*" (*local, professional services, 37*). Because they had not build up a relationship beforehand and the employee's arrival was influenced by outside factors, the outcome was unsuccessful. The business in question has never had another professional employee and as a result, the owner is continuing to work into retirement with no obvious successor and potential growth has been forfeited.

The perception that rural firms, especially in more outlying areas, cannot compete with cities on wages is also holding back some firms. Not only is the recruitment of a high level employee a risk in terms of the levels of trust and responsibility involved but competing with urban wages would be moving outside the comfort zone of many small business owners. If a business is at a stage where expansion would require such a step, the marginal return might

be significant but the risks would be equally high and business owners that are operating at a comfortable level are likely to be most risk averse. One business owner described his dilemma about whether to take on a new member of staff or just to "cherry-pick" the best work and stay as a sole trader (*planned in-migrant, professional services, 13*). The rising levels of bureaucracy as well as the costs and risks were cited as potential reasons that he would not expand. Another business owner explained that they would not take on more staff because "there's not really enough work to warrant paying someone so having someone freelance is ideal" (*planned in-migrant, professional services, 40*). The reality is that they are successfully working across the North East and increasingly taking work across the UK and they acknowledged the potential to do more but they were very happy with the business at its current size and did not want to risk losing their reputation or changing the way that the business operated.

For a small rural firm, an individual with a high salary is a big gamble as that salary might be a high proportion of costs and a high level of responsibility would be placed on the individual. One business owner was attempting to recruit an individual from Sussex, preferring to wait for this known candidate rather than taking a gamble in the local labour market (*unplanned in-migrant, professional services, 29*). Such an opportunity would be less likely for local business owners as their networks would tend not to have the same scope or such a wealth of strong ties outside the local region. The business owner who values his or her independence and personal decision-making may be uncomfortable placing too much control in another individual, especially if that individual is a relative stranger. Such relationships demand high levels of trust and commitment that would be difficult to build up in a short time. This is almost certainly why so much recruitment is done through word of mouth. Many interviewees emphasised that they have to trust their staff and some also spoke of the need for flexibility which requires employees to live locally.

In Chapter 6, we saw that trust was not only about someone's ability to work diligently but personal trust was important in cases where staff had keys to people's houses and access to visitors' rooms. This also implies that local people are more likely to have this unquestioning trust from being embedded within their local communities whereas an in-migrant may be more calculated about the risks involved. This is associated with the fact that local people tend to use more informal channels when recruiting staff as they are more confident in the personal recommendations of friends and they also recognise that a new member of staff that has been recommended by a mutual friend also owes a responsibility to that mutual friend to be committed to his work (*unplanned in-migrant, manufacturing, 4*). Where in-migrants are less embedded in their local community, they have to invest more time and money in seeking appropriate staff and even then, they would not necessarily have the same level of confidence that a more informal approach might provide.

It is not only the recruitment of direct employees that benefits from local embeddedness but the development of valuable relationships with sub-contractors and the employment of more casual labour often stem from contacts within the local community. One business owner explained how he has used the same contractors for many years and can rely on them to provide a quality service whenever he needs them. He said, *"I think if you went into the open market place looking for someone you'd get a few hiccups to start with until you found the right person to do the job...They've been here for years these guys...we know what we're dealing with...it's good for them because they come here to do a job, they know they're getting paid...neither of us want aggro...it's better that way really"* (local, hospitality, 39).

Another business owner mentioned that his involvement in the local community helped him to find someone to do some casual work for his business (local, professional services, 37). It is irregular and usually only very short hours hence not the type of work that could be advertised so again, the value of local, social networks are apparent. In previous sections, we have seen how in-migrants have had to search out reliable contractors, often based on local recommendations but this demonstrates that local embeddedness can reduce transactions costs and also creates a working relationship that highlights the value of social capital in terms of trust and reciprocity.

In summary, while in-migrants are developing local relations that facilitate recruitment, it takes longer for these relations to develop. In-migrants are able to recruit from wider areas but for many types of jobs this is impractical and unnecessary. While more extensive contacts are valuable for expanding trade, it is stronger relations developed within a community rich in social capital that tend to be most helpful for the recruitment process. These communities can exist across wider areas, perhaps based around specific sectors as with the business owner who is trying to recruit from Sussex (*unplanned in-migrant, professional services, 29*), but in many rural businesses, the local community provides the bedrock of social capital.

## **7.7 Summary**

This chapter has explored the different types of relations that influence rural business activity and discovered that individuals are able to call on a variety of local and extra-local, formal and informal sources of business advice, information and trade. A comparison of local and in-migrant business owners has illustrated that in-migrants develop many local relations and are able to rely on local social capital from an early stage. Through an analysis of individual moments where contacts have influenced their businesses, this research has also shown that in-migrants are maintaining both strong and weak extra-local ties. As with trade patterns, in Chapter 6, this suggests that in-migrants are introducing new linkages without detriment to local networks.

Despite uncovering many negative attitudes towards the idea of “networking”, this research has discovered many successful uses of relations in the course of people’s business activity. Even the consultant who said of networking, *“I’ve always resisted it, I hated the thought of it” (unplanned in-migrant, professional services, 26)* recognised that his decision to join a local rugby club could be considered “networking”. When the suggestion was put to him, he responded, *“I suppose you could describe it as networking, it never crossed my mind. At the end of the day, its law of averages, the more people you talk to the more people you’re likely to find that might have a common interest or require the services you’ve got.”* His business has benefited from certain friends in the rugby club but the outcome was not considered at the time. This highlights the distinction between “purposive” and “passive” networking, concepts that merit greater recognition among researchers.

This mental separation of business and social relations was noted in many rural business owners. One explained that being recognised in a social context does have a downside if people want to “talk shop” but he admits, *“It’s a good thing because it means your famous really...people recognise myself and the brewer” (planned in-migrant, manufacturing, 4)*. It can also influence the way that other people react as the overt, “smarmy” networker will develop valuable business contacts but may not build up the longer terms levels of trust associated with less formal interactions. One business owner commented that *“at a trade show you get two things, either people who give nothing away or the old school who will spend an hour boasting to you.” (planned in-migrant, manufacturing, 17)*. It is hard to imagine such a calculated assessment being made about individuals in a more social environment where personal relations develop in very different ways.

Having established that, despite mixed attitudes, successful networking occurs in all rural businesses, the contrast between local and in-migrant business owners must be reviewed. We have seen that in-migrants are successful at developing local relations but we have also seen that these are often more purposively pursued and in many cases, more rational decisions are made regarding the networks and relations that are most useful. Because of this choice, in-migrants tend to be less constrained by local obligations associated with over-embeddedness and they are instead able to create new social capital. Through participation in village business groups, through trade with other local businesses and by employing local people and providing training, in-migrant business owners are disseminating knowledge as well as creating new business in the rural economy.

Having established many positive examples, there were occasions where in-migrants felt a sense of superiority, viewing local communities as “backward” or even sexist and racist. This has led to resentment among local business owners in very specific areas. In the hospitality sector, the unwillingness to co-operate on the part of some locals is an example of how external threats can cause groups to become inward-looking. Those with fears about the

threat of in-migrants selectively maintain local contacts demonstrating how strong ties are valued most strongly in times of difficulty. This could be contrasted with the experience of international in-migrants in some of the UK's cities. As the group with less access to capital and with lower qualifications, these in-migrants can be marginalised and rely on their internal group social capital to compensate for these disadvantages (Ram *et al* 2007).

Although there are tensions in some areas (See Murdoch *et al* (2003) for a more detailed discussion of contested rural communities), the overriding message is one of in-migrant business owners having a positive impact and participating in their local communities. While new arrivals take time to embed into local communities, in-migrant business owners are active in the local economy and they are forming valuable relations with formal organisations, local businesses and communities. Furthermore, because their choice to support the local economy is not solely benevolent but is associated with improving their businesses it demonstrates that rural businesses are able to compete successfully, offer high quality products and services in some cases tailor their offerings to meet the new demands of in-migrant businesses. Each of these provides a positive indicator of rural development and the impact of in-migrants and the fact that these processes are based on local networks and local activity demonstrates the advancement of Neo-Endogenous Development.

## ~ Chapter 8 ~

### Conclusions

#### 8.1 Introduction

At the outset this research sought to understand the impact that rural in-migration is having on local rural economies in the study area of the North East of England. This region was selected as it has a high proportion of districts in the most rural category (CRC 2007), it suffers from the highest levels of rural deprivation in England (CRC 2008) and over the past decade net rural in-migration to the region has been the lowest in England (CRC 2007). There was a steady increase in net in-migration between 1998 and 2004 (*ibid*) so the aim of this project was to identify whether features of this in-migration are helping to stimulate rural development in the region. Through detailed analysis of the literature on rural development theories, small business behaviour and the changing characteristics of rural areas, three clear research questions were established as follows:

*How do the characteristics of in-migrants and their businesses compare to those of indigenous business owners?*

*How are in-migrants adding to the economic vitality of rural economies through their business activities?*

*To what extent do in-migrant business owner participate in local networks and enable the transfer of information and trade within the local economy?*

Using a detailed survey of microbusinesses in the rural areas of the North East of England, certain aspects of each of these questions could be addressed at an early stage and these preliminary findings were used to structure additional data collection. From in-depth qualitative interviews with microbusiness owners, a new dimension was added to the analysis allowing each research question to be addressed in greater detail with the mixed methods approach providing valuable new insights. In particular, this additional data enabled analysis of the more personal influences that determine the intensity and geography of microbusiness activity.

Having addressed each research question separately in Chapters 5-7, this concluding chapter summarises the key findings before considering the broader implications of these findings for our understanding of counterurbanisation, neo-endogenous rural development and rural businesses. The final section considers how this research has advanced our understanding of these key concepts and the potential policy implications before exploring further questions and research ideas that have emerged from this study.

## **8.2 Summarising the characteristics of local and in-migrant microbusiness owners and their impact within the local economy**

The proportion of rural microbusinesses in the North East that are owned by in-migrants has increased over recent decades and the rate of rural business formation grew during the 1990s. With both older businesses and businesses owned by local people being on average the least growth orientated<sup>21</sup>, in-migration is considered to be a welcome catalyst for rural development. With this in mind, the first section of the results explored the different characteristics associated with each category of business owners in an attempt to identify reasons for any differences. Two clear points emerged; firstly, on average, in-migrants had achieved higher levels of academic qualifications and, secondly, they were also more likely to approach diverse sources of business advice, particularly more formal organisations. The latter point has also resulted in in-migrants being more successful at securing business grants and the average value of the grants that they have received is double that of local business owners.

In terms of growth, in-migrants seem to be more innovative in their thinking as they are looking to grow even in cases where they feel that they are unable to sell any more of their existing product. They are also more positive about their prospects of achieving growth. By demanding higher skills from employees and introducing new demands into the rural economy, the aspirations of in-migrants are raising the potential of the wider economy of the rural North East.

Associated with the findings on education, in-migrants appear able to access new technology more quickly than local people and they are more likely to have the necessary skills to use it. As the current increase in the numbers of rural businesses is partly associated with the rapid development of communications technologies, this again demonstrates the important role of rural migration as a catalyst for economic growth. Through staff recruitment and training, in-migrants are passing on this expertise to other people in the rural economy and they are also able to provide higher order services to improve the running of existing rural businesses.

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<sup>21</sup> Statistical tests confirm these statements to be statistically significant with a 5% and 2% confidence level respectively.

Although there are some clear trends emerging among in-migrant business owners, the backgrounds of the individuals that are running rural businesses and their motivations for self-employment are highly varied. Almost 60% of in-migrants starting a rural microbusiness had no such plans at the time of their move and depending on the time between migration and self-employment, more local or more extra-local factors have influenced their actions. With 40% of in-migrants planning to start a business when they moved, this equates to a total of 22% of all rural microbusinesses resulting from decisions that occurred outside of the local area. This demonstrates that local development policy must be aware of the importance of making the North East attractive to potential migrants as well as providing the necessary internal structures to support rural entrepreneurship.

One important factor associated with education and work experience is that in-migrants are often drawn to the area to study at university or to work in the urban centres. With unplanned start-ups having, on average, the highest education qualifications, the importance of attracting higher skilled individuals into the regional economy clearly extends beyond the rural microbusiness sector. Many of these will not proceed to establish rural businesses but several have successfully followed this path and become a valuable part of the rural economy. With fewer opportunities for education and training in the countryside and rural firms less likely to provide staff training (CRC 2008, p30), the arrival of higher skilled individuals is having a positive impact with knowledge and skills transferred through less formal channels and the overall skills level increased.

Chapter 5 also demonstrated that in-migration is changing the pattern of rural business activity in other ways. A higher number of female entrepreneurs are in-migrants, more in-migrants run their businesses from home and more in-migrants are sole traders. In-migrants running businesses also tend to be older than their local counterparts lending support to the notion that pre-retirement migration is seeing a significant number of economically active migrants choosing self-employment (Lowe & Speakman 2006). Combining the results of this research with Storey's (1994) findings that middle aged owners are more likely to start rapidly growing firms, extenuates the idea that in-migrants are having a positive impact on rural development. As well as being older themselves, Chapter 5 reported that in-migrant business owners are less likely to have dependent children at home (36% compared to 47% of locals), thereby intensifying the ageing effect. Chapter 6 also demonstrated that in-migrants are helping to diversify the composition of rural economies as they are more likely to be in manufacturing, hospitality and business and domestic services, whereas local people are more likely to be in the construction, land-based and retail sectors.

With all of these changes, it is important to remember that local business owners are still making a significant contribution. On average, their businesses tend to have higher turnovers and they employ slightly more members of staff compared to businesses owned by in-

migrants. If sole-traders are excluded from the analysis the mean number of jobs is marginally higher among microbusinesses owned by in-migrants but the differences are very small. Some 54% of the microbusinesses surveyed were owned by in-migrants and these tend to be more recent start-ups with significant growth ambitions making this group of distinct interest for ongoing rural development.

From the survey, it was estimated in Chapter 6 that 1.9 new jobs are created for each in-migrant business owner. In-migrants are more likely to be sole traders but they are also more likely to have more than six employees. Excluding sole-traders from the analysis, it was possible to further estimate that, on average, an additional 1.8 full-time and 1.5 part time jobs were created by each in-migrant starting a microbusiness which employed other people. We have seen that in-migrant microbusiness owners are significantly more growth orientated than local business owners and the statistics show that non-agricultural microbusinesses owned by in-migrants already account for 6% of full-time and 9.5% of part-time employment in the rural economy of the North East. As a comparison, in 2002, agriculture and fishing provided just 3.7% of full-time jobs in the rural North East (Countryside Agency 2004, p66). Of these jobs created by in-migrants, some 1,705 full-time and 1,378 part-time jobs were created by business owners whose plans to start a business were developed prior to migration.

This category of planned start-ups are more growth orientated, work longer hours and employ more people than local firms or unplanned start-ups. They also have larger turnovers than unplanned start-ups. This has a significant implication for rural policy as the biggest contributors to rural economic development are originating from outside the local area and their ideas are developing before they move. Almost 40% of this category of business owners enters the hospitality sector and there are also significant numbers in retail (18%), business and domestic services (12%) and manufacturing (10%). By contrast, 24% of unplanned start-ups are in the business and domestic services sector, 21% are in hospitality, the same in retail, and 12% are in manufacturing. In terms of their trading patterns these two groups are very similar, with both having access to more extra-local markets compared to local business owners.

The fact that in-migrants conduct more trade beyond the local region than local business owners is considered beneficial in terms of the region's balance of payments. Nevertheless, their trade patterns still focus heavily on the local area with approximately 50% of sales and purchases within 30 miles indicating that they are becoming embedded into the local economy as well. Through this local trade, in-migrants' business activity is having an impact upon other businesses in the local area, creating new demand for goods and services, increasing competition and extending the range of goods and services available locally. The degree to which in-migrant business owners are engaging with the local economy and local

community coupled with the value of these interactions to each party involved provided the focus of the qualitative research and this is addressed in the following section.

### **8.3 The network patterns and relations of microbusiness owners**

As well as investigating the economic contribution of in-migrants' business activity, this research set out to understand more about the networks that they build within the local area and those that they retain further afield. After a detailed review of the literature, networks were defined as flexible patterns of relationships that develop over time among individuals and businesses alike. This broad definition allows all forms of relations to be included, whether strong or weak, business or non-business, formal or informal. Atterton (2005 & 2007) provided empirical results to illustrate that networking patterns in different rural towns impacted on the potential for growth. In order to understand those networks that are most beneficial and those where there is a danger of what she termed "over-embeddedness" or "lock-in", this study has sought to explore individual characteristics and the motivations for network participation, both in the local area and beyond. With the focus on in-migrants as individuals with extra-local contacts as well as the potential to become embedded locally, the principle of Neo-Endogenous Development continues to guide the understanding of the needs of rural economies.

During the research it became apparent that several characteristics are shared by local and in-migrant microbusiness owners which affect their attitudes towards networking and co-operation within their business activities. The desire for independence is especially strong and is exhibited in a variety of ways. For some people it is the need to escape the "nine to five" routine, for others it is an opportunity to pursue personal interests or a desire to create a successful business and for some it is more connected to family or lifestyle choices. When analysing different interactions and networking behaviour, it is important to consider how this desire for independence exists alongside co-operative and supportive actions.

Networking means different things to different people. It is an abstract and loaded term and the reaction of business owners varies from those who enthusiastically embrace the concept to those who find it objectionable. In reality, all business owners have a range of relations with other people that provide support, information and opportunities for their business. In terms of local rural development, it is the geography of individuals' relationships and the strength of these relationships in terms of the value and frequency of interactions that are most important. This is influenced by the individual's background, their personal characteristics, the nature of their work and the community in which they live. Moreover, some business owners are naturally outgoing and others prefer to work more privately. The same is true of community interactions and this may in turn be affected by whether children

attend a local school, whether the business serves or employs local people or whether the business is reliant on other local producers to succeed. While the number of variables makes generalisations somewhat difficult, throughout the research there was a clear sense that individuals approach business networking from a different mindset to other social interactions.

Embeddedness, according to Granovetter, means that "behavior and institutions...are so constrained by ongoing social relations that to construe them as independent is a grievous misunderstanding" (1985, pp481-482). In this quote, he implies that the economic and social realms are so enmeshed together that they cannot be treated as independent causal factors in our behaviour. While it is true that any social or economic action has many implications that span both domains, if indeed two domains can be defined, there is evidence of business owners acting differently depending upon whether it is the social or economic motivation that is most relevant to a particular decision.

Using the literature on local embeddedness and in particular, building on Jack & Anderson (2002) notion of embedding as an action, we see a clear contrast with Granovetter's observation of embeddedness as a fact of life. Thinking of "embedding" as a verb to describe the process of integrating into local communities, we can consider how individuals' motivations might lead to different degrees of local embeddedness. The contrasting behaviours of individuals can be seen as forms of "purposive" and "passive" embedding. This can apply to a local community or a business group with the distinction based on whether the individual is purposively seeking to make friends, make new business contacts or to be accepted into the community group or whether their actions are creating this outcome in a more passive sense. Such a distinction is not possible from a strictly Granovetterian interpretation of embeddedness but, considering interaction with a local context provides a different, more socio-spatial, application of the notion of embeddedness.

In this research, it was also evident that the distinction between purposive and passive embedding was a blurred one. Statistics showed that supporting the local community was not contradictory to a desire for growth and in many examples, business owners explained a combination of personal and community reasons alongside quality, value or cost reasons for more locally focussed behaviour. In each case, the process of embedding led to some positive results for the business or business owner concerned. Because rural microbusiness owners are often less able to separate their business and social ambitions, personal and business motivations can become more interchangeable. Over-embeddedness may create a restriction for the business in a strictly economic sense, but the individual is choosing to balance personal and social preferences with profit maximisation goals. Ignoring the importance of the local community could potentially be more damaging to the individual, and by association his or her business, so although theorists might see over-embeddedness as a

constraint, the value of trust and loyalty within the local economy may be significantly underestimated.

In business circles, a distinction between formal networking groups and informal contacts has been observed and the different values associated with each type of network contact have been researched. Formal networks may involve specific collaborations or set aims among the participants whereas informal networks may ease problem solving or information sharing on a less regular basis. Given that business activity, especially in rural economies, cannot be examined in isolation from the social environment, we can begin to understand how in-migrants are able to become embedded through diverse interactions within the local area. Where this is based on more informal friendships rather than purposive, pre-meditated activities, slightly different relationships emerge. Laschewski *et al* (2002) and North & Smallbone (2006) both discovered that business networks operate most effectively when they originate organically.

One manifestation of the different behaviour that results from these different relations was evident from comments among local business owners. Statistics showed that local people are more likely to consider that their business should benefit the local community and interviews demonstrated that this is considered to be an obligation. Being embedded within the local community provides certain advantages in terms of regular customers and local information but it also places certain expectations on business owners to support their community through local events, providing employment and providing valued services. A non-embedded business owner would be able to release staff or change the structure of a business based on market decisions but in embedded rural communities, business decisions must consider the reaction of the local community who are the key supporters of the business.

In-migrants are keen to become accepted into local communities and are able to build strong, supportive relations within the local economy. As outsiders, however, they are less restricted by the negative characteristics of social capital or overembeddedness as such a degree of reciprocal obligations takes time to build up. Where they are making efforts to integrate and support the community, they are doing so through choice and in many cases recognising the potential advantages rather than feeling constrained. The statistics showed that there is not a trade-off between a desire to support the local community and the desire to maximise income among either local or in-migrant business owners so although some business owners may feel that these obligations can at times create difficulties, they are not impacting upon their business motivations. This suggests that social issues are not "superseded[ing] economic imperatives" (Jack & Anderson 2002, p471), although they may create an additional challenge for some business owners.

While local business owners may more naturally accept and understand their own community they tend to be less receptive to external advice. Atterton (2005 & 2007) highlighted the dangers associated with overembeddedness in rural towns in Scotland and theorists on local embeddedness (Uzzi 1997; Jack & Anderson 2002) and social capital (Putnam 2000; Field 2003; Hepburn 2005) recognise that too many strong ties between a restricted number of people, especially in a spatial sense, can create problems for local development. As in-migrant business owners are more open to external stimuli such as inspectors, business advisors and consultants they are acting as vehicles through which this external advice can enter rural economies. Where these business owners are in turn actively engaging with other local business owners, either through village-based business groups, community activities or simple friendships, this research has shown that local business owners are also more likely to engage. Whether the in-migrant is purposively seeking to create forums for interactions with local people or whether they develop more slowly by way of day-to-day life, this is a clear example of in-migrant business owners as neo-endogenous actors. While local business owners are more likely to reject outsiders telling them how to run their business, they are more likely to co-operate with "outsiders" who are now facing the same challenges and living alongside them in the same community. The North East is a region with many strong identities and traditions so the same results may not be found in other regions, but it certainly appears that where individuals are embedded to the extent that they understand, respect and share local identities, the potential for co-operation becomes significantly stronger.

Just as more business activity can stimulate additional demand and increase opportunities for trade, growth and employment, so more interactions between businesses can stimulate more valuable exchanges through their networks of relations. Logically, if more people know more other people, they have the opportunity to accrue more information from each other but theories of social capital lead us to believe that repeated interactions can and do make an even greater contribution to the potential for building up other forms of capital. The trusts and familiarities that develop within networks of relations enable higher value exchanges of information, better co-operative relationships and a higher probability of reciprocation. Moreover, social capital itself is augmented through use (Putnam 2000; Westlund & Bolton 2003) so as more people become connected and interact, the potential for personal and business amelioration should grow further.

While in-migrants are able to call on skills, contacts and experience from outside the local area to help their businesses, based on pre-existing stocks of social capital, local people have to make a more concerted effort to seek specific extra-local resources. Where help is required, they are unlikely to ask within their locality, except for particularly close and trusted friends, as it goes against their instinctive independence. Some individuals are keen to ensure that others do not detect any weaknesses in their businesses while others would feel that it is presumptive to ask such advice from less strong contacts. As local people tend to

have fewer extra-local contacts, finding specific training, resources or advice can be more difficult. Examples of local business owners filling these gaps have seen them travelling upwards of 30 miles to access training provision and even year-long college courses. This suggests that training opportunities should be moved closer to rural businesses and with increasing numbers of businesses and employees based in the countryside it could be politically justifiable. The key to success for such schemes, however, is that rural businesses must have a say in the nature of the training and the way that it is provided. If it is perceived to be run by outsiders looking to tell people what to do, it is unlikely to be received as positively as it would be with a truly endogenous component to its administration.

On the whole, in-migrants want to use local businesses and local employees but tend to look further afield for higher level skills. In some cases this is linked to a perceived lack of skills locally and sometimes it is simply the need to search a wider area for higher value labour inputs, in the same way it would be for other higher-value resources. This demonstrates that because local people are less able to access the same range of education and training, they are less able to secure higher paid or higher skilled employment in their localities. It is therefore critical that the influx of wealth and skills associated with in-migration does spread across a wider section of the rural population and that local people have a chance to become entrepreneurs as well.

In order for this to succeed, conditions need to exist whereby actors become locally embedded and are able to share and accumulate stocks of social capital and maximise the potential of other local resources. Terluin (2003) referred to social capital as an "immobile resource" which is held within the people and the community (Bryden 1998) but where in-migrants are able to access both local and extra-local social capital and potentially introduce extra-local benefits to other local actors, it is evident that they are able to mobilise this resource in new ways.

In conclusion, in-migrant business owners should be regarded as a valuable component of modern rural economies. They are enhancing the diversity, the growth potential and the employment levels in rural areas and, moreover, they are integrating into local rural communities in ways that are enabling the development of human and social capital. Higher expectations and educational qualifications, varied work experience and business networks are all leading to an aggregate improvement in the characteristics of rural businesses and through local interactions and the development of local social capital, these gains are not restricted to the in-migrants themselves.

Policy must therefore aim to continue encouraging new businesses and provide an environment where business owners are able to develop networks both informally and through more formal institutions. In-migration, especially among the groups who are most

entrepreneurial, should be encouraged and property and infrastructure should be planned to incorporate business activity alongside residential and leisure needs. In the light of the Stern Review (2006), where the sustainability of rural living has come under the spotlight, and the continuing ageing of the rural population, the ability for people to live, work and access services in the countryside continues to provide a key challenge for policy-makers.

#### **8.4 Reconceptualising Counterurbanisation**

This research has not sought to address questions relating to some of the well-documented negative aspects of counterurbanisation but, instead, certain positive outcomes are identified which should be considered alongside any criticisms. By challenging the perspective of “destructive modernisation”, this thesis shows that rural economies are continuing to develop and that migration patterns are an important component of development. In order to meet the government’s aims of a living, working, protected and vibrant countryside (DETR 2000), policy must be inclusive and policy-makers must be aware that local rural development is influenced by both local and extra-local factors.

The findings from this research provide clear evidence that in-migration is having a positive impact upon the rural economies of the North East. Champion (1989, p30) defined counterurbanisation as an inversion of the traditionally positive relationship between migration and settlement size. With the business implications of this population movement that have been demonstrated throughout this research, I put forward the term “commercial counterurbanisation” to describe the decentralisation of business activity. This is not about direct migration of businesses but about the changing pattern and concentration of businesses between urban and rural areas. The word counterurbanisation remains important to this definition as the economic changes are associated with the demographic trends of the past four decades and by retaining this terminology, we do not overlook the social changes that lie at the heart of many debates on counterurbanisation. The word “commercial” is borrowed from the property industry to juxtapose “residential” patterns and it reflects the fact that in-migrants participate in a wide range of business activity, both as consumers and producers. Given the property and planning-related implications of “commercial counterurbanisation” for rural areas, this is considered to be the most identifiable and meaningful term. It is strictly defined as the growth of rural economies stimulated by inward migration.

Additional evidence of the growth of rural economies is provided by NESTA (2007) who reported that villages and dispersed hamlets supported a marginally higher average annual rate of GVA growth between 1995-2005 than major and large urban areas. From the literature review we saw that business start-ups and turnover were rising more in rural than in

urban areas (Countryside Agency 2002) and during the 1990s business formation rates increased (PIU 1999) and rural firms displayed higher rates of growth (Keeble & Tyler 1995; Winter & Rushbrook 2003). As with counterurbanisation, the evidence clearly indicates that these are ongoing trends and not just short term oscillations. During the period of industrialisation, agricultural decline and the rapid development of cities saw the population shift towards urban centres but towards the end of the 20<sup>th</sup> and into the 21<sup>st</sup> century, it is commercial activity that is following the population towards more rural locations.

Given that the focus of commercial counterurbanisation is the people that generate the new business activity, it is tempting to consider an alternative term such as “entrepreneurial counterurbanisation”. The danger of this conceptualisation is that it makes the assumption that all counterurbanising business owners are entrepreneurial and it also excludes other forms of economic or commercial activity that is stimulated by counterurbanisation. With a more inclusive definition, it is then possible to assess the proportion of counterurbanisers that are entrepreneurial and also to assess the extent to which local business owners can benefit from rural economic development that has its roots in the trend of counterurbanisation.

As described in Chapter 5 (p156), “commercial counterurbanisation” can include two stages. In some cases, individuals move with businesses or with the clear intention to take over or establish a business but for others, there can be a significant time lag between the residential and commercial decisions. This adds a complexity to the concept of “commercial counterurbanisation” as individuals can be influenced by both local and extra local factors and the extent to which business owners are embedded within their local community can have a significant impact on their outlook and the characteristics of their businesses. With 60% of in-migrants having no intention to start a business at the time of their move and 40% planning to enter self-employment while still living elsewhere, it is apparent that policy must ensure that there are opportunities for existing local residents to start businesses but it must also embrace potential entrepreneurs from beyond the region.

*The Differentiated Countryside* (Murdoch *et al* 2003) highlighted the social implications of counterurbanisation and some of the new trends and tensions that have emerged in rural communities. This research challenges some of the negative findings of their work by championing in-migrant business owners as bringers of economic vitality. They are not only broadening the economic base of rural areas but in the majority of cases, they are doing so in a way that integrates with the community, provides employment and services and supports other local enterprise. As a proportion of the total number of rural in-migrants, they are still relatively small but with the greater availability of technology in rural areas, the propensity for older people to live in the countryside coupled with their preference for self-employment (Green 2006), and a continuing preference for rural living, there is no reason to expect that this trend will not develop in the coming years.

This research has demonstrated that in-migrant business owners are a diverse group, entering a mix of business sectors, running different sizes of business and employing different numbers of staff. Slee (2005, p255) wrote about a countryside of consumption where “urban refugees” are re-shaping the consumption demands in rural economies and this research has demonstrated that rural in-migrants are also having an effect at re-shaping the supply side. Many factors have shaped the changing nature of rural economies but it is clear that population changes have been a major determinant of the new pattern of economic activity in the countryside. Having demonstrated that counterurbanisation is not just a demographic trend, the implications of the commercial counterurbanisation must be considered in relation to theories of Neo-Endogenous Development.

### 8.5 Advancing theories of Neo-Endogenous Development

This research was guided by the concept of Neo-Endogenous Development, defined by Ray (2001, p4) as *“Endogenous-based development in which extra-local factors are recognised and regarded as essential but which retains belief in the potential of local areas to shape their future”*. The conceptual origins of Neo-Endogenous Development are firmly rooted in sociological and cultural theories but it is apparent from this research that applications of such theories are equally valid in the field of rural economic development.

Ward *et al* (2005) presented the following table to summarise the contrasting principles of exogenous and endogenous development approaches and from this basis, we can now set out the key parameters of Neo-Endogenous Development.

**Table 8.1. The principles of exogenous and endogenous development (Ward *et al* 2005)**

	Exogenous development	Endogenous development
<b>Key principle</b>	Economies of scale & concentration	Harnessing local (natural, human & cultural) resources for sustainable development
<b>Dynamic force</b>	Urban growth poles (drivers exogenous to rural areas)	Local initiative & enterprise
<b>Functions of rural areas</b>	Producing food & primary products for urban economies	Diverse service economies
<b>Major rural development problems</b>	Low productivity & peripherality	Limited capacity of areas/ groups to participate in economic activity
<b>Focus of rural development</b>	Agricultural modernisation	Capacity-building (skills, institutions, infrastructure); overcoming exclusion

As with endogenous development, the key principle remains the harnessing of local resources for sustainable development but with Neo-Endogenous approaches there is also an implicit recognition of the importance of extra-local factors. This means that a broader view of "local" resources must include connections beyond the local area that can provide new opportunities for activity that will promote local development. The key findings of this research are that business owners, especially in-migrants, are particularly well endowed with such connections through both social and economic networks. As locally-based vehicles for development, they are employing network resources to the betterment of the local economy with spin-off benefits for staff, local suppliers and the vitality of the wider rural economy.

Moving to the second line of the above table, the dynamic force of Neo-Endogenous Development remains local initiative and enterprise but this need not be restricted by the existing capacity of the local area. Ray (2001) explains that local resources and characteristics must be valorised and, from a global networks perspective, Castells (2005) identifies local cultural differences as essential features of the Network Society. The unique combination of cultural, environmental, social and economic resources of an area can be the foundation of Neo-Endogenous Development but there is no reason that external opportunities and resources cannot be blended with these to promote the most successful course for future development.

In some circumstances, this might also include external resources of human capital but as long as development activity remains connected to the core resources and identities associated with the local area, it can still be considered Neo-Endogenous in nature. Castells (2005) emphasised the importance of connectivity beyond local communities through networks that span local and global systems and this research has highlighted the potential for in-migrant business owners to enhance that connectivity. As well as maintaining networks of relations that provide access beyond local areas the research has shown that they are also becoming embedded into local communities, thereby helping to support local cultural identities and expanding the local resource base.

The functions of rural areas continue to develop and extend beyond the economic realm. In line with exogenous thinking, food and other primary production still shape large tranches of rural landscapes and national rural policy. Increasingly, greater independence is being given to farmers and landowners to enable new business activities and new land uses but the Europeanisation of agricultural policy has resulted in a situation with both "top-down" and "bottom-up" rhetoric. For example, moves away from subsidies related to prescribed land use give farmers greater choice over what they produce at the local level and greater opportunities for individual entrepreneurship (Vesala & Pyysiainen 2008) but at the same time, a high proportion of their income stream continues to be attached to European funding and the compliance with "top-down" regulations.

Away from agriculture, the composition of rural economies is increasingly similar to those in urban areas (CRC 2005). Arguably, then, the function of rural areas in an economic sense is difficult to separate from the function of wider regional or national economies. Instead, I argue that the real function of rural areas should be to provide sustainable communities for a diverse population to live, work and prosper. One component of such communities is the mix of rural businesses for the provision of key services, employment and income as without these, settlements will become increasingly dormitory in character and exclude certain groups of society from living there.

This function of rural areas is proposed on the grounds that the major problems for rural policy are perceived to be the equality of opportunity, the decline of certain traditional rural businesses and the environmental sustainability of rural living. Agricultural development has overcome problems associated with low productivity and, in all but a few areas of England, peripherality is no longer an insurmountable barrier to development. Mixed communities that can support rural business activity are considered to be the best means of creating opportunities for rural people, for safeguarding traditional rural businesses and for creating sustainable and vibrant rural settlements.

In order to achieve this, the focus for Neo-Endogenous Development should be twofold. Capacity building remains important as does the need to promote the unique resources and identities of rural areas. Additionally, rural businesses should be supported as they are key vehicles for rural development and essential features of vibrant settlements. This support might come through central systems such as taxation but in the main, it should be in the form of local infrastructure development and the endorsement of a business community that has the ability and resources and therefore the inclination to influence local policies. Truly endogenous ambitions require local participation which in turn demands that actors have the opportunity to make a difference and it is this culture that can strengthen rural communities, both in terms of their social and economic development.

Microbusinesses are a large constituent of rural economies and, as they cover a wide range of business sectors, they are playing an increasingly important economic and cultural role in offsetting the declining employment in traditional, primary sector industries. These businesses are endogenous as they are based within local communities, employ local people and local resources and interact with other local organisations. Through trade patterns and the personal relations of people within these businesses, there are also many extra-local connections but the decision making processes are based in the local area and this is the defining feature of Neo-Endogenous Development. The research demonstrated that immigrant business owners have stronger attachments to the extra-local and, through their business activity, they are able to embed the extra-local into the local. These individuals make particular efforts to integrate with local communities and in doing so, they are able to

spread their additional knowledge and wider range of contacts to the advantage of local actors. In return for this, the in-migrant business owner is able to accrue local knowledge and spread this into wider markets as well.

Whether it is business activity, policy formulation or community development, Neo-Endogenous Development is viewed as a people-oriented approach. One of the earliest references to a concept of Neo-Endogenous Development described such a “people-oriented approach” (Belhachmi 1987) and this research has highlighted that it is individuals who are the vehicles for local and extra-local connectivity. Through their business activity they can stimulate economic development and through their social activities and embeddedness, they are able to facilitate the flow of benefits within local economies. Policy may require spatial and institutional approaches to enable delivery but as theorists, we must retain this appreciation of the importance of individual actions.

Viewed from an economic rather than a socio-cultural perspective, Neo-Endogenous Development need not be restricted to rural settings. In any spatially defined territory or community, the connections and networks that develop through business and economic activities are contributors to local resources of human and social capital. It is the enhancement of these resources which in turn increase the potential for those local areas to shape their futures, as Ray (2001) was advocating. For this to be truly neo-endogenous, connectivity needs to become embedded into the local structure so that the external relations are not linked to disadvantageous power relations but are linked to positive features such as knowledge exchange, new opportunities and the reinforcement and dissemination of strong local identities.

Strong local identities in rural areas such as the North East make local resources more easily identifiable and can help to foster stronger embeddedness and greater social capital. The spatial identification of rural communities combined with the propensity for higher levels of local embeddedness mean that rural development is particularly suited to neo-endogenous theories but researchers in the fields of urban or regional development might also usefully incorporate neo-endogenous concepts into their work. From the global to the local level, theorists from Castells to Ray have recognised the importance of networks that provide extra-local connectivity and networks that provide strength within a community. As local actors, businesses interact with other actors at both ends of this continuum. They are identifiable vehicles of development in a purely economic sense and through diverse networks, they are able to build links to a wide range of other actors and through these links, the potential for further development can flow. This thesis has illustrated the special case of in-migrant business owners in rural areas and concludes that as mobile actors, they are a significant advantage for Neo-Endogenous Development, so long as they become embedded, to some extent, into the receiving locality.

## 8.6 Policy Implications for Rural Businesses and Rural Development

As well as the advancement of theories in relation to counterurbanisation and neo-endogenous development, this research has implications for a variety of policy agendas. These include planning for business as well as residential properties in rural areas, encouraging entrepreneurship in rural areas, improving the design and delivery of rural business support and encouraging greater networking and cooperation within the rural business community. As evidence has demonstrated the scale and diversity of the rural economy, economic implications should also be considered more overtly in community and environmental policy decisions.

The Taylor Review (2008) proposed a more permissive attitude towards planning in rural areas to maintain the vitality of rural economies which, although flourishing in some sectors, are experiencing high losses of traditional businesses such as village shops, post offices and public houses as well as declining employment in primary sector industries. One recommendation in this report is mixed, live-work developments and this research supports this recommendation as it would provide opportunities for business owners from both local and non-local origins. The potential to develop business hubs around such developments can also provide a focus for business support and business network activities that can enable knowledge exchange and cooperation between local businesses.

Current policy, particularly PPS 7 advocates rural enterprise and “thriving, inclusive and sustainable rural communities” (ODPM 2004, p6) but the reality of the planning system is often a restrictive approach to rural development. One of the key principles of rural planning is set out as follows:

*“good quality, carefully sited accessible development within existing towns and villages should be allowed where it benefits the local economy and/or community (e.g. affordable housing for identified local needs); maintains or enhances the local environment; and does not conflict with other planning policies ibid, p7)*

While each of the conditions for new development is a valid concern when considering a planning application, the phrasing of the statement can be interpreted to mean that if any one of these conditions is not satisfied, development should not be permitted. Given that questions of environmental enhancement, accessibility and quality are highly subjective, it is perhaps not surprising that certain rural areas have seen development severely restrained by local planning authorities. Even the example cited in brackets in the statement above is loaded, leading the reader to think of the pressures placed on rural areas by wealthy incomers rather than considering the developmental needs for the local economy. If nothing else, it is hoped that this research will encourage a broader perspective on the needs and aspirations of rural development to include economic and business goals as well as

environmental and social ones. A neo-endogenous perspective that encourages business and community development that is sensitive to the local environment and valuable features of local cultural identity should be promoted through the appropriate design of both national and regional policy.

We have already seen that policy has recognised the potential advantages of attracting entrepreneurial in-migrants to rural areas (Countryside Agency 2003) but this research demonstrates that identifying and attracting potential rural business owners is far from straightforward. Furthermore, the propensity for in-migrants to establish businesses some time after migration adds to the complexity of identification. In-migrants can be attracted via a region's urban areas, either through employment or university, they may be attracted by the specific rural environment or quality of life or in some cases they may be attracted by the economic opportunity provided. Once again, this diversity makes it difficult for policy to define a clear target and a clear method for rural development associated with migration but, in principle, the features that are desirable for in-migrants should be desirable for local people and therefore already be influencing policy initiatives. The only additional feature is the ability for in-migrants to integrate successfully into rural communities in ways that build up social capital and enhance local identities rather than creating social divisions and tensions.

The third area of policy that might be influenced by this research is the provision of business support. We saw in Section 7.4 that public providers of business support are not well used and the research also identified the importance of independence for many rural business owners. In-migrants are slightly more inclined to participate suggesting that the potential exists for extra-local connections to be incorporated into local networks but the value of informal networks demonstrates that both arenas are important for the development of local social capital and for the exchange of information and opportunities among rural business owners.

Examples from the literature showed that business owners are happier to generate benefits for their businesses from activities that are perceived to be giving something to the local community or generating new opportunities for local people and local businesses rather than taking support from the public sector. Where businesses did speak of public assistance, it was either a small grant to help with a very specific innovation (e.g. Web-page or credit card system) that was transparent and open to all businesses or it was a very major development with a benefit for the wider public that would be uneconomical in the open market, such as the development of redundant buildings. Rather than direct support, this suggests that policy aimed at environmental improvement, technical development or community development that has a central objective of employing local businesses could be a more effective means of engaging local business owners. This would also result in the local community playing a significant role in shaping and delivering policy objectives.

In concluding that policy should provide the conditions for fruitful interactions and also in concluding that rural business owners should have an input into the provision of training and business advice, these findings are supporting the case for a neo- endogenous approach to economic development. Government and other formal organisations should give local communities the opportunity to decide on their own trajectories for future development as much as possible. With greater connectivity between local rural communities and extra-local networks, partly facilitated by in-migration, rural business owners are well placed to understand the opportunities and threats that exist beyond the local region and in that context, they are best place to maximise the potential of local resources.

### **8.7 Implications for Future Research**

This research has confirmed that rural in-migration is a significant feature of the rural economy of the North East of England. Survey data and qualitative interviews have demonstrated that businesses owned by in-migrants are contributing to rural development in a variety of ways. With a proposed new survey of rural microbusinesses in the region, it will be useful to investigate the extent to which a trend of “commercial counterurbanisation” can be further quantified and whether different business sectors are experiencing higher levels of growth as a result. As the national economy is entering a phase of uncertainty, it will be particularly interesting to explore the extent to which rural businesses are able to withstand economic pressures or whether the vulnerable nature of rural economies will once again become apparent. The declining provision of public services in rural areas, especially in the light of recent cuts to the Post Office service, raises further questions about the challenges that rural businesses are facing and suggests that government policy is failing to support the economic vitality of rural areas.

As well as comparing trends over time, it is important to broaden this research and consider the impact of rural in-migration across different parts of the UK. The North East may be different from other regions so such a study could help to illustrate the value of a neo-endogenous approach to rural development at the national level. Considering the implications of work on the differentiated countryside (Murdoch *et al* 2003), the social as well as economic changes associated with rural in-migration should be investigated in relation to each type of rurality. Not all areas will attract or support the same business activity and the development of fruitful local networks alongside business development may not occur uniformly across rural England. Such questions are particularly relevant for policy-makers with the task of facilitating the necessary economic activity that can stimulate strong communities and economies across all rural areas.

“Commercial counterurbanisation” has been proposed as a positive phenomenon but research must proceed to explore the proportion of migrants who become business owners in order to enable a true assessment of the relative advantages and disadvantages associated with counterurbanisation. If only a minority of in-migrants continue to engage with the rural economy, the business and social benefits that have been linked with in-migrant entrepreneurs will continue to be overshadowed by the residential implications of counterurbanisation.

In a future study more detail could be provided about the length of time between migration and business start-ups and the activity of migrants in the intervening period. Questions may also be asked to discover whether some migrants would like to start a business but find barriers that are insurmountable. This research focused on businesses that had been established but these additional questions can further explore claims that there is a huge unfulfilled potential in our rural economies (CRC 2008). If this is the case, this research suggests that in-migrants will play a significant role in unlocking that potential and stimulating Neo-Endogenous Development across rural economies, with increased growth, job creation and trade and the enhancement of social capital through local embeddedness and widespread network participation.

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## **~ Appendix 1 ~**

### **Interview Schedule and Self-Completion Questionnaire**

## **Interview Schedule**

Introduce myself, thank them for participating and tell them that I will produce a summary of my findings for all participants at the end of my PhD.

Explain that I will be recording the conversation so that I can go back to it to confirm what was said, it will not be heard by anyone else. It also means I can have a more natural conversation without writing long notes at the same time. Direct quotes may be used in my write-up but these will be anonymous and it is unlikely that more than 6 people will ever read the final thesis! If I use direct quotes for any other publication stemming from the PhD, I will ask your permission first. Where financially or personally sensitive information is concerned, these will not be referred to directly but may form part of a more general aggregate analysis.

The questions are about you and your business and there are no right or wrong answers, I am just interested in your story...your motivations and perceptions which should be really helpful for understanding what makes rural businesses work. Hopefully my final work will help both academics and policy-makers as we strive for more vibrant rural communities and rural economies.

## **Questions**

**Have you always lived locally? If not, where else have you lived?**

What led you to move here? Business/personal/family/previous connections?

**Can you tell me about the main activity/activities of your business?**

Confirm sector if necessary

Can you describe a regular day at work?

Is this your only job?

**When did you start the business/business start/become manager, owner?**

**Why did you choose to set up in this line of business?**

Necessity/opportunity? Innovation/risk-taking?

Previous experience?

**What led you personally to be running this business?**

Geographical background, family, work experience, contacts...?

Personal/lifestyle factors? Children/thinking towards retirement?

Did you discuss this with anyone? How did they influence that decision?

**Could you tell me about some of the most significant factors/events that led you to where you are now?**

**Why did you choose a rural area for your business?**

Good/bad? What was different? What was as you expected? Opportunities/Fears?

**Who advised you about setting up/taking on the business?**

What sort of advice was most useful?

**What is the best thing about running your business?**

**What was the hardest thing about setting up/running the business?**

What surprised you most about running a business?

Were financial resources difficult to access – reasons?

Did you find you lacked certain knowledge/skills?

Could you find people to help overcome problems?

**Did you have any specific goals when you established the business?**

Profit, product, lifestyle, independence, caring for nature/people, developing skills?

Have these changed over time?

**Do you feel you play an important role in the community?**

Support the community? Provide a service? Provide jobs? Sustain the local economy?

**How quickly do you feel you have become part of the local community?**

**How many friends and business contacts remain further afield?**

**When did you first take on staff?**

What led you expand in this way?

What problems were there?

Where did you advertise/find staff?

Were there any problems finding people with appropriate skills? Locals/migrants?

**How many staff do you have now?**

How far do they travel to work – drive/walk/public transport?

Do other family members/friends help casually in the business?

Apprenticeship scheme? New Deal? Other schemes?

**Where do you go for education/training for your business?**

Publications/internet/classes/training centres/conferences?

Do you think this is important?

**Are you on-line? Do you have access to all the necessary technology?**

Where do you go for technical advice/assistance?

**Can we talk about Research and Development? Is this important to your business?**

Spend? Patents? New markets? New products or services? Where spend?

**Where does most of your trade take place?**

Purchases and sales – local, regional, national, international?

Tourists/non-tourists? Individuals/businesses? Public/private sector?

One/few/many customers?

Do you meet most of your customers/supplies in person?

How do you advertise/access customers?

To what extent is the local area important for your marketing?

**Do you use other business services?**

Regularly/occasionally/specific tasks?

What about personal services?

**Have you always been based in these premises?**

Do you rent/own? How did you find them?

Have you had problems with property/planning? How overcome them?

**If you need a capital injection where would you go?**

**Are you involved in/what is your opinion of business organisations/networks?**

Do you consider yourself as a “networker”?

**Do you offer advice/share information with other local businesses?**

Do you work directly with any other businesses? Business agreements etc?

Share contacts, training provision, delivery journeys etc?

**And this final section is more about you and the local area. Do you personally participate in any local activities?**

What sort – social, political, hobbies, sports, business networks...?

Any links with business?

**Are you a member of groups/organisations further afield?**

**Do you consider yourself to be an active member of the local community?**

Do you enjoy being part of the local community?

Does this help your business?

Do you keep business and social life apart or do you see a value for your business in being socially active in the community or beyond?

**Are there a lot of new people moving into this area?**

Good/bad? Integrate-generally or personally?

**Are incomers active in the business community?**

Do you think they are any different? Benefits? Threats?

**And finally, perhaps you can tell me a little bit about your future plans?**

Growth(why, how, barriers) /stability/innovations/retirement-succession

# Ten questions about you and your business

Clearly I will know who has completed each form but they will only be referenced by number that so the information will remain confidential. None of these answers will be quoted in the final report but it is helpful to have a little background information on interviewees to provide a context for my analysis.

1 Please indicate the stage at which you completed formal education.

Aged 16 or under	<input type="checkbox"/>	After GCSEs, O levels, CSEs	<input type="checkbox"/>
After A levels, BTEC, Highers, NVQs	<input type="checkbox"/>	Degree	<input type="checkbox"/>
Diploma or vocational qualification (eg. ONC, HND, City and Guilds)	<input type="checkbox"/>	Postgraduate	<input type="checkbox"/>

Please state any professional qualifications .....

2 Please indicate which age group you are in:

18 or younger	<input type="checkbox"/>	19 to 24	<input type="checkbox"/>	25 to 29	<input type="checkbox"/>	30 to 36	<input type="checkbox"/>
37 to 44	<input type="checkbox"/>	45 to 54	<input type="checkbox"/>	55 to 65	<input type="checkbox"/>	66 or over	<input type="checkbox"/>

3 Do you have dependent children living with you? Yes ☐ No ☐

4 When did you start living in this area (defined as a 30 mile radius)?

Lived here since a child	<input type="checkbox"/>	
Grew up here and returned later in life	<input type="checkbox"/>	In which year and from where did you move?
Moved here as an adult	<input type="checkbox"/>	

.....

5 Are your premises: owned ☐ rented ☐ or do you work from home ☐

6 In miles, approximately how far is each of the following from your business premises? Please **circle the appropriate answer**

Nearest direct competitor	0-1	1-5	5-10	10-20	20-50	50+
Main supplier	0-1	1-5	5-10	10-20	20-50	50+
Bank	0-1	1-5	5-10	10-20	20-50	50+
Post Office	0-1	1-5	5-10	10-20	20-50	50+
Training facilities	0-1	1-5	5-10	10-20	20-50	50+
Business Club/association	0-1	1-5	5-10	10-20	20-50	50+
District Council offices	0-1	1-5	5-10	10-20	20-50	50+

7 What is the average annual turnover of the business? *Please tick one box*

Below £5,000	<input type="checkbox"/>	35,000 to £50,999	<input type="checkbox"/>
£5,000 to £9,999	<input type="checkbox"/>	£51,000 to £99,999	<input type="checkbox"/>
£10,000 to £19,999	<input type="checkbox"/>	£100,000 to £249,000	<input type="checkbox"/>
£20,000 to £34,999	<input type="checkbox"/>	£250,000 or greater	<input type="checkbox"/>

8 Which of the following best describes your attitude towards growth?  
*Please tick one box*

I am definitely not interested in expanding the business	<input type="checkbox"/>
I am actively pursuing growth within the next 2 years	<input type="checkbox"/>
I would like to see the business grow but have no specific plans at present	<input type="checkbox"/>
I may consider growth if appropriate opportunities arise	<input type="checkbox"/>
I don't know	<input type="checkbox"/>

9 Are any of the following factors restricting (potential) growth plans?  
*Please tick all that apply or tick the "no" box.*

A lack of space for expansion on site	<input type="checkbox"/>	No <input type="checkbox"/>
A lack of suitable/affordable alternative premises	<input type="checkbox"/>	
Refusal of planning permission	<input type="checkbox"/>	
Lack of finance for building	<input type="checkbox"/>	
Difficulties in advertising/recruiting staff	<input type="checkbox"/>	
A lack of suitably skilled staff	<input type="checkbox"/>	
The cost of employing new staff	<input type="checkbox"/>	
Others (please state) .....		
.....		

10 Where do you see yourself in 3 and 10 years time?

	3 Years	10 Years
Still trading pretty much as we are	<input type="checkbox"/>	<input type="checkbox"/>
Trading a much bigger level	<input type="checkbox"/>	<input type="checkbox"/>
Trading at a much smaller level	<input type="checkbox"/>	<input type="checkbox"/>
Wound up the business and in other employment	<input type="checkbox"/>	<input type="checkbox"/>
Wound up the business and retired	<input type="checkbox"/>	<input type="checkbox"/>
Sold the business and in other employment	<input type="checkbox"/>	<input type="checkbox"/>
Sold the business and retired	<input type="checkbox"/>	<input type="checkbox"/>
Our children/other family will have inherited the business	<input type="checkbox"/>	<input type="checkbox"/>
Other (please state).....	<input type="checkbox"/>	<input type="checkbox"/>

## **~ Appendix 2 ~**

**A summary of the characteristics of the businesses and  
business owners that participated in the interviews**

Ref.	Male/Female	Origin	Sector	Education level	Year started running business	Inherit/buy start?	Own/rent/home	Only Job?	Number of Staff (incl owner)			Attitude towards growth	Age Category	Dependent Children?	Turnover Band
									Full time	Part Time	Casual				
1	Male	Unplanned In-migrant	Professional Services	Postgraduate	2003	Start	Home	yes	2	0		0 would like to but no plans	30-36	yes	£20,000-£34,999
2	Female	Local	Tourism	GCSE	1995	Start	Home	yes	1	1		1 would like to but no plans	45-54	no	£20,000-£34,999
3	Female	Planned In-migrant	Retail	Prof Qualification	1999	Buy	Own	yes	1	6		0 actively pursuing	37-44	yes	n/a
4	Male	Unplanned In-migrant	Manufacturing	GCSE	2000	Start	Rent	yes	4	2		0 actively pursuing	55-65	no	£250,000+
5	Female	Unplanned In-migrant	Retail	Degree	1999	Start	Rent	yes	2	0		0 actively pursuing	55-65	yes	£10,000-£19,999
6	Male	Local	Manufacturing	HND/diploma	2005	Start	Own	yes	5	10		1 actively pursuing	30-36	yes	£100,000-£249,999
7	Female	Local	Retail	GCSE	2006	Buy	Rent	no	0	2		0 actively pursuing	37-44	yes	£51,000-£99,999
8	Female	Local	Tourism	A level	1997	Inherit	Rent	yes	2	20		0 may consider	45-54	no	£100,000-£249,999
9	Male	Local	Manufacturing	Postgraduate	2006	Start	Own	yes	1	4		1 actively pursuing	25-29	no	£100,000-£249,999
10	Male	Planned In-migrant	Retail	GCSE	1970	Buy	Own	yes	2	3		3 may consider	55-65	no	£35,000-£50,999
11	Male	Local	Professional Services	HND, later MA	2005	Start	Own	no	2	2		0 actively pursuing	37-44	yes	£51,000-£99,999
12	Male	Planned In-migrant	Manufacturing	Degree	1968	Start	Own	yes	13	0		0 actively pursuing	55-65	no	£250,000+
13	Male	Planned In-migrant	Professional Services	HND, diploma	2003	Start	Rent	yes	1	0		0 would like	37-44	yes	£51,000-£99,999
14	Male	Local	Retail	16 or under	1967	Inherit	Own	yes	2	2		1 would like	66+	no	£20,000-£34,999
15	Female	Local	Professional Services	Degree	2001	Start	Rent	no	1	0		4 would like	45-54	no	£10,000-£19,999
16	Male	Planned In-migrant	Professional Services	Postgraduate	1977	Start	Rent	yes	1	3	occasional	would like	55-65	no	£250,000+
17	Male	Planned In-migrant	Manufacturing	Degree	2000	Inherit	Rent	yes	1	5		1 actively pursuing	37-44	yes	£250,000+
18	Female	Unplanned In-migrant	Tourism	HND/diploma	1994	Start	Home	yes	0	1		1 may consider	66+	no	£10,000-£19,999
19	Female	Planned In-migrant	Tourism	GCSE	1997	Start	Home	yes	1	1		1 actively pursuing	45-54	no	£35,000-£50,999
20	Male	Local	Manufacturing	HND/diploma	2001	Start	Home	no	3	1		1 actively pursuing	45-54	yes	£250,000+
21	Female	Planned In-migrant	Tourism	GCSE	1989	Start	Home	no	1	1		1 may consider	55-65	no	£51,000-£99,999
22	Male	Planned In-migrant	Manufacturing	A level	1984	Start	Rent	yes	15	6		0 actively pursuing	55-65	no	£250,000+
23	Male	Unplanned In-migrant	Retail	Prof Qualification	1989	Buy	Own	no	2	2		4 may consider	55-65	no	£100,000-£249,999
24	Female (couple)	Planned In-migrant	Tourism	Degree	1981	Inherit	Own and Rent	yes	4	5		10 actively pursuing	45-54	yes	£51,000-£99,999
25	Female (couple)	Planned In-migrant	Retail	Degree	1999	Buy	Home	yes	5	16		0 actively pursuing	45-54	yes	£100,000-£249,999
26	Male	Unplanned In-migrant	Professional Services	Degree	1992	Start	Home	yes	1	1		0 not interested	55-65	no	£100,000-£249,999
27	Female (couple)	Unplanned In-migrant	Tourism	16 or under	2002	Buy	Home	yes	2	13		0 actively pursuing	45-55	yes	£100,000-£249,999
28	Male	Unplanned In-migrant	Manufacturing	Diploma	1984	Start	Rent	yes	4	0		0 would like	55-65	no	n/a
29	Female	Unplanned In-migrant	Professional Services	GCSE	1996	Start	Own	yes	20	varies	up to 300	actively pursuing	45-54	yes	£250,000+
30	Female	Unplanned In-migrant	Tourism	Degree	2006	Start	Own	no	1	2		0 may consider	45-54	yes	£20,000-£34,999
31	Female	Local	Tourism	16 or under	1991	Start	Own	yes	2	2		0 may consider	66+	no	£51,000-£99,999
32	Female	Unplanned In-migrant	Retail	diploma	2005	Start	Rent	yes	0	0		0 actively pursuing	45-54	yes	£35,000-£50,999
33	Male	Local	Retail	GCSE	1991	Buy	Rent	yes	1	2		0 may consider	45-54	no	£100,000-£249,999
34	Male	Local	Retail	A level	1978	Buy	Own	yes	1	7		0 not interested	55-65	no	£250,000+
35	Female	Local	Manufacturing	A level	1990	Start	Home	yes	0	1		0 not interested	55-65	yes	<£5,000
36	Male	Local	Manufacturing	Postgraduate	1979	Start	Own	yes	2	1		0 actively pursuing	45-54	n/a	£250,000+
37	Male	Local	Professional Services	Diploma	1950	Inherit	Rent	yes	1	2		0 would like	66+	no	£51,000-£99,999
38	Female	Local	Professional Services	A level	1990s	Start	Rent	yes	7	1		0 actively pursuing	55-65	no	£250,000+
39	Male	Local	Tourism	A level	1974	Inherit	Own	yes	3	0		0 actively pursuing	55-65	no	£250,000+
40	Male	Planned In-migrant	Professional Services	Diploma	1998	Start	Rent	yes	2	0		1 would like	30-36	no	£100,000-£249,999
<b>Additional Interviews</b>															
41	Male	Unplanned In-migrant	Manufacturing	Prof Qualification	1992	start	own	no	1	1		0 actively pursuing	55-65	no	£100,000-£249,999
42	Male	Local	Retail	GCSE	2004	Buy	Rent	yes	2	6		0 may consider	25-29	yes	n/a