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Rural business aspirations, obstacles and support: an analysis of the Longitudinal Small Business Survey 2015

Jeremy Phillipson

jeremy.phillipson@newcastle.ac.uk

Matthew Gorton

matthew.gorton@newcastle.ac.uk

Sara Maioli

sara.maioli@newcastle.ac.uk

Robert Newbery

Robert.Newbery@newcastle.ac.uk

Pattanapong Tiwasing

Pattanapong.Tiwasing@newcastle.ac.uk

Roger Turner

turners20@btinternet.com

**Centre for Rural Economy
and Newcastle University Business School**

Executive summary

A rural-urban analysis of the UK's Governments Longitudinal Small Business Survey (LSBS) responses for 2015 has been undertaken to understand spatial variations in performance and uptake of external support services. The analysis is based on 15,500 survey responses from across the UK and uses official rural-urban classifications. Approximately 28 per cent of survey responses to the LSBS are classified as rural. Within the rural context, conclusions relating to growth have previously been hampered by difficulties in separating out whether rural location has a distinctive effect or whether spatial variations in business performance reflects differences in size, sector and age of business. Therefore this analysis used Propensity Score Matching (PSM) to control for these and other profile variables, allowing for an assessment of rural effects on business performance.

The main findings from the analysis are:

- At UK level, after controlling for profile variables such as age, sector and VAT/PAYE registration status, the performance (turnover and profit) of businesses operating from rural areas is not significantly better or worse than the performance of businesses located in urban areas outside of London.
- In terms of growth aspirations, rural firms were less likely to be planning growth through more employment than were urban firms, and fewer rural employing firms were planning to introduce new working practices over the next three years compared to their urban counterparts. Moreover, fewer of them plan to increase the leadership capability of their managers. These rural-urban differences persist across the four countries of the UK. However, a larger share of rural than urban firms are planning to make capital investments.
- Competition in the market, and Red tape/Regulations were the principal obstacles to business development identified by urban and rural firms, both those with and without employees. Competition was the obstacle of greatest concern to urban businesses, whilst Regulations attracted most recognition by rural firms. This pattern is repeated across the UK devolved nations, only broken by Scottish businesses with employees (where urban firms reported more concern with Regulations than those in rural areas), and in Northern Ireland (where a greater proportion of rural than urban firms with employees ranked Competition as their main obstacle).
- There is some further variation in obstacles to firms without employees. Scotland's rural firms without employees appear to have considerably worse experience in Obtaining finance than their urban counterparts and rural firms in other UK countries. Competition

is a greater concern to rural firms than urban firms in Scotland and Northern Ireland. In England, Wales and Northern Ireland there is greater rural concern with Taxation/ VAT/NI and Business rates; and Staff recruitment and Skills.

- Across the UK around a third of businesses with employees, in rural and urban areas, sought one or more sources of advice or information in the year preceding LSBS 2015, though levels usage were lowest for rural firms in Northern Ireland, and highest in rural Scotland. Proportions of firms without employees who had used advice or information were generally much lower and rural-urban differences are also evident. Thus in England, Scotland and Wales a higher share of rural firms without employees had used advice/information than reported by urban firms, whilst the reverse was true in Northern Ireland.
- After controlling for profile variables such as age, sector and registration status, businesses located in rural areas do not significantly seek more or less information or advice than those located in urban areas. However analysis of particular sources of information or advice reveals variation at national and sub-national level.
- The main sources of external advice utilised by both urban and rural firms are Accountants, Consultants/ general Business advisers, and Others (i.e. unspecified). Fewer rural firms with employees have accessed Business networks / trade associations, and this is especially so in England and Scotland. However rural firms without employees are more likely to have accessed Business networks / trade associations as well as Consultants/ general business advisers. Their use of Internet searches/google or other websites was however lower. In rural firms without employees in Scotland, Northern Ireland and Wales, unspecified 'Other' sources of information and advice were the leading source. This is likely to include many local, third sector, social or business groups or initiatives. Only a very low level of rural and urban businesses had sought information or advice from Banks and Specialist finance advisors despite the large numbers of firms describing Obtaining finance as a Major Obstacle for businesses.
- For firms without employees, below a common need for Financial advice, there is a marked difference in advice requirements. Whilst urban businesses without employees sought advice on Marketing at more than double the rate of such rural firms, the rural-urban pattern was reversed in such firms seeking advice for Improving business efficiency and productivity. This should encourage those who point to the need to raise productivity amongst rural firms.
- In contrast, very low numbers of urban and rural employing firms seeking advice or information about Innovation and Exporting across the UK (and only marginally higher rates amongst firms without employees for each) is at odds with policy makers' emphasis

on these drivers of business and economic improvement. Such responses stand in marked contrast to the higher levels of firms that highlight plans to Develop new Products or Services. The very low numbers of firms without employees in the UK's rural areas who used advice on Exporting or Innovation suggests potential for refined advisory or information services on these topics.