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Rural small businesses in turbulent times

Impacts of the economic downturn

Alistair R. Anderson, Ellina Osseichuk and Laura Illingworth

Abstract: *This paper explores differences in behaviour and performance between rural and urban small firms during the economic downturn. The authors had anticipated that the ‘thinness’ of the rural environment would have had adverse effects. However, their survey of 6,300 respondents showed that rural small firms were performing marginally better. Both groups were proactively striving to cope with falling demand, not waiting for things to get better, but rural firms had better sales and fewer price reductions. The authors attribute this to local embeddedness, a more stable customer base and less competition. They note too the relative independence of rural businesses.*

Keywords: *rural/urban small businesses; economic downturn; external changes; smallness; gravitation; embeddedness*

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Small firms play a major role in the British economy. They provide some 56% of all private sector employment – about 12 million jobs; approximately 80% are employed in firms of fewer than 50 people, whilst 23% are sole traders. In terms of SME numbers, only 1% employs more than 50 people, and sole traders make up 64% of the total. Small firms provide some 45% of gross domestic product (GDP; Wright *et al*, 2007). Although some 60% of all jobs lost each year are in small business, 70% of all new jobs are created in this sector. Thus the small firm sector is dynamic. Moreover, as Keeble (1997) points out, there are considerable differences by region, so that small business development is also uneven.

This unevenness is clear when we consider urban and rural small firms. Rural small firms play a vital role in the rural economy; they provide essential goods and

services, but they also provide rural jobs. However, rural small firms appear to be different and to operate in different environments from urban firms. Yet, in the relative ‘thinness’ of the rural environment, a single new job can make a disproportionate beneficial difference to that environment. Thus, because of this ‘thinness’, there is an amplifying effect of job creation or job loss. Consequently, we argue that the health of rural small businesses plays a significant part in rural economic and social well-being. The recent dramatic downturn in the economy appears to have had detrimental effects on the health of most UK small businesses. It may be that because of the different characteristics and conditions of rural small firms, these may have had a disproportionately negative effect.

The purpose of this paper is to explore the impacts of the economic downturn on rural and urban small

businesses. On the basis that rural businesses have some different characteristics from their urban counterparts, and that they may operate in what some argue is a different environment, we consider the impacts of the downturn. There are claims that rural small firms face additional challenges to competitiveness beyond those of the innate limitations associated with organizational size (Cooke, 1996; Vossen, 1999) and are thus more fragile. Moreover, given the characteristics of the rural environment, the rural is often portrayed as a constrained environment with limited local markets and, with the friction of distance prevailing (Smith and Anderson, 2008), we might expect the impact to be greater. Consequently, our overarching research question is how have rural small firms been affected by the economic downturn? We compare and contrast 3,623 urban and 2,425 rural small firms that are members of the Federation of Small Businesses¹ (FSB) and that responded to our survey.

Characteristics of rural small firms

Smallbone *et al* (2003) note that businesses in rural areas tend to be small (Cosh and Hughes, 1998; Irvine and Anderson, 2004), with a high proportion of microbusinesses and one-person businesses (Lowe and Talbot, 2000). Smallbone *et al* (2003) also note that, whilst there is little systematic evidence to support the proposition that rural businesses are less growth-oriented than similar urban firms, differences have been observed in actual growth performance, particularly with respect to employment. This represents a change from the 1980s when rural firms outperformed urban firms in employment growth (Keeble and Tyler, 1995). Thus, Cosh and Hughes (2000) suggest that they may have lost the dynamism that was a key characteristic of the 1980s and early 1990s. Similarly, Keeble (1999) notes a relative decline in the number of VAT-registered rural businesses in the late 1990s. Furthermore, North and Smallbone (2000) suggest that remote rural businesses are less innovative than urban businesses.

The rural environment

Smallbone *et al* (1999) argue that the development of any business is the result of the interaction between internal and external factors, but small rural firms have a limited ability to shape their external environment. Hence, it seems that the characteristics of rural small firms, as discussed above, are shaped by their environment. The rural environment is generally seen as less munificent for small businesses. Keeble (2003) contrasts the resource-munificent core regions, with easy access to factors of production, information networks and

markets. These create fertile conditions for small firms to flourish. In contrast, peripheral regions with small markets, limited numbers of businesses and networking opportunities, and often monolithic traditional industrial structures, deficient in resources, entrepreneurial and workforce skills are seen as hostile environments for new and small firms. Similarly, Smallbone *et al* (2003) note how small local markets, combined with the distance from major national and international markets, constitute one of the competitive disadvantages faced by rural small firms. Because of the low population and business density in peripheral rural areas, small businesses typically have to penetrate non-local markets at an earlier stage of their development than their counterparts located in more urbanized areas.

Anderson (2000) conceptualizes the processes operating in the rural areas as 'gravitation', arguing that the geographical distribution of society has created unevenness in power relationships over space. Society has polarized into cities and a rural periphery, with key players and institutions gravitating to the city core. This social process can be described within a 'gravitation' model, which simply shows how higher-order activities rarely survive in rural areas. It is essentially a spatial theory, but linking geography and economic process. The consequences are straightforward but important, since the model shows that priority is created in and for the core, for the higher-order activities that produce wealth and power. The absence of higher-order functions (axiomatically) reproduces the existing patterns of low-order activities, primary industry and local servicing. These activities are less able to generate new innovative development, because there is little opportunity to add value. Furthermore, the absence of attractive opportunities drains the human capital from the rural areas. The most able entrepreneurs may not find openings that would give scope for their talents, so they too gravitate towards the centre.

Because the chief physical characteristic of rural areas is space, most often manifest as distance from the urban, space can be argued to impart both isolation and insulation, created in the friction of distance. The rural is often distinguished by its distance from the urban, the centre. Malecki (2003) calls this the rural penalty and identifies the extra costs and difficulties that distance imparts. The operating requirements of large firms require a central nodal position: that is, a position in space where different flows converge. Convenience of physical communication, convenience for highly skilled staff and accessibility for customers and suppliers, all converge within the core. These criteria apply equally well to government. Thus, gravitation works to strip out higher-order functions from the periphery, investing and reinforcing central power. Small firms in the periphery

may thus suffer from 'gravitational' effects, although the economic aspects are more apparent than social process (Van Horn and Harvey, 1998). These are manifest in overcoming the friction of distance, the additional costs of being peripheral. 'Separation in distance has always been not only a separation in time, but had been directly correlated with the expenditure of costs and effort' (Giddens, quoted in Cassell, 1993, p 261). Anderson (2000, p 95) argues that 'gravitation limits income and growth in the aspatial environment of competition; peripheral firms must pay extra costs to manufacture or to service. Local markets are limited, hence limiting the scale of production; whilst larger suppliers and larger customers are often distant. Access to professional labour, advice and skilled labour is limited.'

Consequently, it seems that rural small businesses may be disadvantaged by their rural location. Smallbone *et al* (1999) argue that small rural firms' survival depends on their ability to respond to threats and opportunities presented by the external environment. If so, given their relative weakness, we might expect them to be more vulnerable to the economic downturn. Nonetheless, Smallbone *et al*'s (1999) paper examined the consequences of the recession of the early 1990s. They found that remote rural (manufacturing) firms proved more resilient than their urban counterparts. Moreover, Irvine and Anderson (2004) found that rural small businesses, in their response to crises, demonstrated resilience and flexibility. This echoes Duchesneau and Gartner's (1990) findings that small businesses can operate effectively if they plan, are adaptive, and can respond to changes in a participative manner. North and Smallbone (1996) proposed that rural small businesses, although highly dependent on their immediate operational environment, were less reliant on other companies and demonstrated high levels of flexibility. They also suggested that the viability of rural small businesses was acutely contingent on their capability to respond to opportunities and threats developing within their operational environment (North and Smallbone, 1996; Smallbone *et al*, 1999). This suggests that rural small businesses may be able to adapt to the changes brought about by the current economic conditions.

Moreover, entrepreneurship, in its most common definition, encompasses an ability to derive value from opportunities created within the operational environment. The link between entrepreneurs and their environment can be defined as their social and economic embeddedness in this environment. Previous research has emphasized the issue of embeddedness as a contributing factor in business process (Whittington, 1992; North and Smallbone, 1996; Uzzi, 1997; Dacin *et al*, 1999). Jack and Anderson (2002) suggest that

embeddedness plays an integral role in entrepreneurial processes for rural small businesses. Moreover, local embeddedness, through accumulation of local knowledge and assessment of opportunities, can offset limitations of the environment (Chell and Baines, 2000) and equips rural businesses with stronger contextual competitive advantage and sustainability (Jack and Anderson, 2002). Rural small businesses are capable of turning constraints into opportunities, particularly by adapting to local labour and market conditions in the context of limited externalizing of their production (North and Smallbone, 1996). It seems then that, despite the liability of smallness and a less munificent environment with what we have described as spatial disadvantage, small rural firms may be sufficiently resilient to cope with the turbulent times. This, thus, frames our research question about how the threats associated with the economic downturn have affected rural small businesses in comparison with their urban counterparts.

Methodology

We first piloted the survey instrument and data collection method with 25 respondents. The results of the pilot study identified some problems, which were rectified in the main survey. Due to the requirements of the FSB members' data protection, an e-mailed letter inviting members to take part in the survey was sent directly from the FSB to approximately 60,000 members. The letter explained the nature and purpose of the research and also directed the participants to the Internet-based survey. The respondents were told that all information provided would be kept confidential and anonymity was assured. Respondents were, however, given an option to provide their name and contact details if they would like to take part in a follow-up interview to discuss their responses in more detail; 2,300 respondents agreed to take part in follow-up interviews. The questionnaire was intentionally kept short and simple to encourage participants to complete the survey (Busha and Harter, 1980). The majority of the questionnaire was composed of multiple-choice questions providing mainly nominal variables, which allowed us to count the frequency of their occurrence (Runyon and Haber, 1991). In addition, the participants were offered the option to share their opinions in open-ended comments where appropriate (Balnaves and Caputi, 2001). In this way, we were able to collect specific examples of the phenomena being examined. In our data analysis results, we include some of these examples as respondents' quotes. To ensure our participants' anonymity, we coded their responses as summarized in Table 1.

The questionnaire was open to participants from

Table 1. Coding of participants.

Agriculture, fishing and forestry	AF&F	Real estate	RealEst
Construction	Constr	Retail	Retail
Consultancy	Consult	Transport, storage and communication	TS&C
Financial intermediation	FinInt	Wholesale	Whsale
Hotels and restaurants	Hot&Rest	Rural small business	RSB
Manufacturing	Manuf	Urban small business	USB
Other	Other	Respondent ID (example)	720823284

19 January to 9 February 2009. A total of 6,289 small businesses completed the questionnaire, representing around a 10.5% survey response rate. However, the number of responses varied, with an average non-response rate of 3% per individual question. Analysis of the survey results is based on the rounded-up percentages and represents the actual responses rather than the total respondents of the survey.

Due to the problematic nature of defining ‘rural’ enterprises, we simply asked respondents if they considered themselves to be rural businesses, which echoes McElwee’s (2009, p 6) definition: ‘A rural enterprise is a business that just happens to be physically located in a rural area’. Rural small businesses (RSBs) comprised 40% and urban small business (USBs) 60% of the total participants of the survey. Figure 1 represents the geographical distribution and Figure 2 the business sectors of our sample.

Although no attempt was made to match urban and rural pairs, we are reasonably confident that our sample is broadly representative of small firms. We do, however, acknowledge that there may be a bias created by the voluntary nature of the survey. It was not possible to carry out any tests for non-responder bias. However, in order to establish statistical significance in comparing rural and urban samples, where appropriate, we tested observed against expected frequencies in cases with two or more categories using Pearson chi-square calculations (Cramer, 1994; Kinnear and Gray, 1999).

Results

On average, 41% of the surveyed small businesses across sectors said that they were performing badly in the recession. Our respondents provided us with some comments about their performance in the recession (RSB = rural and USB = urban respondent):

RSB 720613200 (Other): ‘Customers are themselves suffering, resulting in late payments, cancelled

orders, and expecting us to (use our overdraft to) help fund their ailing businesses. For the first time ever we are cutting customers off as we cannot afford to support them in the way we would like to. We feel very bad about this but we have no choice, as there is no slack left to prop up struggling customers.’

USB 720618883 (Other): ‘Our suppliers have all drastically increased their prices, our customers want the prices so we cannot increase our prices or customers go elsewhere.’

USB 721858072 (Constr): ‘My business is performing well but we are being crippled because we can’t get paid on time.’

RSB 720742234 (TS&C): ‘With less work and more competitors chasing the work, prices are falling, but there is a limit to how long it can continue.’

As these comments show, the economic downturn is negatively affecting small businesses’ performance in a number of ways, but the overarching issue is a fall in demand. However, there are noticeable variations between small rural and urban businesses’ performance in various UK regions, which are summarized in Table 2.

Figure 3 represents the geographical distribution of the reported impact within rural and urban businesses.

When compared by regions, we saw that some areas reported performing noticeably badly (*inter alia*, Northern Ireland 57%; London 45%; East Midlands 43%). However, as can be seen from this figure, small businesses situated in Scotland and the north-east of England reported a better performance than their counterparts in other regions. To look at these variations in performance in more detail, we examined a number of aspects.

Our first measure of impact was price reduction. We expected price reductions to arise from increased competition because of reduced demand, and asked respondents if they had reduced prices; and if so, by what margin. In total, 37% of small businesses have reduced their prices. We found that of all the businesses, 61% of the rural businesses had not reduced prices, compared with 57% of urban firms. Of these, 45% had reduced their prices between 5 and 10%, and a further 42% had reduced their prices by more than 10%.

Figure 4 presents the levels of price reductions.

As can be seen from this figure, although fewer rural businesses had to reduce their prices (34% versus 38% of urban businesses), overall reductions were similar among rural and urban businesses. In terms of the depth of price cutting, there seems then to be little difference between our groups. At best, we see a marginally better

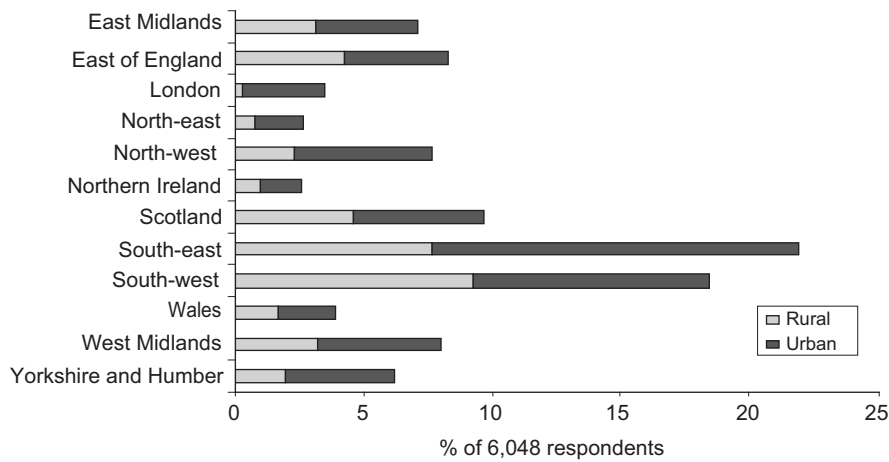


Figure 1. Geographical distribution of small businesses surveyed.

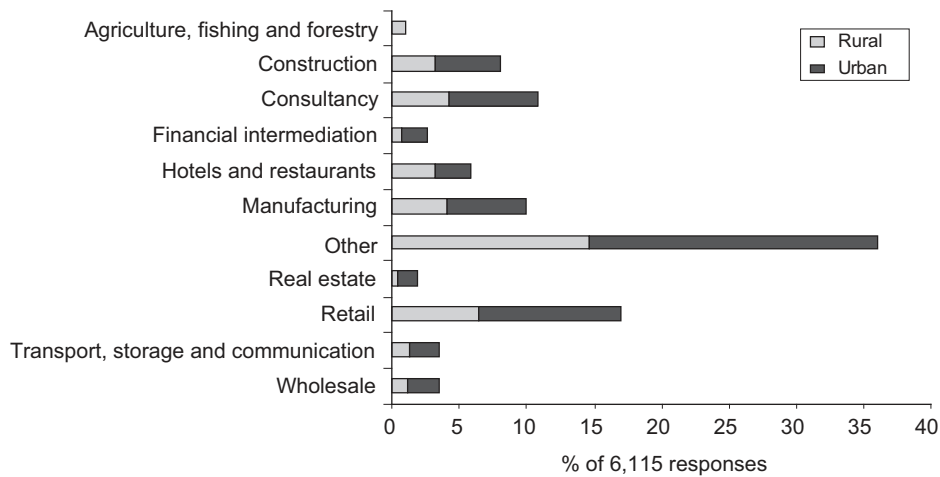


Figure 2. Small businesses surveyed by sector.

performance by rural respondents in maintaining prices. However, the quandary of even trying to maintain prices is illustrated by our respondents’ comments below:

RSB 720602539 (Other): ‘Even though haven’t reduced prices it is very difficult holding on as everything else has gone up in price.’

RSB 720617619 (Hot&Rest): ‘Reduced prices won’t cover our costs.’

We also asked respondents about their financial arrangements – whether they felt that their relationships with the banks had deteriorated. The majority of respondents

either did not see changes in banks’ helpfulness (61% rural and 60% urban respondents), but many thought that their bank was less helpful (31% rural and 32% urban respondents). Some examples of the difficulties encountered are reported below.

RSB 720804943 (Other): ‘Banks are worse now than ever, they are not reducing bank charges at all and refuse to budge and we can not go to free banking because of credit scoring.’

Note how this respondent is ‘boxed into a corner’ by lending constraints. Interestingly, several respondents’

Table 2. Impact of recession on small businesses by region.

		Badly/very badly		No change		Well/very well		Total	% of total responses
		Count	% within region	Count	% within region	Count	% within region	Count	% within region
East Midlands	Rural	69	18	42	11	59	15	170	44
	Urban	98	25	48	12	69	18	215	56
East of England	Rural	83	19	57	13	86	19	226	51
	Urban	95	21	44	10	80	18	219	49
London	Rural	6	3	5	3	6	3	17	9
	Urban	78	41	35	18	62	32	175	91
North-east	Rural	17	12	11	8	14	10	42	30
	Urban	34	24	24	17	40	29	98	70
North-west	Rural	42	10	36	9	38	9	116	29
	Urban	126	31	61	15	104	26	291	71
Northern Ireland	Rural	30	22	7	5	15	11	52	38
	Urban	48	35	13	9	25	18	86	62
Scotland	Rural	83	16	74	14	87	17	244	48
	Urban	100	20	69	13	99	19	268	52
South-east	Rural	159	13	113	9	149	12	421	35
	Urban	337	28	183	15	264	22	784	65
South-west	Rural	178	18	128	13	199	20	505	51
	Urban	223	22	100	10	170	17	493	49
Wales	Rural	35	16	26	12	31	14	92	43
	Urban	52	24	32	15	40	19	124	57
West Midlands	Rural	69	16	45	10	62	14	176	40
	Urban	119	27	69	16	77	17	265	60
Yorkshire and Humber	Rural	48	14	23	7	34	10	105	30
	Urban	103	30	69	20	70	20	242	70
Total		2,232		1,314		1,880		5,426	100

comments suggest that although they have not experienced difficulties, they anticipate doing so, thus adding to the gloom of the downturn.

USB 720606425 (Consult): ‘In the past they have offered overdrafts etc, now they are no longer proactively doing this, so expect if we asked the answer may be no! The offers in the past were reassuring in that we knew the facility would be there if needed – now I doubt it!’

Although we did not measure borrowing, we noticed that many respondents did not rely on borrowing arrangements with their banks. We note that 30% of rural and 29% of urban participants indicated that they did not rely on borrowing from banks.

RSB 720823284 (Other): ‘Never borrow money for the business – only do and have what I can afford.’

RSB 722644991 (AF&F): ‘We were always self-financing.’

USB 720607657 (Other): ‘Not reliant on bank

facilities as it’s mainly a cash in business with only a small proportion of overheads and no stock to buy.’

USB 720596879 (Constr): ‘DO NOT BORROW MONEY [own emphasis] – Organic growth is better, far far better.’

We note that the numbers of small businesses not dependent upon external financing is similar in rural and urban businesses. Whilst this suggests a strength, in that they are not reliant upon banks, it also indicates the independence of these small firms. Alternatively, we could argue that these firms are less likely to grow without outside funding.

In cases where small businesses used external financing, we noted one of the most visible variations. For small businesses negotiating loans or overdrafts, 54% of rural businesses told us they had not been asked by their banks for additional securities for loans, compared with 51% of urban businesses. However, the small businesses that were asked for additional security expressed considerable dissatisfaction with their banks’ approach to reviewing borrowing arrangements:

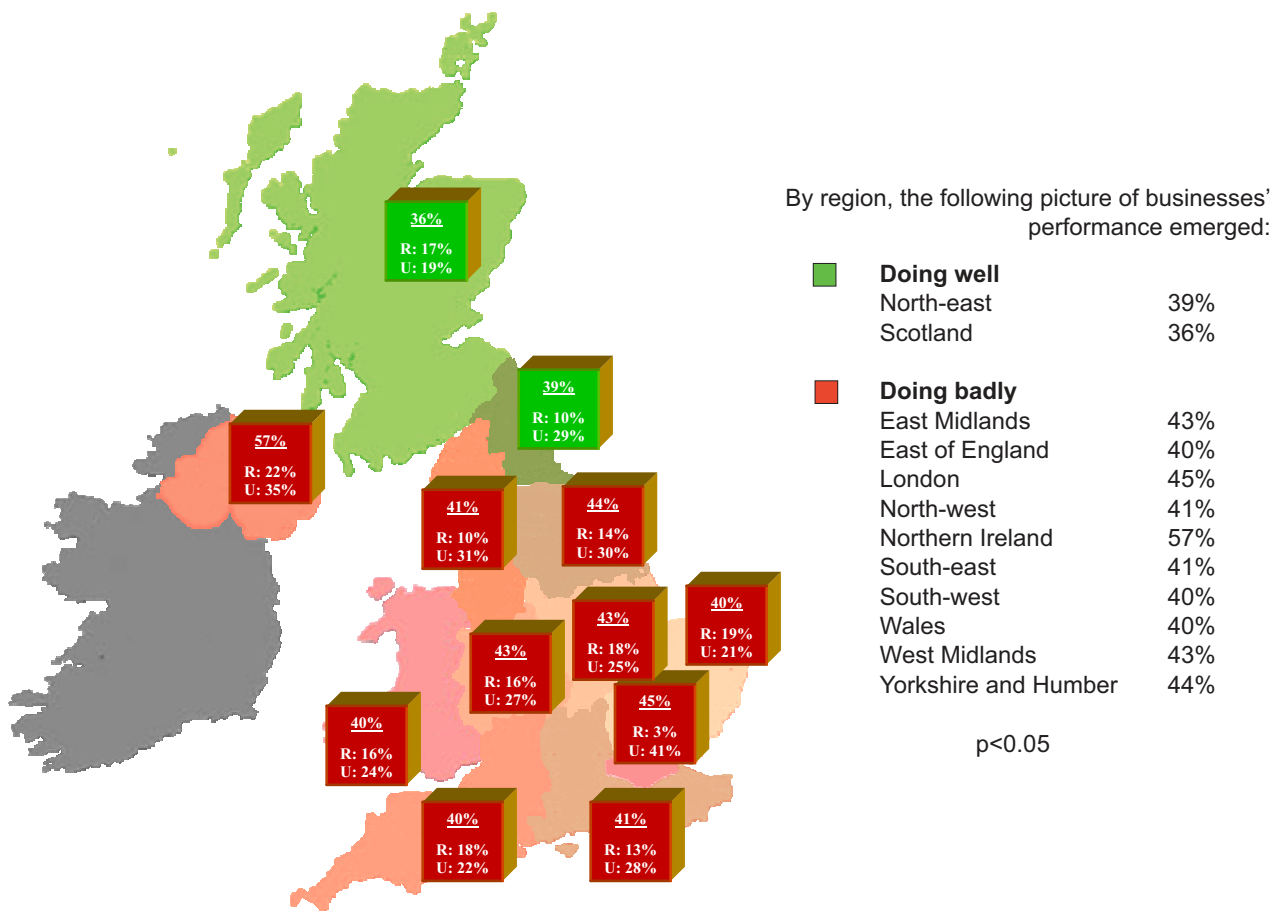


Figure 3. Impacts of the recession on small businesses.

RSB 721309795 (Retail): ‘Yes [asked for additional security] yesterday! But they want security and I am not prepared to hand everything over to them as I need my own security in case things go badly wrong. We did discuss the business loan scheme that the Government are introducing but to be honest it may be too little – too late for most people.’

RSB 721098918 (Manuf): ‘The banks always up the ante and ask for additional security. These days we should be asking . . . is our money safe with your bank?’

USB 721400815 (Retail): ‘They are always asking me to put the house up for security, but this is such a small minded way of looking at business. We need financial support, not and if you go out of business can we have your house.’

We saw another variation in costs of borrowing, where rural businesses’ costs of borrowing were not affected in 52% of businesses compared with 49% of urban businesses. However, both rural and urban groups of participants who had experienced changes in costs of borrowing shared similar opinions about these changes:

RSB 726499397 (Manuf): ‘The borrowing hasn’t increased, but the fees and interest has.’

USB 720764868 (Retail): ‘My business would be performing well but with being a new business I cannot get financial help. This has forced me to run the business on personal credit cards who have now decided to put up their interest to 30% which is financially crippling me!!’

These findings are presented in Figure 5.

Turning to overall performance in the downturn, we

Rural small businesses in turbulent times

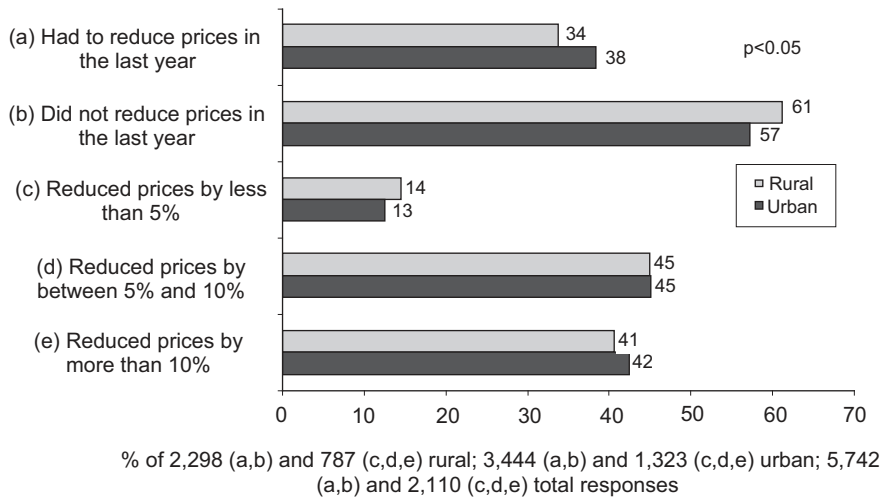


Figure 4. Levels of price reductions.

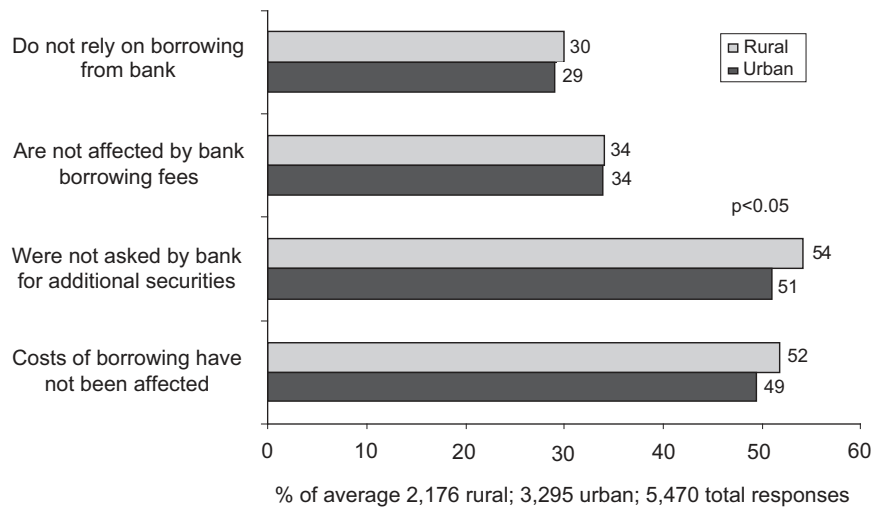


Figure 5. Financial arrangements of small businesses.

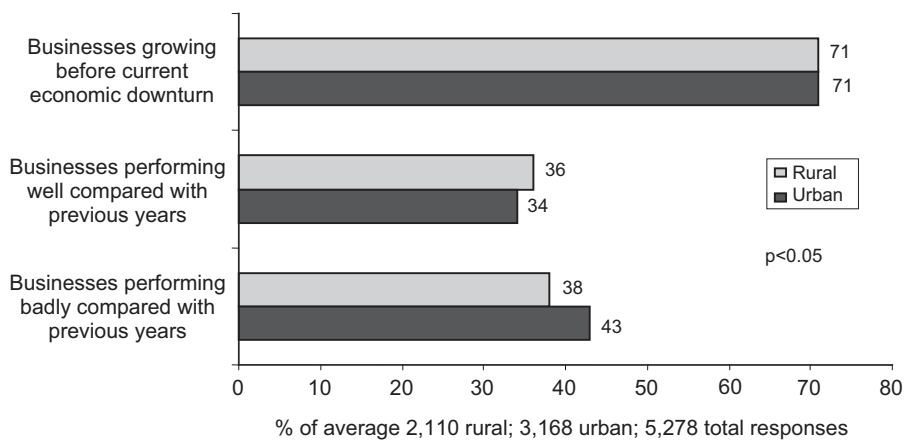


Figure 6. Small businesses' performance before and during the recession.

did detect some differences between urban and rural firms. Because of the dynamics of the small business sector, we began by asking about performance prior to the downturn. This was intended to allow us to gauge current performance against previous performance. Our responses for these questions were restricted to those who had been in business for three or more years. The data are presented in Figure 6.

We first note that prior to the recession, there was no difference between those reporting a growing business. But when we asked about the current position, we saw that some 2% more of rural businesses were performing well. Turning to those who reported doing badly, we saw that 5% more of the urban sample were performing badly. Some of our urban participants reported a substantial slowdown in their performance:

USB 720647220 (Consult): 'I've never known it so bad. The phone has simply stopped ringing, and the volume of e-mails is substantially down.'

USB 721247778 (Hot&Rest): 'We are in a catch 22 situation, we cannot increase our prices as the public cannot afford to pay more but all our suppliers including services such as gas and electric have increased dramatically so our profit percentages are dropping daily.'

USB 720623252 (Constr): 'We struggle to pay business bills, personal bills and staff wages. We now operate on a day-to-day basis, rather than the usually monthly accounts procedures.'

When we investigate possible reasons for this difference between rural and urban small firms, we find that more rural small firms reported increased sales compared with the last three years; 4% fewer rural businesses reported decreasing sales and 2% reported no change. Thus overall, in terms of sales, rural small businesses seem to be faring better than their urban counterparts (see Figure 7).

So we can see a difference in general performance and this is manifest in sales performance. Now we turn to consider the internal reasons why this may have occurred. One possible reason for this difference is in customer loyalty. When asked whether their customers continued to support them, the number of rural businesses that felt confident about the support of their customers was higher (80%), whereas urban businesses that shared the same opinion comprised 77% of respondents. Some rural respondents were enthusiastic about their loyal customers' support:

RSB 722378259 (Other): 'It is mostly family run with a strong, loyal customer base which

has stayed with us through previous recessions.'

RSB 720603755 (Retail): 'Where is no doubt I have secured a loyalty base – the question is – is that base big enough to get me through the next year??'

RSB 727989805 (Retail): 'Noticeably more people making a point of shopping locally although sales per head down.'

But some other rural businesses anticipate that the loyalty of their customers will diminish with the recession:

RSB 720934296 (Consult): 'I believe there is work to do in maintaining any loyalty and perceive that they are making the hard choice go for cheaper solutions and therefore as I/we see it the climate wipes out loyalty to some degree.'

RSB 720783475 (Retail): 'Reducing sales coupled with reducing margins = untenable long term. If customers continue to source cheaply from the Internet and only focus on bottom line prices with no local loyalty, then closing will be inevitable.'

RSB 720618592 (Other): 'When times are difficult naturally tough decisions must be made, and, realistically, however big our fan base and however much we might be "good guys" (we are), we understand that our clients may choose a cheaper option and not be able to support our business any longer.'

This suggests that, in order to survive the recession, small businesses are not solely relying on their customers' support, but are looking for other ways to cope. These tactics are discussed in the following section.

Coping with the downturn

We now consider what strategies rural and urban small firms have employed to cope with the downturn. It is important to note that, although most businesses reported that they were experiencing negative impacts from the economic downturn, the majority of respondents (85%) said that they were not waiting for things to get better. This seems to support the argument that small firms are flexible. We found that typical steps that small businesses were taking to cope in the recession included: combining price and cost reductions and trying to maintain or increase sales; diversifying; increasing/improving marketing and advertising; expanding to overseas markets; switching to different business models; and tightening credit control and debt

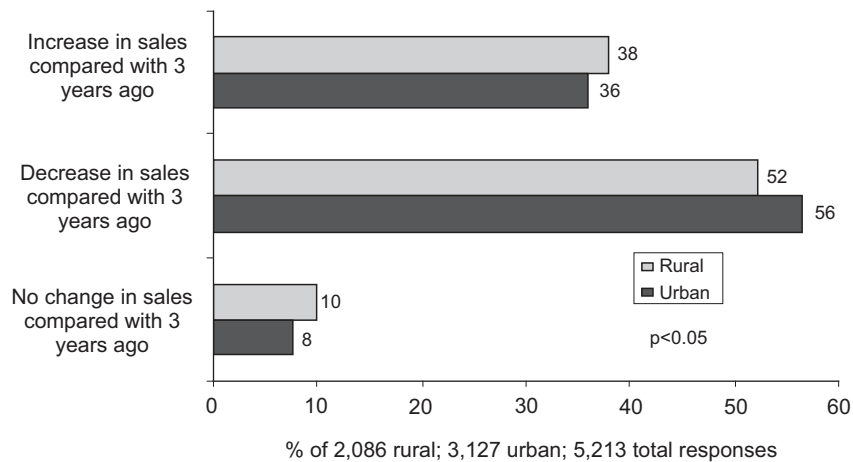


Figure 7. Sales performance of rural and urban businesses.

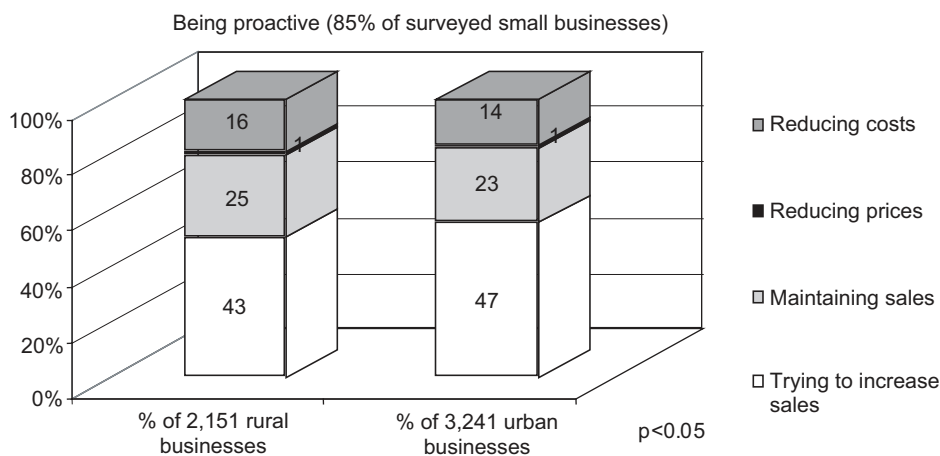


Figure 8. Distribution of proactive approaches.

recovery. Across the small business sector, this indicates action rather than passively waiting for improvements. Some rural participants reported their determination to save their businesses through introducing more diversification and flexibility:

RSB 720601931(RealEst): ‘Diversifying into more profitable areas of business and cross selling.’

RSB 720609080 (Other): ‘I am exploring other avenues to maintain an income. I have no intention of letting the business go – I just have to find something flexible enough to allow me to keep the bank manager at bay and my current clients happy.’

RSB 720602851 (Consult): ‘Much more flexible on the type of work we take on, just to keep the revenue stream going.’

When compared between rural and urban businesses, some differences in approaches to coping in the recession become apparent (see Figure 8).

As can be seen from the graph, USBs are more proactive in trying to increase their sales (47% versus 43% for RSBs). But RSBs are more focused on maintaining sales (25% versus 23% for USBs) and reducing their costs (16% versus 14% for USBs). Taken with our comments about sales performance, it seems that this coping strategy of maintaining sales seems to be working. Interesting too is that the data indicate that reducing costs is more likely for rural businesses. This may suggest that cost reductions are a more realistic strategy for rural firms:

RSB 721306126 (Hot&Rest): ‘We are trying to keep our prices down but also reduce the cost of

raw materials by buying “better” to keep our GP up.’

RSB 725061497 (Constr): ‘We have had to cut costs all round and are ensuring staff are not wasting any materials and are conserving energy etc where possible.’

RSB 720578407 (Consult): ‘Even in the last recession it was doing well compared to now. I have cut costs and reduced profit to the bone. The cost of business rates will bankrupt me as even if I close down I still have to pay.’

In contrast, we note that more urban firms are trying to increase their sales, including through different sales channels, new markets and diversification:

USB 720641328 (Other): ‘Small is beautiful. I have scaled down some areas of my business as cost cutting without affecting the overall image my business portrays.’

USB 725507878 (Other): ‘We chose to diversify at just the right time prior to the crunch growing adult teeth. Therefore because we had not expanded our manpower capacity to cope with the intended sales increase (which did not materialise) then we fortunately managed to maintain sales, although this was a different composition of sales to our original intentions. Our sales have increased in real terms although our business operational expenses have increased due to needing a slightly different mix of personnel and subcontractors.’

USB 720906894 (Manuf): ‘The aim is to keep prices up and competitive while putting pressure on reducing raw material prices through resourcing and supplier negotiation.’

Although diversification was mentioned by some rural participants, clearly the scope for this activity is much lower for rural firms. Instead they have turned to cost reduction and maintaining sales.

We also note a slight difference in approaches to staff reduction. Clearly, falling sales volume impacts as a need to reduce staff levels. Some 38% of all our respondents had reduced staff numbers. But of these, 37% of rural businesses had reduced staff compared with 39% of urban-based businesses. In terms of other changes resulting from the downturn, the following examples were offered by the respondents: a reduction in the number of customers and/or suppliers; slowdown in property market; the reduction in profit; the reluctance of customers to commit to projects and/or expenses; slowdown in payments from customers and/or

debtors; harder to find work/projects; the weakness of the pound resulting in increased costs of supplies and/or lost profit in sales; increased taxation and legislation; increasing bad debts; lack of confidence in banks and the economy; closing of other businesses resulting in less passing trade. Whilst our data did not allow us to distinguish the extent of these changes between our rural and urban sample, we do note the number who reported business changes: urban, 58%, compared with rural, 54%, suggesting that the impact is somewhat smaller for rural small businesses.

Overall, we see a small but significant positive difference in how the downturn has impacted on rural business. This is reflected in one of our final questions in which we asked respondents about the possibility of having to close their business: 78% of our rural respondents felt confident about not having to close in the near future; but only 73% of urban respondents shared this confidence. This optimism is echoed in the responses to whether the business anticipated change in the next year. Whereas 32% of rural businesses were optimistic about no change, only 30% of urban ones anticipated no change.

Discussion and conclusions

Although the differences between the performances and impacts of the downturn in rural and urban firms are not major, they are consistent. The results seem to show that rural small firms, contrary to our expectations, are doing better than urban small firms. We are not able to say why this is so, but there are some indicators that allow us to speculate on the reasons. Contrary to our model of vulnerability, because of a less munificent environment, it seems that rural firms are less susceptible to external changes. It may be that their embeddedness in the rural environment, which acts as a limiting factor in buoyant times, acts as a support in these less prosperous times. The rural customer base, which we expect to be local, is also more stable. Here, the thinness of the environment may work to advantage in that there are simply fewer competitors. This effect could be indicated by the lower number of rural businesses cutting prices. Moreover, we note that customers are reported to be supportive.

It may also be that their smallness is working to rural advantage. As we have noted, many small firms have reported difficulties with external finance, but obviously smaller firms are less likely to be dependent on external finance. This correlates with Cosh *et al's* (2008) findings that the majority of the rural businesses they surveyed were reliant on internal financing rather than on banks. Thus, smallness may create more independence. If we couple this with the lack of dependency on markets outside the area, we can readily imagine the rural small

business as much more independent and hence more insulated from external factors. If so, our conceptualization of gravitation, and the corresponding leakage of power and influence out of rural areas, may be turned on its head in an economic downturn! Independence and self-reliance, albeit manifest in smallness and lack of external linkages and detrimental to growth, actually turn out to be factors influencing the stability of small rural firms.

Note

¹ The Federation of Small Businesses (FSB), as defined on www.fsb.org.uk, 'is the UK's largest campaigning pressure group promoting and protecting the interests of the self-employed and owners of small firms. Formed in 1974, it now has 215,000 members across 33 regions and 230 branches'.

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