ENTERPRISING BEHAVIOUR AND THE URBAN-RURAL SHIFT

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Abstract

The paper presents and discusses new evidence on the nature and causes of the urban-rural shift of business activity and employment in England, derived from a matched pairs survey of over 1,000 manufacturing and service business in remote rural, accessible rural and urban settlements. It reveals faster employment growth in rural firms, highlights the migration origins of and environmental influences on rural firm founders, and identifies significant urban-rural differences in the enterprising behaviour of companies. The implications of these findings for a new theoretical understanding of the reasons for the urban-rural shift are explored.

Acknowledgements

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ENTERPRISING BEHAVIOUR AND THE URBAN-RURAL SHIFT

Introduction

The urban-rural employment shift

Ever since the 1960s, the most powerful locational trend in the distribution of employment and economic activity in the United Kingdom has been a relative shift of firms, output and jobs from the conurbations and big cities to smaller towns and rural areas (Keeble, 1980; 1986; Fothergill and Gudgin, 1982: Fothergill, Kitson and Monk, 1985: Townsend, 1993). Table 1, derived from unpublished Census of Employment statistics, reveals that notwithstanding the North-South differences in regional economic performance which attracted so much attention during the 1980s, the period since 1981 has been just as much characterised by a continuing and major urban-rural shift of employment as was the 1970s, when the phenomenon was first recognised. Thought the categories used in Table 1, derived from a classification of the Office for Population Censuses and Surveys, are by no means ideal, the nonetheless show clearly that it was the rule and less-urbanised areas of Britain which recorded the fastest growth of employment - and the least rapid decline of manufacturing employment - during this period, whereas the major cities and large towns experienced massive decline or only very slow growth. As with the 1970s (Fothergill, Kitson and Monk, 1985), there is a striking and consistent gradient in employment performance from the most urbanised, in terms of physical congestion and population density, to the most rural areas of Britain. This gradient is moreover evident in both northern and southern Britain independently (Townsend, 1993).

Table 1 also reveals that though spearheaded by manufacturing industry, the urban-rural shift is equally evident for total employment and hence services, which now dominate both structure and trends in total employment. And while the shift undoubtedly includes physical relocation of existing businesses by complete transfer or the
establishment of branch units, it also and much more powerfully reflects differential growth and decline of already existing enterprises in urban and rural locations (Fothergill, Kitson and Monk, 1985), together with differences in rates of creation of entirely new local firms in favour of rural areas and smaller towns. The latter is illustrated by Table 2, which plots average new enterprise creation and small business growth rates during the 1980s for four categories of counties of the UK, as defined in Keeble (1980). Though undoubtedly crude, the urban-rural grouping adopted does broadly capture the differences in urbanisation level between different counties. The data are derived from unpublished Employment Department VAT business registration statistics for the 11-year period 1980-90 inclusive. Though covering all sizes of businesses, the great majority of VAT-registered businesses are small (Keeble and Walker, 1994), so that net change rates are in effect measuring changes in the stock of small businesses in different areas. The table shows that there was a significant gradient in new enterprise creation rates from low values in the conurbations to high values in less-urbanised and rural counties during the 1980s, while rates of net growth in numbers of small businesses were over twice as great in less-urbanised counties than in the conurbations. Though lower than in the former, rural county small business growth rates were also appreciably higher than in the two most urbanised categories.

Explaining the urban-rural shift

Attempts to explain the urban-rural shift of economic activity have hitherto focused almost solely on manufacturing industry, which is undoubtedly led the way in this spatial restructuring process. Manufacturing-based theories of the urban-rural shift included 'constrained location theory' (Fothergill and Gudgin, 1982: Fothergill, Kitson and Monk, 1985), which emphasises the role of urban space shortages in the context of increasing capital intensity of manufacturing processes, 'production cost theory' (Tyler, Moore and Rhodes, 1988), which highlights operating cost differences between urban and rural locations, and radical 'capital restructuring theory', which sees rural industrialisation as resulting from large firm
restructuring in search of higher profits through new forms of labour exploitation (Massey, 1984, 161-4). Thompson's 'filter-down theory' (1968) and Scott's (1982) and Norcliffe's (1984) factor-intensity theories. However, the evident importance of service industry in the urban-rural shift in the 1980s is not perhaps so easily accommodated within these manufacturing-inspired perspectives. This is particularly true of constrained location theory with its dominant focus on floorspace constraints on investment in new manufacturing technology. Urban-rural operating cost differences within the UK, too, do not seem to be large enough by themselves to explain the remarkable scale of this shift. Finally, the preoccupation of 'capital restructuring' approaches with labour exploitation explanations is at variance with empirical evidence both on the limited extent of urban/rural variations in labour problems and costs in the UK (Tyler, Moore and Rhodes, 1988), and the overwhelming importance of locally-founded small and medium-sized firms, not large externally-controlled firms, in the rural industrialisation process in the UK (see below).
### Table 1: The Urban Rural Shift of Total and Manufacturing Employment in Great Britain, 1981-1991

<table>
<thead>
<tr>
<th></th>
<th>Manufacturing Employment</th>
<th>Total Employment *</th>
</tr>
</thead>
<tbody>
<tr>
<td>London &amp; Principle Cities</td>
<td>2422</td>
<td>-858</td>
</tr>
<tr>
<td>Non-Metropolitan Cities</td>
<td>709</td>
<td>-198</td>
</tr>
<tr>
<td>Industrial Areas</td>
<td>968</td>
<td>-159</td>
</tr>
<tr>
<td>Districts with New Towns</td>
<td>396</td>
<td>-67</td>
</tr>
<tr>
<td>Resort, Port &amp; Retirement Areas</td>
<td>218</td>
<td>-40</td>
</tr>
<tr>
<td>Urban &amp; Mixed Urban-Rural</td>
<td>903</td>
<td>-149</td>
</tr>
<tr>
<td>Remoter, Mainly Rural</td>
<td>434</td>
<td>-12</td>
</tr>
<tr>
<td>Great Britain</td>
<td>6051</td>
<td>-1482</td>
</tr>
</tbody>
</table>

* excluding agriculture

**Source:** unpublished Nomis Census of Employment data. We are greatly indebted to Alan Townsend for his help in providing these results (see also Townsend, 1993).
The scale and importance of the urban-rural shift of business activity, together with the limitations associated with existing explanations of this shift, provide the essential context for the research reported in this paper. This research, involving the largest-ever national-scale survey of manufacturing and service enterprise creation, development and growth in England’s rural areas, demonstrates for the first time the existence of significant differences in origins, characteristics and performance between rural and urban businesses.

These differences in turn support an 'enterprising behaviour' theory of the urban-rural shift which comprises two main elements. Firstly rural settlements are able to attract a reactively high proportion of actual or potential entrepreneurs because of their desirable residential environment. Secondly, companies in accessible rural areas are undertaking a greater amount of enterprising behaviour associated everywhere with business success. This may partly reflect greater expertise, 'know-how' and dynamism on the part of the often professional entrepreneurs who move to these rural areas: but equally if not more important is the fact that the characteristics of the more successful areas are such as to enable such enterprising behaviour to occur. Urban-rural differences in constraints as expressed in factors like floorspace availability and in operating costs can affect the relative ability of companies to undertake enterprising behaviour in one location relative to another.
Table 2: Urban-Rural Differences in New Firm Formation and Small Business Growth Rates 1980-90

<table>
<thead>
<tr>
<th></th>
<th>Mean New Firm Formations Rates</th>
<th>Mean Small Business Growth Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conurbations (8)</td>
<td>64.4</td>
<td>8.9</td>
</tr>
<tr>
<td>More-Urbanised Counties (14)</td>
<td>76.7</td>
<td>14.2</td>
</tr>
<tr>
<td>Less-Urbanised Counties (22)</td>
<td>83.3</td>
<td>20.5</td>
</tr>
<tr>
<td>Rural Counties (20)</td>
<td>83.2</td>
<td>15.7</td>
</tr>
</tbody>
</table>

Notes: rates are of new VAT business registrations, and net change in total VAT business registrations, respectively, per 1,000 of the civilian labour force 1981. Urban-rural classification from Keeble, 1980.

Source: Unpublished Department of Employment VAT registration statistics.

The recent creation and successful growth of rural enterprises are argued here to be the result of the dynamic effects arising from environmentally-stimulated population migration fuelled by rising real household incomes, and a proliferation in recent decades of market niches for specialised and customised products and services broadly in line with aspects of so-called 'flexible specialisation' theory (Sabel, 1989: Hirst and Zeitlin, 1992). Both these processes help explain the greater innovativeness, technological operation and employment growth of businesses in rural areas documented by this study, compared with their urban counterparts.

The paper begins by articulating a framework which allows us to understand the concept of enterprising behaviour and its relevance in explaining why there are variations in company performance by
location. Section three then describes our empirical methodology. Sections four and five present our main findings. Section six draws together the main conclusions.
A Theory of Enterprising Behaviour with which to Explain the Urban Rural Shift

Our starting point in the context of previous research was to begin by asking whether differences in the economic performance of one company relative to another across space could be explained by differences in their internal behaviour, and in particular the ability of a company to be more enterprising in one location relative to another. Previous research by one of the authors (Tyler, Moore and Rhodes, 1988) had investigated the urban-rural shift on the basis of an assumption of monogeneity in internal response and looked for external factors within a cost based framework to explain the shift. The results had suggested that external factors per se were not sufficient to explain the urban-rural shift. Clearly it was necessary to define what we meant by enterprising behaviour.

We defined enterprising behaviour to be the "deliberate and conscious efforts of companies to enhance their competitive edge across all activities - such as production, marketing, and finance - necessary for successful business operation". This definition required us to consider the internal behaviour of companies within a competitive framework which identified how companies sought to maintain their competitive advantage in the face of the threats and opportunities which they experience. The broad basis of the framework is discussed in PA Consulting Group (1989). These threats and opportunities can be characterised according to whether they are predominantly economic, demographic, technological or institutional in origin. Enterprising behaviour is characterised by companies undertaking actions which enhance their competitive position in the face of their external environment and given the resource base they possess.
The ability of companies to maintain competitive advantage can be viewed as a function of how quickly they are able to switch or divide their resources and achieve a specialisation in the market place which gives them a degree of monopoly power. In modern day market places this is increasingly a function of their ability to differentiate their product, a process which requires effective innovation and a technological response. The corporate response in this respect can be considered using the industrial maturity grid matrix summarised in Figure 1. The grid comprises three dimensions; markets, technology and resources. The matrix consists of two extremes; developing and mature. Within each broad dimension there are sub characteristics which allow us to specify more precisely what is meant by a company being at that stage in its corporate development.

The enterprising response of a company is measured in relation to its ability to shift its resources to the developing ends of its respective market place and exploitation of technology diffusion. The speed of the enterprising response is a function of the flexibility of the company’s internal resource base. This is itself determined by the quality and characteristics of its internal entrepreneur(s), its organisation and its land/labour/capital resources.

A further aspect which needs to be considered within the theory of enterprising behaviour is that the achievements of a company in attaining its competitive position have to be seen within a dynamic framework, and thus the life-cycle of the company. The stage of development of the company is linked to the flexibility with which it can shift and switch its resources. Thus, larger, older companies may well have greater capital resources with which to facilitate investment in new product innovation, but they may also be saddled with a more rigid internal labour market and organisational structure. Companies
that can divide and shift resources relatively quickly have a greater probability of becoming stars rather than flops or failures.

Our theory of enterprising behaviour in relation to the urban-rural shift phenomenon is two-fold. Firstly, the environment of rural areas attracts a higher proportion of decision takers who are likely to be good at demonstrating enterprising behaviour wherever they locate. Secondly, rural areas, and especially accessible rural areas, have economic, physical and institutional characteristics that enable enterprising behaviour to occur more readily there than elsewhere. In this sense one can predict the relative success of an area in terms of its ability both to attract those who are enterprising, and to enable enterprising behaviour to occur. The approach has the advantage that it allows us in a spatial sense to recognise the strong inter-relationship between the desirability of an area to individuals - and companies - who have characteristics associated with enterprising behaviour everywhere, and the inherent flexibility of the resource base of the area to allow enterprising behaviour to be practised. Although it is extremely difficult to test it would seem plausible in the light of these components to the enterprising theory that the evolution of a nation’s overall settlement pattern reflects a pattern whereby for a period of time specific locations have factors that give them comparative advantage in terms of attracting and retaining human and physical capital. The scale of these advantages are probably significant for a period of time and the volume of enterprising behaviour which can occur is correspondingly large. Eventually, diseconomies to the efficient production of goods and services may begin to set-in, reinforced by changed locational preferences on the part of entrepreneurs and thus where, at the margin, new investment occurs.
The hypotheses that emerged from our underlying approach to understanding the urban-rural shift in investment and jobs in the United Kingdom, were:

- did part of the explanation lie in the relatively more successful accessible rural areas being able to attract a higher proportion of those practising enterprising behaviour, i.e. in terms of new founders of small businesses as well as decision takers locating migrant transfers and branches?

- even with a fixed proportion of entrepreneurial stock, were there characteristics particular to the rural areas concerned that allowed a more flexible resource response to enterprising behaviour from the companies that were located there?

Ultimately, like the dripping of a tap, areas which are relatively more attractive to those individuals - and enterprises - that are able to exhibit enterprising investment behaviour, as well as having characteristics that allow a ready expression of this behaviour, will experience a comparative advantage as expressed in the growth of investment, output and jobs which occurs there.

There are clear policy implications which emerge from our research and underlying theoretical approach, which link straight into a strategic policy response. This is both in terms of attracting a greater proportion of enterprising behaviour to an area, as well as allowing a larger amount of enterprising behaviour to be undertaken from an existing stock of enterprises in that area.
<table>
<thead>
<tr>
<th>Characteristics of Industrial Performance that Influence Competitive Advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MARKETING</strong> (type of demand, customer base, product variability, buyer sophistication, type of competition, relevance of product, position/imagery)</td>
</tr>
<tr>
<td><strong>TECHNOLOGY</strong> (age, availability, life cycle, pace of change, barriers)</td>
</tr>
<tr>
<td><strong>RESOURCES</strong> (number and size of firms, supply chains, infrastructure base, skill base, flexibility and adaptability of resource base including ability to divide labour)</td>
</tr>
</tbody>
</table>
Empirical Methodology

The methodology of the study involved five key features. First, data was collected by PA Cambridge Economic Consultants (the PACEC survey) during the period March-June 1991 via a major postal and face-to-face interview survey of over 1100 businesses located in selected rural and urban areas of England. Business names and addresses were obtained from the Dun and Bradstreet database. Nearly 300 of these were interview surveys, enabling opportunities for qualitative as well as quantitative investigation. Second, this survey covered those manufacturing and service sectors which are important for rural economic development and possess some degree of choice in their location between rural and urban areas. In addition to all the manufacturing industries, therefore, it included wholesale distribution and a range of professional, technical and business services, which have recorded remarkably rapid growth in recent years (Keeble, Bryson and Wood, 1991). The resultant samples are thus deliberately not a simple representation of all rural and urban businesses, but focused on those which both provide the economic base for local communities and have freedom of locational choice. We, therefore, excluded agriculture, forestry, mining, retailing, hotels and restaurants. Third, and perhaps most important of all, the study adopted a 'matched' pairs methodology to enable comparison of remote rural (see below) and urban firms with broadly similar basic characteristics. The key characteristics used for matching were industrial sector (which influences market opportunities and production requirements), firm size (with its implications for enterprise management and organisation), and regional location (to control for differences in regional environmental influences, such as labour force characteristics or distance from dominant regional markets). Interviewed businesses were matched prior to survey, but postal survey firms could only be
matched after receipt of replies. As a result, some respondents had to be discarded because no suitable match could be found.

Fourthly, the rural firm survey focused on two different categories of rural location, namely 'remote' and 'accessible' rural areas. The former, and chief focus of the research, comprised three areas identified by Hodge and Monk's study (1991) of England's rural economy as exhibiting the key rural characteristics of relatively sparse population and relative remoteness from major urban areas. These 'remote rural' areas were rural Cumbria, Durham, Northumberland and North Yorkshire, rural Lincolnshire and Norfolk, and rural Cornwall, Devon and West Somerset. However, in order to assess whether businesses operating within these areas differ from those in rural locations closer to the country's major cities, a group of 'accessible rural' areas was selected excluding the urban-orientated areas of South-East England. The 'accessible rural' areas surveyed were Cheshire, Derbyshire, Northamptonshire and Wiltshire. In both types of areas, only businesses in villages and rural settlements of less than ten thousand population (the normal threshold for Rural Development Commission activity) were included. The survey frame for urban areas was drawn from free-standing towns and cities within the three broad locations of northern, eastern and south western England. Major conurbations benefiting from government inner city of assisted area policies were avoided as far as possible. The towns surveyed were Blackburn, Bury/Bolton, Carlisle, Chester, Darlington, Harrogate, Leeds, Preston, Wakefield and York in northern England, Leicester, Norwich and Nottingham in eastern England, and Bristol, Cheltenham, Exeter, Gloucester, Oxford, Plymouth and Swindon in the South West. Finally, statistical inference testing using t tests, chi-square and multivariate analysis was employed as a guide to identifying significant differences between the survey samples.
The resultant samples, following the matching process, comprised 421 remote rural, 158 accessible rural, and 443 urban enterprises, totalling 1022 businesses in all. These samples covered all firm sizes and types present in rural areas, including both large and small enterprises (12% of remote rural firms employed over 100 workers), and branch plants and subsidiaries as well as independent firms (14% were branch plants or subsidiaries). They thus provide a balanced picture of those locationally-flexible rural enterprises which are likely to be of key importance for local economic development. It should also be noted that although the response rate (10.2%) was low\textsuperscript{3}, the deliberate adoption of the matched pairs methodology ensures validity of comparison of firm characteristics between urban and rural samples, quite apart from the large numbers of firms responding.
Identifying the Presence of Differences in Enterprising Behaviour Between Areas: the Formation of Enterprise

One of the most fundamental questions raised by the urban-rural shift of economic activity concerns the reasons for business establishment and formation in rural areas. This study permitted assessment of this issue in comparison with matched urban businesses. In particular, it enabled evaluation of the thesis, which has found support elsewhere (Brown, 1972; Jones, Caird and Ford, 1984; Keeble and Gould, 1985; Bolton and Chalkley, 1989; Ecotec Research, 1990), that recent rural business formation has been powerfully stimulated by selective population migration, which has created a pool of potential and qualified entrepreneurs in rural settlements; and that this migration in turn has been primarily driven by residential preference and quality of life motivations enabled and fuelled by rising real household incomes. The latter, which increased in the UK by +73% between 1971 and 1991 alone (Central Statistical Office, 1993), have directly generated increased demand for more spacious housing in visually-attractive environments, and created mass car ownership and hence the personal mobility essential for rural living.

We began the analysis of whether differences in business formation could be influencing the urban-rural shift by assessing the age, corporate status and employment performance of the companies in our research frame.

Not surprisingly, the sectoral and size composition of the urban and remote rural samples were closely similar, given the matching process adopted, with a focus in both on engineering, metal goods and vehicles (30% of firms), 'other manufacturing' (clothing, textiles, furniture, paper, printing, food and drink: 40%), and professional, technical and
business services (14%), and on firms employing 50 or fewer workers (78%, with 40% of remote rural firms employing 10 or fewer workers). Given these matching characteristics, it was also not surprising that there were close similarities in corporate status and age. Nearly all rural and urban enterprises surveyed proved to be independently-owned and locally-headquartered businesses (86% of remote rural and urban firms, 90% of accessible rural firms). Most of these (72%) are also single-site businesses. Rural firms were thus overwhelmingly independent, locally-owned and managed enterprises. They were also relatively young, 63% of remote rural firms having begun trading for the first time only since 1970, with 37% beginning only since 1980. This pattern was similar to that for urban firms. Accessible rural firms were however even younger, with 74% being new since 1970 and 48% new since 1980. This difference was statistically significant. All three types of areas, but especially accessible rural areas, appear to have undergone a reactively vigorous process of new firm formation in recent years, exactly in line with the aggregate evidence of Table 2 and recent findings by Townroe and Mallalieu (1993).

The study’s matched pairs methodology by standardising for certain characteristics might suggest that it would be unlikely that urban and rural firms should exhibit any difference in growth rates as expressed in, say, employment. It was thus particularly interesting that mean absolute employment change 1988-91 differed considerably between the three groups of enterprises (Figure 2), with a growth in employment in remote rural firms of 4.1 jobs per firm, but a decline in urban firms of 1.7 jobs per firm. Accessible rural firms grew on average by 3.0 jobs. These urban-rural differences are exactly in line with the aggregate data of Table 1, as well as with other recent surveys, such as those by Smallbone, North and Leigh (1993) and the
Small Business Research Centre of Cambridge University (1992: see also Keeble, 1993). They were however heavily influenced by the differential performance of larger businesses, which declined or grew more slowly in urban areas, but grew substantially in remote rural areas. Differences also exist between sectors (Figure 3), with the poorest urban performance in manufacturing, notably engineering. But it nonetheless remains true that remote rural firms grew faster than urban firms in each sector.

*A link between formation of enterprises, population migration and residential preference*

The first important point to emerge from the establishment data bank was that the majority of rural and urban companies surveyed had originated as a new-start-up in the area concerned ("in this county"). Thus 84% and 90% of remote rural, accessible rural and urban companies respectively fell into this category. Of those companies that did move from elsewhere to rural areas the move was generally from an urban settlement (77% of moves to remote rural areas, 74% to accessible rural areas). In contrast, almost all business moves to towns were from other towns (83%), not from rural areas (only 17%). Company relocation is thus a secondary process contributing to the urban-rural shift.

The similarity in the proportion of companies that actually began as a new start-up across the three types of areas is not reflected in the origins of entrepreneurs establishing locally-founded businesses (i.e. excluding company relocations) as between urban and rural areas (Table 3). Specifically, most rural new firm founders are in-migrants from elsewhere ("not born in this county"), whereas most urban founders are local people, born and brought up in that county. The
proportion of in-migrants amongst the population of entrepreneurs thus ranges from 66% in accessible and 58% in remote rural areas to only 35% in urban areas. This difference was statistically significant. Most migrant entrepreneurs - and especially those settling in accessible rural areas - moved to the countryside prior to setting up their firm (Table 3); but one-fifth (21%) of all remote rural founders actually moved there in order to establish their enterprise. For this group, the business location decision was also and directly a residential location decision. This and the above findings unequivocally establish a strong and direct connection between population migration to England’s rural areas and subsequent or contemporaneous new enterprise formation there. This connection does not however hold for urban business formation, which was dominated by locally-born founders. The original survey findings are further and independently corroborated by the very strong statistical relationships between above-average new firm formation rates and antecedent population immigration recently identified by Keeble and Walker’s (1994) study of county-level enterprise creation rates during the 1980s.

The PACEC survey also revealed that one, if not the, major stimulus underlying this substantial flow of actual or potential business entrepreneurs to the countryside is the perceived environmental attractiveness of England’s villages and rural areas "as a pleasant place to live" (Figure 3). No less than 4 out of every 5 migrant founders in remote rural areas, and three-quarters of those in accessible rural areas, reported that this was of "some" or "great" importance in their original migration decision. In contrast, the residential attractiveness of the urban areas surveyed was acknowledged as important by only 59% of the smaller total of urban migrants, with only 22% reporting this as being very important compared with 50% of remote rural migrants. This difference was statistically very significant, and existed despite
the inclusion in the urban sample of such historic and attractive medium-sized towns as York, Harrogate, Carlisle, Chester, Norwich, Cheltenham, Exeter and Oxford.

Table 3: Migration Origins of Rural and Urban Business Founders

<table>
<thead>
<tr>
<th>Founder Origin</th>
<th>Remote Rural</th>
<th>Accessible Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Born in County</td>
<td>42.4</td>
<td>34.2</td>
<td>65.6</td>
</tr>
<tr>
<td>Moved to County before setting up firm</td>
<td>36.5</td>
<td>52.5</td>
<td>25.9</td>
</tr>
<tr>
<td>Moved to set up firm</td>
<td>21.1</td>
<td>13.3</td>
<td>8.6</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: PACEC Survey

This important personal residential and environmental attractiveness motivation for rural migration and hence subsequent business establishment was also clearly acknowledged by the unprompted replies to the survey’s "open" question on the reasons which attracted the firm to its current location. These replies (Table 4) were aggregated into 11 groups of factors, covering over 2000 responses (up to 3 per firm). Surveys of this kind almost always highlight the immediate importance to respondents of the local availability of premises, and the present study is not exception. Neither this factor, nor proximity to the founder’s home, the second most frequently cited influence, however, varied greatly between areas (although the origins of the "local founders" involved undoubtedly do). In contrast, environmental attractiveness for founders and staff was the third most
frequently reported reason for business location choice (16% of replies) by remote rural respondents, compared with only 4% of urban responses. This was the most important locational influence to vary significantly between rural and urban firms. This and the earlier survey findings thus highlight unequivocally the major importance for rural enterprise creation of migrant founders, attracted to a considerable degree by the perceived quality of life and pleasant residential environment of rural settlements. This finding is the more compelling in that urban founders are shown to be not nearly so characterised by migration or influenced in their locational behaviour by environmental considerations.
Table 4: Reasons for Choice of Company Location

<table>
<thead>
<tr>
<th>Reason</th>
<th>Remote Rural %</th>
<th>Accessible Rural %</th>
<th>Urban %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nearness to founder’s home</td>
<td>18.0</td>
<td>20.7</td>
<td>18.6</td>
</tr>
<tr>
<td>Environmental attractiveness</td>
<td>15.9</td>
<td>9.9</td>
<td>3.8</td>
</tr>
<tr>
<td>Labour advantages</td>
<td>9.2</td>
<td>9.3</td>
<td>9.5</td>
</tr>
<tr>
<td>Premises advantages</td>
<td>25.9</td>
<td>30.0</td>
<td>25.1</td>
</tr>
<tr>
<td>Local market or materials</td>
<td>9.2</td>
<td>6.4</td>
<td>7.4</td>
</tr>
<tr>
<td>Good communications</td>
<td>7.4</td>
<td>12.5</td>
<td>14.4</td>
</tr>
<tr>
<td>Government grants</td>
<td>4.6</td>
<td>0.0</td>
<td>0.7</td>
</tr>
<tr>
<td>Historic reasons</td>
<td>2.3</td>
<td>4.7</td>
<td>6.1</td>
</tr>
<tr>
<td>Company acquisition</td>
<td>3.2</td>
<td>1.7</td>
<td>2.4</td>
</tr>
<tr>
<td>Accessibility to clients, staff, suppliers</td>
<td>0.2</td>
<td>0.6</td>
<td>9.4</td>
</tr>
<tr>
<td>Other</td>
<td>4.2</td>
<td>4.1</td>
<td>2.6</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: PACEC Survey
Identifying the Presence of Differences in Enterprising Behaviour as a Factor in Explaining the Urban-Rural Shift

Significant differences in the migration origins and residential preferences of urban and rural entrepreneurs and also accompanies by significant urban-rural differences in the behaviour of companies in terms of their propensity to undertake the type of enterprising behaviour associated with business success identified in section 2. It is to be remembered that the process of enterprising behaviour examined in section 2 was categorised along three main dimensions. These were market niche orientation, innovation and the use of technology and finally the flexibility of the company to switch its labour, capital, land and organisational resources to meet opportunities and overcome constraints. The following analysis follows these dimensions.

Flexible market specialisation and market niche orientation

Following much recent theoretical and empirical work, our industrial maturity grid (Figure 1) argues that modern day economies have seen increasing differentiation and customisation of market demand. For consumer products, rising real incomes have created a range of new and specialised market niches for higher-quality and novel products and services, which can now be produced efficiently in small batches by small firms using new technologies, rather than by mass production. At the same time, businesses themselves in all sectors, but especially manufacturing, have faced increased needs for specialised advice, information and technologically-based inputs and services because of very rapid technological and economic change and growing internationalisation of competition and markets (Keeble, Bryson and Wood, 1992: Bryson, Keeble and Wood, 1993). Again this has created
new market opportunities for small specialised firms, in professional, business service and technologically-based activities (Pratten, 1991, Ch.6). Both trends can conveniently be summed up under the umbrella term of "flexible specialisation" (Piore and Sable, 1984; Sabel, 1989; Ernste and Meier, 1992). Empirical evidence for these trends is provided by the nation-wide SME survey recently conducted by the Small Business Research Centre (1992, Ch.2).

The company data-bank across the urban-to-rural areas was tested for the presence of enterprising behaviour relating to flexible specialisation. Table 5 shows that in line with flexible specialisation arguments more than 7 out of every 10 firms in both rural and urban areas (8 out of 10 in accessible rural areas) regard themselves as having achieved their development by "providing specialised products or services for a particular market niche or set of customers". Many of these are of course small and relatively young. Their development thus reflects recent trends during the 1970’s and 1980’s exactly as argued by workers such as Piore and Sable.
Table 5: Market Niche Specialisation

<table>
<thead>
<tr>
<th></th>
<th>Company Location</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Remote Rural %</td>
</tr>
<tr>
<td>Yes</td>
<td>72.7</td>
</tr>
<tr>
<td>No</td>
<td>27.3</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: PACEC Survey

While the very high incidence of market niche specialisation does not differ significantly between remote rural and urban firms (accessible rural firms are significantly more specialised than urban firms at the 10%, but not 5%, probability level), Tables 6 and 7 show that the nature of the markets served does. These tables group responses in two different ways. The first adopts a three-fold functional classification, into whether the market can reasonably be viewed as stimulated or created to a significant degree by rising household and consumer incomes and growing demand for quality products, whether it reflects an increasing complexity of business needs in terms of professional or technological inputs, or whether neither of these applies. Examples of the first, all drawn from the rural businesses sample, range from the manufacture of microlights, hang-gliders, outdoor trampolines and leisure boat autopilots to the production of musical cassettes for children learning instruments, three-dimensional decorative pictures, and doll’s house bathrooms and kitchen sinks, the organising and running of country house fairs, and publishing specialised magazines.
for home organ players and Land Rover owners. Examples of the second include a wide range of business consultancies (marketing, computer software, data services, personnel recruitment, credit control, conference organising), and the production of technologically-advanced components as inputs to other businesses (computer programming tools, high integrity control systems for nuclear and semi-conductor processing, micro-biological products for research laboratories). The division between this and the "other" specialisations is debatable, with small firms simply specialising in electronic or process technology subcontract work for other industries being classified to "other". The second grouping (Table 7) is simply by the sector served.

Table 6 reveals that there is a striking and statistically very significant difference in market niche orientation between firms in the three types of area. One third of all specialised remote rural firms owe their markets and development to rising consumer incomes, along with 21% of accessible rural firms are significantly more orientated (47%) to market niches which reflect the increasing complexity and technological sophistication of business, not consumer, needs, with remote rural firms having the lowest proportion of such firms (28%). Finally, urban firms are most frequently specialised on more traditional niches (54%), engaged for example in subcontract engineering or the production of specialised clothing accessories. Not surprisingly in view of these functional differences, the sectors supplied also differ appreciably, with the remote rural firms being more frequently dependent upon personal consumers (21%), agriculture (10%) and retailing/tourism (18%). Both accessible rural and urban firms are more focused on manufacturing (38% and 37%, respectively) and "other" clients (mainly firms serving a range of business, not consumer, sectors).
Table 6: Market Niche Specialisation: Functional Differences

<table>
<thead>
<tr>
<th></th>
<th>Company Location</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Remote Rural %</td>
<td>Accessible Rural %</td>
<td>Urban %</td>
<td></td>
</tr>
<tr>
<td>Rising Incomes/Higher Quality</td>
<td>33.4</td>
<td>20.8</td>
<td>16.1</td>
<td></td>
</tr>
<tr>
<td>Increasing Complexity of Business Needs</td>
<td>27.5</td>
<td>47.2</td>
<td>30.1</td>
<td></td>
</tr>
<tr>
<td>Other Specialisation</td>
<td>39.1</td>
<td>32.0</td>
<td>53.7</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: PACEC Survey

Table 7: Market Niche Specialisation: Sectors Supplied

<table>
<thead>
<tr>
<th>Nature of Sector Supplied</th>
<th>Company Location</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Remote Rural %</td>
<td>Accessible Rural %</td>
<td>Urban %</td>
<td></td>
</tr>
<tr>
<td>Personal Consumers</td>
<td>20.9</td>
<td>12.0</td>
<td>11.2</td>
<td></td>
</tr>
<tr>
<td>Agriculture/Fishing</td>
<td>10.3</td>
<td>5.6</td>
<td>1.6</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>29.1</td>
<td>37.6</td>
<td>37.0</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>6.3</td>
<td>5.6</td>
<td>7.5</td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>1.7</td>
<td>3.2</td>
<td>3.4</td>
<td></td>
</tr>
<tr>
<td>Retailing/Tourism/Wholesaling</td>
<td>17.5</td>
<td>16.0</td>
<td>15.8</td>
<td></td>
</tr>
<tr>
<td>Professional/Financial/Business Services</td>
<td>3.0</td>
<td>0.8</td>
<td>5.3</td>
<td></td>
</tr>
<tr>
<td>Education/Health/Voluntary</td>
<td>2.3</td>
<td>4.8</td>
<td>4.0</td>
<td></td>
</tr>
<tr>
<td>Public Sector</td>
<td>3.0</td>
<td>0.8</td>
<td>3.4</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>6.0</td>
<td>13.6</td>
<td>10.9</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: PACEC Survey
These findings, the first explicitly to investigate the relevance of flexible specialisation notions to understanding recent small firm growth in rural Britain, throw new light on the reasons for this growth. First, they suggest that one major and distinctive influence underpinning and enabling small firm development in remote rural areas has been the proliferation of market niches nationally as a consequence of rising consumer incomes. These consumer market niches can apparently be accessed from remoter rural areas, to which many of the entrepreneurs involved have been drawn to live by environmental motivations. In contrast, a much higher proportion of accessible rural firms have developed to supply the increasing needs of other businesses for specialised services and technologically-based inputs. This suggests that relative proximity to urban clients remains of some importance for competitive efficiency in this sphere of small firm specialisation. In both cases, however, it is very probable that previous expertise, personal links and networks with potential customers developed by the (migrant) rural entrepreneurs involved in their previous urban locations and employment have been important in their firms’ establishment and growth (see Bryson, Wood and Keeble, 1993). Such urban-focused networks and awareness of new evolving market opportunities are presumably less likely to characterise locally-born, non-migrant entrepreneurs, inhibiting successful small firm creation by such founders.

The most important finding of this analysis is that both remote and accessible rural firms are frequently targeting what are arguably newer, growing and more dynamic market niche opportunities than are their counterparts in urban locations, with their more traditional specialist orientations. In turn, this finding suggests that a major reason for the more rapid growth of rural as compared with urban enterprises is their founders’ enterprising behaviour and thus choice of market
specialisation, and ability to identify and serve new and dynamic rather than traditional market niches. This judgement is further supported by Smallbone, North and Leigh’s recent finding (1993, 102) of significantly higher rates of development of "new market opportunities" by mature remote rural as compared with London firms between 1979 and 1990. More enterprising behaviour may partly reflect the more recent establishment of many rural enterprises, especially in accessible rural areas (see earlier). But it may also be associated with founder migration, in terms of expertise and contact networks developed in their previous urban employment. Either way, it suggests that the urban-rural shift of business activity and employment in advanced industrialised economies such as Britain partly reflects the greater ability of individuals and firms in rural areas to display enterprising behaviour with respect to moving their resources into the developing market places provided by rapid national structural and macro-economic change.

Urban-rural differences in innovation and technology

The above argument leads naturally to consideration of the survey’s findings on variations in enterprising behaviour with respect to innovativeness and technological sophistication. The chief finding here is of significantly greater rates of innovation ("successful introduction of new products or services during the last three years") amongst accessible rural firms (86.4%) than amongst either their urban (68.7%) or remote rural (65.3%) counterparts (Figure 4). This is moreover repeated with regard to the development of new technologically-based products or services (56.8%) for accessible rural firms, compared with only 42.6% for urban and only 37.9% for remote rural enterprises), and adoption of technologically-improved equipment (69.3%), compared with 59.3% and 62.0%, respectively). Accessible rural firms
also record a significantly higher rating for the importance of in-house technological expertise in their competitive success, with 71% reporting this as 'important' or 'very important' compared with only 59% of urban and 60% of remote rural businesses. These findings are also sectorally independent, being found equally and separately for different manufacturing and service sectors (Keeble, Tyler, Broom and Lewis, 1992, 23). Finally, there are replicated, this time for rural areas in general\(^6\) (again, settlements with less than 10 thousand population) by an even larger and quite separate survey of small and medium-sized firms in Britain recently carried out by the Cambridge University Small Business Research Centre (Keeble, 1993). These findings thus consistently indicate that accessible rural firms are more dynamic, innovative and technologically-focused than their counterparts in either urban or remote rural locations. Interestingly, they are also more export-orientated (16.7% of sales on average, compared with only 11% for remote rural and 12.2% for urban firms). Again, this finding of significantly more frequent enterprising behaviour amongst accessible rural firms in terms of developing new innovations, adopting new technology, and seeling to overseas markets is clearly relevant to explaining the general phenomenon of the urban-rural employment shift. It does, however, also raise questions about the poorer innovativeness and technological orientation of some remote rural enterprises, which is particularly marked for engineering firms (Keeble, Tyler, Broom and Lewis, 1992, 22-24).

**Urban-rural variations in constraints on business growth and efficiency**

The remaining component of our enterprising behaviour framework relates to the efficiency, and thus flexibility, of companies in deploying their labour, capital, land and organisational resources. Thus,
is the relatively poor employment performance of urban companies a reflection of their relatively mature labour force structures, inflexible premises and relatively poor organisational structures?

The survey's findings on this issue are wide-ranging and complex (Keeble, Tyler, Broom and Lewis, 1992, 26-35). But four perhaps stand out. First, there are very few significant differences in the proportion of urban and rural firms reporting particular factors as "constraining your ability to meet your business objectives in the past three years", while these proportions are in any case generally low. No significant urban-rural differences, exist, for example, with regard to "premises or site availability", the only clear finding here being that both remote and accessible rural firms report difficulties in recruiting "skilled labour" significantly more frequently than do urban firms. Accessible rural firms also report shortages of "marketing and sales skills" as a constraint significantly more frequently than their urban counterparts.

The above finding on greater rural skilled labour shortages is further substantiated by responses to a specific question on this issue (Table 8). These reveal that skilled labour recruitment is an appreciably greater problem for accessible and remote rural firms relative to their urban counterparts, and that this is also true for recruitment of managers and professionals, though to a lesser degree. These differences are particularly characteristic of engineering firms. As a result, rural firms are forced to recruit a significantly higher proportion of such staff non-locally, compared to urban firms. This clearly reflects the smaller and less varied labour markets characteristic of rural areas, but in turn raises policy issues with regard to training and housing provision in rural areas for key staff.
A third finding concerns premises constraints, an issue highlighted as important by previous research on constrained location theory. Notwithstanding the lack of differences found in terms of general constraint ratings noted above, a specific question on the ease with which firms could "expand your existing premises, or move to other larger local premises, if demand warranted this" did yield two important urban-rural differences (Table 9). First, premises extension is apparently appreciably easier for remote rural firms (59.3%) than for the other locational groups (47.0% and 48.8% of accessible rural and urban firms respectively). This is of course in line with and supports constrained location theory arguments. However, against this is the fact that accessible rural firms report the greatest difficulties in expansion, which seems to run counter to the theory.

The second urban-rural difference also however runs counter to the theory, in that it is remote rural firms which report the greatest anticipated difficulty in moving to larger local premises (Table 9). Some 44% do not believe this would be easily possible, compared with only 30% of urban respondents. More detailed probing revealed that this is because larger premises are simply not available locally in these rural areas. This rural premises growth constraint is perhaps the more significant in that over one-fifth (21.4%) of remote rural enterprises also reported that they were 'dissatisfied' or 'very dissatisfied' with the small size of their existing premises, compared with only 14.1% of urban firms (and 18.3% of accessible rural firms). This clearly suggests a significantly greater unfulfilled latent demand by a minority of rural firms for larger premises in which to expand or organise production more efficiently, compared with urban firms, probably because of their more rapid employment growth (Figure 3). Our findings on the role of premise constraints in allowing enterprising behaviour to occur need to be seen in the context that our urban
companies were not located in Britain’s older urban core conurbations where the inability of existing companies to expand combined with pronounced property market failure in the provision of new premises with which to allow the attraction of new investment might be more significant.
Table 8: Labour Skill Constraints on Rural Businesses

Recruitment of skilled/technical staff

<table>
<thead>
<tr>
<th>Company Location</th>
<th>Remote Rural %</th>
<th>Accessible Rural %</th>
<th>Urban %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruitment a problem</td>
<td>49.3</td>
<td>55.6</td>
<td>44.1</td>
</tr>
<tr>
<td>(Recruitment a serious problem)</td>
<td>(23.6)</td>
<td>(27.0)</td>
<td>(17.2)</td>
</tr>
</tbody>
</table>

Recruitment of managers/professionals

<table>
<thead>
<tr>
<th>Company Location</th>
<th>Remote Rural %</th>
<th>Accessible Rural %</th>
<th>Urban %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruitment a problem</td>
<td>35.3</td>
<td>32.8</td>
<td>27.1</td>
</tr>
<tr>
<td>(Recruitment a serious problem)</td>
<td>(17.8)</td>
<td>(16.4)</td>
<td>(10.6)</td>
</tr>
</tbody>
</table>

Source: PACEC survey
Table 9: Premises Constraints on Expansion and Movement

<table>
<thead>
<tr>
<th>Company Location</th>
<th>Remote Rural %</th>
<th>Accessible Rural %</th>
<th>Urban %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expand Existing Premises Easily</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>59.3</td>
<td>47.0</td>
<td>48.8</td>
</tr>
<tr>
<td>No</td>
<td>40.8</td>
<td>53.0</td>
<td>51.2</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Move to Larger Premises Locally</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>56.1</td>
<td>68.0</td>
<td>69.8</td>
</tr>
<tr>
<td>No</td>
<td>43.9</td>
<td>32.0</td>
<td>30.2</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: PACEC survey

The fourth and last general finding on constraints is that few if any significant local environmental differences appear to exist between urban and rural locations in relation to constraints on access to business services, finance capital, or infrastructure such as communications. While use of external business advice was generally less common amongst remote rural than amongst urban firms, differences were not large enough to be statistically significant, other than for personnel and recruitment services. Accessible rural firms in fact generally recorded slightly greater frequency of use than urban firms. Nor were there any overall differences in reported use or valuation of external sources of finance such as banks. Finally, most urban and rural firms report high levels of satisfaction ('good' or
'excellent') with local goods transport, postal, and telecommunications services. However, it is true that a larger minority of remote rural firms reported dissatisfaction ('poor' or 'very poor') with goods transport and telecommunications services (7.1% and 7.5%, respectively) than is true of their urban counterparts (3.3% and 2.8%). These differences are statistically significant, and apply equally to firms in the different sectors studied as to the overall sample.

Rural location and business performance

A final set of results of the PACEC survey warranting discussion here are the answers given by urban and rural businesses to a direct question on the relationship between the firm's competitive success, if any, and its urban or rural location. Respondents were asked whether they considered their location in a rural - or urban - area "has had any bearing on those factors which you regard as critical to your success?" The nature of such critical success factors were explored earlier in the survey questionnaire, an investigation which highlighted the importance of product or service quality, good management and marketing skills, and personal, responsive and rapid service to customers (Keeble, Tyler, Broom and Lewis, 1992, section 4.2). Interestingly, factors such as price competitiveness, or access to finance and good financial management, were reported much less frequently as critical influences on business success.

The first and important finding of the locational evaluation is that in remote rural areas, exactly half of all respondents answered "no" to the question above, compared with a slight majority (54%) answering "yes" in urban areas. Though this difference is not statistically significant, it is none the less consistent with the argument that rural business growth reflects the increasing "footlooseness" of
manufacturing and service activities, such that many - and on this
evidence, half - of the firms locating or being set up in rural areas are
not tied by economic constraints to any particular location, urban or
rural. They are thus free to operate where their founders wish to live
for quality of life reasons. This judgement is supported by an even
higher "no" response (57%) from accessible rural firms, which is
significantly different from the urban pattern.

Firms replying "yes" were then asked to list the factors which were
both important for their competitive success and affected by their rural
or urban location (Table 10). Some 570 unprompted replies were
grouped into eleven major factors. The final column shows the
percentage point difference between remote rural and urban responses.
The table reveals major differences in the type and frequency of local
success factors reported by enterprises located in these different types
of environments. For both remote and accessible rural firms, by far the
most prominent and distinctive success factor reported was the
advantage of an attractive living and working environment for
managers and staff. This factor was however scarcely mentioned by
urban firms. This of course further supports the environmental
preference arguments for rural business establishment and growth
presented earlier. A second set of distinctive rural business advantages
are labour force stability, quality and motivation, good labour
relations, and lower labour costs. Urban firms again largely failed to
mention any advantages in this respect. Lower premises, rates and
overhead costs represent a third significant advantage of rural areas.
Finally, access to particular local rural markets, notably tourism and
agriculture, and other specifically rural advantages such as the
availability of local raw materials or the product's need for a rural
"image" for marketing purposes appear to be important secondary
success factors for remote rural firms.
In complete contrast to the factors highlighted by rural enterprises, the most prominent and distinctive business success factor reported by urban firms was centrality and accessibility to clients, staff and suppliers. This was followed by greater labour availability, including availability of skilled labour. These two sets of factors stand out as the dominant advantages of an urban location identified by respondents as significant for competitive efficiency and business success.

These findings thus support earlier judgements concerning the significance of environmental and residential amenity considerations in influencing rural business establishment and growth, within a context in which many rural firms apparently regard their rural location as no handicap to their competitive success. The responses do suggest that some firms also find the quality, character and cost of rural labour beneficial, together with lower costs of premises and overheads, a finding in line with previous ‘production cost theory’ studies. But this must be balanced by the clear evidence from urban firms of perceived advantages for business growth associated with greater labour availability, including skilled labour availability, and accessibility to customers, workers and suppliers. Urban and rural locations do therefore apparently differ significantly in the benefits they afford local enterprises, with rural firms highlighting environmental attractiveness more than any other factor.

A probit analysis of the factors contributing to business

Although space limitations prevent detailed presentation of results, further statistical testing involved the use of multivariate probit analysis to identify significant associations between particular indicators of enterprising behaviour and location in rural, relative to urban, areas. This analysis, which is reported in full in Keeble, Tyler,
Broom and Lewis (1992, 39-41), provided further support for our findings, particularly in terms of strong statistical associations between business location in accessible rural areas on the one hand, and the successful introduction of new products and services with a technological edge, the importance of technology as a means of customising the firm’s products, and the benefits for competitive success of an attractive living environment and good labour relations, on the other, Remote rural firms more frequently reported innovating in terms of technologically improved equipment. Firms in both accessible and remote rural areas however also reported significantly greater constraints on development in terms of difficulties in recruiting managers and skilled workers, and access to customers and business advice.
Table 10: Business Success Factors in Urban and Rural Locations

<table>
<thead>
<tr>
<th>Company Location</th>
<th>Remote Rural %</th>
<th>Accessible Rural %</th>
<th>Urban %</th>
<th>% point difference between Accessible Rural and Urban responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attractive living &amp; working environment</td>
<td>24.0</td>
<td>31.3</td>
<td>1.7</td>
<td>+29.6</td>
</tr>
<tr>
<td>Local marketing opportunities</td>
<td>16.8</td>
<td>7.5</td>
<td>6.1</td>
<td>+1.4</td>
</tr>
<tr>
<td>Labourforce stability, quality, motivation</td>
<td>10.6</td>
<td>14.9</td>
<td>1.7</td>
<td>+13.2</td>
</tr>
<tr>
<td>Good labour relations</td>
<td>5.8</td>
<td>7.5</td>
<td>1.0</td>
<td>+6.5</td>
</tr>
<tr>
<td>Low labour costs</td>
<td>4.8</td>
<td>6.0</td>
<td>0.0</td>
<td>+6.0</td>
</tr>
<tr>
<td>Greater labour availability</td>
<td>4.3</td>
<td>6.0</td>
<td>25.8</td>
<td>-19.8</td>
</tr>
<tr>
<td>Lower premises, rates, and overhead costs</td>
<td>13.0</td>
<td>17.9</td>
<td>0.7</td>
<td>+17.2</td>
</tr>
<tr>
<td>Centrality/accessibility to clients, staff &amp; suppliers</td>
<td>1.0</td>
<td>0.0</td>
<td>36.3</td>
<td>-36.3</td>
</tr>
<tr>
<td>Access to local services</td>
<td>2.9</td>
<td>1.5</td>
<td>10.2</td>
<td>-8.7</td>
</tr>
<tr>
<td>Other rural advantages</td>
<td>14.9</td>
<td>6.0</td>
<td>3.0</td>
<td>+3.0</td>
</tr>
<tr>
<td>Other urban advantages</td>
<td>1.9</td>
<td>1.5</td>
<td>13.5</td>
<td>-12.0</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: PACEC Survey
The Urban-Rural Shift: Conclusions

The findings presented in this paper, based on a large, matched and sectorally-significant sample of rural and urban businesses, provide new evidence relating to the factors underlying the urban-rural shift of economic activity in the United Kingdom. Specifically, they provide support for an 'enterprising behaviour' theory of the urban-rural shift which involves two related elements. First, rural settlements have been able to attract a relatively high proportion of actual or potential entrepreneurs, largely because of their desirable residential environmental characteristics. These migrant entrepreneurs may well bring with them urban-derived 'know-how' and expertise relevant to setting-up new enterprises to serve growing markets. Secondly, rural companies, and especially those in accessible rural areas, have been able to undertake a greater amount of enterprising behaviour associated everywhere with business success, most notably;

- the targeting of new and emerging markets, particularly those associated with growing demand for specialised and technologically-sophisticated services and products from other businesses, and for higher quality small batch products from consumers enjoying rising incomes:

- the more frequent development of product and service innovations, including innovations reflecting investment in new technology and technologically-based products and services:

- by exploiting competitive advantages resulting from the direct benefits of a high-amenity living and working environment, greater labour force stability, quality and motivation, good management-labour relations, and lower premises, rates and labour costs (Table
10), together with the indirect effect of improved accessibility of many rural settlements to modern telecommunications, goods transport, business and financial services, the availability of which no longer differentiates urban and rural locations.

The characteristics of entrepreneurs and operating environments in Britain’s accessible rural areas thus on balance enable higher rates of enterprising behaviour to occur in these areas, relative to urban locations, notwithstanding aspects of urban settlements which are still relatively superior in relation to business success. Though further empirical work undoubtedly remains to be done, we believe that the comparative advantage of such rural areas relative to urban areas, as a place to produce goods and increasingly a large range of services, as well as a location to attract and retain an entrepreneurial class, has been increasing over the last thirty years. Changes to the nature of the production process which allow manufacturing and service activity to be more footloose have also reduced the need for traditional urban locations. These changes have been coupled with macroeconomic factors like rising real incomes which enable entrepreneurs to exercise spatial preference and are creating new market opportunities for rural firms.

Whilst our analysis of enterprising behaviour has been undertaken in the late 1980s we feel that it is likely that it reflects changes unfolding over the whole of the post war period in the United Kingdom and that the process has become reinforcing in the sense that as more innovative investment occurs at the margin in the more accessible and remote rural areas the average age of the capital stock in both a product and process sense increases in the urban areas relative to the rural areas. The process thus becomes cumulative. It is difficult to see the process reversing unless investment in rural areas becomes
constrained and/or the urban areas present advantages which are central once again to business success in the way that infrastructure and proximity to scarce material resources gave them at the beginning of the United Kingdom's industrial revolution. Research undertaken elsewhere (Tyler, Moore and Rhodes, 1988), and supported in part by the findings in this paper, indicate that existing geographical differences in costs in general in the United Kingdom are not sufficient in themselves to change this position.

The above scenario is clearly extreme but it does suggest that economic revival of the production base of less favoured areas may only occur in the longer term if these areas can provide relatively attractive environments to those who wish to invest in order to undertake the production of goods and services. The areas also have to have the flexibility in their resource base to allow enterprising activity to occur. There is a clear role for policy here and the building of capacity in relatively disadvantaged areas is one which we would like to pursue in a future paper.
Notes

1 These theories are reviewed in more detail in Keeble, Owens and Thompson, 1983, and Keeble, 1986, 182-187.

2 The research was commissioned and sponsored by the Directorate of Rural Affairs in the Department of the Environment, and carried out by PA Cambridge Economic Consultants. A full review of the research and its results are contained in Keeble, Tyler, Broom and Lewis, 1992. The views expressed in this paper are the authors’ own.

3 This almost certainly reflects the severe impact of the early-1990s recession on businesses during the period of the survey, together with the postal methodology. All firms listed by Dun and Bradstreet in the relevant sectors and locations were contacted.

4 Townroe’s recent study of rural new firm founders has also found "a desire for a rural surrounding", "quality of family life", and "personal satisfaction" to be by far the three leading motivations underlying these founders’ decision to locate their businesses in a rural area (Townroe and Mallalieu, 1993, 35). Townroe also highlights the "surprisingly" high level of educational and professional qualifications amongst rural entrepreneurs (pp. 26-7), a finding which is at the least consistent with higher levels of enterprising behaviour by these entrepreneurs.

5 All 1022 firms were classified on a consistent basis by one author (Keeble) using detailed firm replies on the nature of their specialisation, products/services, and customers. Classification was
deliberately conservative, in that doubtful cases of any kind were allocated to the "other specialisation" category.

6 In volume terms, most rural firms in Britain are located in accessible rather than remote settlements, so that this national finding reflects the situation in the former rather than the latter.
Figure Captions

Figure 1: The Industrial Maturity Grid Matrix

Figure 2: Urban-Rural Differences in Business Employment Growth

Figure 3: Migrant Founders and Urban-Rural Differences in Residential Environment Attractiveness

Figure 4: Urban-Rural Differences in Innovation Rates
Absolute employment change, 1988 to 1991 by company location

Average change in number of jobs per firm

-16.16  4.67  7.02  6.83  6.34  4.05  2.98

Remote rural areas
Accessible rural areas
Urban areas

Division 3  Division 4  Division 8  Total sample
Migrant founders and environmental attractiveness

Responses to the question, 'Was the environment of any importance to the migration decision?'

- Urban areas:
  - Great importance: 21.6%
  - Some importance: 37.3%
  - No importance: 41.3%

- Accessible rural areas:
  - Great importance: 39.7%
  - Some importance: 34.5%
  - No importance: 25.9%

- Remote rural areas:
  - Great importance: 49.5%
  - Some importance: 30.0%
  - No importance: 20.5%

% of sample
References


Small Business Research Centre, University of Cambridge (1992) *The
State of British Enterprise: Growth, Innovation and Competitive Advantage in Small and Medium-Sized Firms. Cambridge: SBRC.

