



## Feasibility assessment

**Title of research:** Rural Innovation (NESTA)

**Publication date:** 2007

### Short summary of report:

The document consists of a set of papers published by NESTA (National Endowment for Science, Technology and the Arts) in 2007. While published a number of years ago the document is still relevant as it brings together different aspects of rural innovation, identifies barriers and makes recommendations.

Innovation is defined in the document as the introduction of something new (a novel change) to economic or social life, which adds new economic or social value to rural life. The document points out that 86 per cent of the UK is rural and is home to almost 20 per cent of the population. It poses the question, isn't it time to look a little more closely at how innovation happens in rural areas and how we might stimulate it? Not all innovation, it points, out happens around cities.

The document consists of six chapters consisting of an overview and five essays on different aspects of rural innovation. It concludes with five recommendations for government and a call for innovation strategies that include specific plans for stimulating innovation in rural areas.

### Feasibility assessment by panel of how this will feed into the project work

The Arsyllfa project is funded by the LEADER programme under the project theme of "facilitating pre-commercial development, business partnerships and short supply", within the priority of "investigating and piloting new ways of encouraging entrepreneurship and test trading".

The collection of essays highlight opportunities for supporting entrepreneurship in rural areas. It recommends the establishment of business networks which is central to the LEADER theme.

The document is a useful insight into some of the factors that inhibit innovation in rural areas and the call for a rural dimension to be included in innovation strategies supports the type of work being undertaken by LEADER in rural Wales.

## **What are its characteristics and how can they be applied to this project?**

Although the essays are primarily England focussed (especially in relation to the policy recommendations), nevertheless, they contain some illuminating reflections on innovation in different aspects of the economy in rural areas.

The essays challenges the concept of a “rural economy” and focus instead on the different characteristics of the UK economy across different geographical spaces. There are elements applicable to Arsyllfa throughout the document. In particular, the document provides useful reflections on:

- The development of niche and area specific products. The document does not expand on the cultural drivers in relation to area specific products. In the chapter on the creative industries, there is a recognition the value of this sector to place-making but not the contribution of wider cultural assets.
- The importance of excellent customer service in local rural businesses where innovation can be driven through user interaction. The rationale here is that most rural businesses are relatively small (in terms of numbers of employees and turnover) and are closer to their customer base. The service encounter is particularly at the heart of the rural tourism experience.
- The role of local public agencies in supporting place shaping and spatial planning and thus creating an enabling space for investment and entrepreneurial activity. Examples include policies on change of use of buildings, the role and functionality of settlements and even the approach to parking charges and restrictions. All these and others can materially influence the way that entrepreneurs think about a location as a place to do business. Central Government’s hierarchical approach to development has often meant that there tends to be a presumption against any new development beyond the main rural towns, regardless of whether it is economically beneficial.
- The differences between rural enterprises fixed by geography, on the one hand, or fixed by choice on the other and the nuances of approach needed to support and develop such enterprises.

These reflections could inform various strands of investigation within the themes supporting this project.

## **How can these principles and values interact with fostering an entrepreneurial culture?**

Using data from England, the document points out that in many rural areas, new firm formation rates have traditionally been higher than in urban areas. This should open up potential for innovation. On the negative side, rural businesses are smaller, their owners and managers tend to be older and the businesses generate less GVA per employee. More rural businesses are owned by people for whom growth is not a driver (often referred to generically as ‘lifestyle’ businesses) than those in urban areas. The chapter on tourism argues that in coastal and rural areas, many of the lifestyle migrant entrepreneurs lack experience of the tourism sector, which makes it harder for them to innovate or to absorb innovations.

The essays are generally enthusiastic about the impact of in-migration on local entrepreneurship. Quality of life and quality of the environment it argues are likely to be at the heart of such population movements and stimulate innovations, which in turn will provide opportunities to foster mutually beneficial links with farming, transport and other service providers. The essays do not discuss the potential impacts of in-migration on local culture and social networks and there is limited discussion about how endogenous innovation can be stimulated and developed. The chapter on the land-based industries is an exception. It discusses the recasting of farmers as rural entrepreneurs diversifying away from primary food production to added-value, market niche or other forms of enterprise. The document acknowledges that the lack of local innovation support services and reduced access to sources of new knowledge, training and learning hampers the development of innovation.

The creative industries tend to account for a smaller share of employment in rural areas than in urban areas but are seen as important to cultural tourism, diversification of the land-based economy and place-making. Creative industries are seen as ‘innovation enablers’ for other sectors and the wider economy in rural areas. Cultural capacity is seen as a determining factor that contributes to the relative economic performance of rural areas but there is a lack of information about the interactions between the creative industries and local business-to-business sectors in rural areas. The essay on creative industries sees this as a barrier to strong localised industry networks that actively seek to engage with other local businesses and public agencies. This lack of local focus, it argues, results in an outward, urban looking focus for a lot of the activity supported by supply chains external to their local areas. Is there a way, the essay asks, to lever business networks to spur endogenous growth? To what extent these theories have been tested in a Welsh context is unclear.

The document advocates a targeting of individuals as potential new entrepreneurs. It singles out women and older people as two key groups to be encouraged, these traditionally being neglected by innovation policy.

In summary, critical factors identified by the essays for supporting and facilitating innovation are:

- Knowledge and skills in the workforce.
- Business networks: the contribution of formal and informal networks is consistently cited as a key driver of innovation. A pool of people with entrepreneurial skills and experience is considered as important to providing the appropriate conditions to drive economic development and innovation.
- Competition. On average, rural SMEs have a lower average number of ‘serious competitors’ than their counterparts in conurbations. The essays believe that competition drives innovation.
- Links to higher education: interaction between business and universities is widely regarded as important for the commercial application of and dissemination of innovation, particularly science-based innovation

## **Key findings**

Each essay, except for the overview, takes a look at innovation within a different sector.

The document argues that the economy in rural areas is becoming less distinct and challenges whether there is truly a “rural economy”. Rural areas adjacent to major urban centres, it contests, are even less distinct when comparing occupational structure. This, it argues, is mainly due to a net population growth driven by the inward migration of

professional and managerial ex-urbanites and a decline in employment in traditional sectors such as farming, fishing and mining. These traditional occupations have been replaced with jobs in the public sector, distribution, hotels and catering and manufacturing.

The essays acknowledge that traditional challenges persist for rural areas such as a thin business environment, lack of knowledge transfer and a weak knowledge base, although in the latter respect the document points out that rural Wales is unusual in having rurally based universities.

An important relationship is identified between rural innovation and natural resources, especially in the field of renewable energy. This link, the overview chapter argues, brings with it a renewed political focus on rural areas although the potential contested nature of divergent visions of what rural areas are for is not explored.

The essays argue that it is difficult to define “rural” innovation. Some “rural” firms have an outsourcing link to urban based businesses and many small, rurally based businesses are connected into global networks. It is difficult to identify the rural or urban origin of the innovation in these instances.

Elsewhere the essays argue that the definition of rural innovation needs to be broader to embrace not only innovative products, but to incorporate new ways of living, travelling, working and collaborating. Indeed, even the broader conceptualisation of innovation is challenged with the land-based essay arguing that progress has been hampered both by an overly narrow conceptualisation of innovation and by the limitations of traditional indicators of innovation. The document argues that UK innovation policy remains highly science based and urban-centric. City-regions are singled out for particular criticism where rural areas are viewed as secondary beneficiaries of urban-focused development strategies, their impacts ‘trickling out’ to surrounding rural areas

The essays explore several strands of rural innovations. These include:

- ‘Quality of life innovations’ such as healthier food and environment-friendly products and services, which are seen as typically rural offerings.
- Innovations arising from the increasing multifunctional economic use of land through diversification.
- The experience and expertise brought by counter-urbanisation movement. The essays argue that new migrants bring with them significant human and social capital saying that many in-migrants tend to be entrepreneurial and arrive with new ideas which they seek to implement.
- Some major economic and technological trends have provided new stimuli to innovation and economic development in rural areas.

The essays argue that innovation is driven from three different sources of demand, urban, rural and universal. Examples include:

- Urban demand drives rural innovation in spheres such as, for example, tourism and organic food.
- Rural demand arises in spheres such as an impetus for increase productivity in farming or as a response to the impacts of climate change impacts such as flooding.
- Universal basic demand can be stimulated in the spheres of, for example, education and health care and areas where population sparsity is a characteristic and can make innovations more likely.

The essays highlight a need for greater attention to the growth of innovation activities in rural areas from all levels of government. The document argues that this is especially the case from sub-national regional agencies and the devolved administrations.

The document makes five key recommendations in order to drive innovation in rural areas. It recommends that government should:

- Support local partnerships, including critical masses for buyers and suppliers.
- Provide a 'distance-neutral' infrastructure investment in connectivity.
- Invest in knowledge transfer and learning to transfer 'hands-on' expertise and training to local communities.
- Target individuals as much as businesses. Women and senior citizens are two key groups which the report feels have been traditionally neglected by innovation policy.
- Maintain quality of life through investment in public services.

The document says that sparsity can be a motivating factor for innovation, especially now that technology has opened up access to rural markets across the world. The logic here is that access to markets sparks competition and competition drives innovation.

In summary, to be well-prepared for the economic and social challenges facing the UK the essays argue that the UK approach to innovation has to be universal rather than just the domain of urban areas.

## **Conclusions**

1. The essays challenge thoughts on definitions of the economy in rural areas and the nature of rural innovation.
2. Although the document does not explore the potential of endogenous development, there are echoes of the LEADER approach in several papers. This is particularly true in the call for a wider definition of rural innovation, the call for business partnerships and stronger business networks and the call for rural innovation strategies.
3. The criticism of the urban-centric nature of support for innovation, with an over emphasis on the trickle-out approach of initiatives such as city regions is pertinent to the current discussions on regional investment in Wales.

## **Appendices**

1. Rural Innovation (NEASTA) 2007
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