

THE FUTURE OF EUROPE'S RURAL PERIPHERIES

The Future of Europe's Rural Peripheries

Edited by
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Preface

The book at hand is the outcome of a research project that was financed under the 5th Framework Programme of the European Community for Research, Technology Development and Demonstration activities (1998-2002 – Key action ‘Improving the socio-economic knowledge base’). I would like therefore to take the opportunity to thank the EC for providing us the opportunity to materialise this project.

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The whole endeavour was quite an experience for all of us, since we had to work collectively to produce this outcome. This partnership has by now quite a long history. It began its interaction in its present form in 1998 when a proposal was drafted and submitted to the EU. However, most of us already knew each other and had already collaborated on a bi-lateral basis for several years before that. In a sense this book is a collaborative work throughout. Although individual teams are responsible for each particular chapter, it nevertheless constitutes a collective authorship in the sense that there were extensive discussions for more than three years over every minor detail of this book. Needless to say, this is particularly true of the introductory as well as the concluding chapters.

At times it brought us up against the limits of our potential for agreement as individuals and as national teams and opened up some productive, and I must stress productive, tensions. I believe that we all learned not only through the actual research but also by working with other research teams from different countries, as well as from different scientific disciplines, and I must admit that this was a very interesting and rewarding experience too, though at times it proved to be quite difficult for all of us and particularly for the coordinating team.

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Lois Labrianidis
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Abbreviations

BL	Business Link
CAP	Common Agricultural Policy
CSA	Case Study Area
CSF	Community Support Framework
EU	European Union
FoD	Factors of Diversity
FoU	Factors of Unity
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GVA	Gross Value Added
ICT	Information and Communication Technologies
ILO	International Labour Organisation
IT	Information Technology
LAG	Local Action Group
RDA	Regional Development Agency
SMEs	Small and Medium Enterprises
TNCs	Transnational Companies
VAT	Value Added Tax
WTO	World Trade Organisation

Chapter 1

Introduction

Lois Labrianidis

Rural areas today

Overview

At the dawn of a new millennium Europe's rural areas are confronted with the task of re-inventing themselves. Changes in the international division of labour together with rapid advances in information and communication technologies (ICTs) offer rural localities a combination of opportunities and threats that is qualitatively different from earlier historical precedents. More specifically, the long-term process of structural change away from agricultural pursuits has been intensified as a result of changes in policy, such as the review of the Common Agricultural Policy (CAP) and the General Agreement on Tariffs and Trade (GATT). Enterprises, mainly large ones and those in Northern Europe, that are operating outside agriculture, are now finding it more and more profitable to outsource increasing amounts of productive activities to global production and distribution networks. At the same time, however, advances in ICTs support a more positive evaluation of the development prospects of the countryside (Kalantaridis, 2003). Endogenous economic advancement in sparsely populated and remote areas may be encouraged through the uptake of ICTs (Analysys, 1989). Moreover, there is growing empirical evidence supporting the proposition that rural enterprises, by virtue of their location, are becoming more pro-active in the pursuit of distant and often overseas markets (Smallbone *et al.*, 1999). The key research question emerging in the context of the changing rural landscape is the extent to which economic agents (namely entrepreneurs, knowledge-based institutions, and policy-makers) in the countryside have the ability to rise to challenges at hand.

Economic growth in rural peripheral areas is closely associated with the entrepreneurial capacity of the local population. This is not particularly unexpected given that the specific characteristics of these economies imposed considerable constraints upon the influx of sizeable investment projects. However, the supply of potential entrepreneurs confronting the threats and exploiting the opportunities available in the countryside is by no means guaranteed. This is because those who could reasonably have been expected to perform the entrepreneurial function may well have been the first to seek to out-migrate to more inviting urban areas. This problem is thus part of a wider issue in the literature addressed to the question of how a critical mass of entrepreneurship is to be built.

More recently, rural peripheral areas in some European countries (such as the UK, as well as Portugal and Italy) have also experienced a *wave of in-migration* by relatively affluent, formerly urban dwellers. This urban-rural population flow has not been the result of a search for new employment opportunities, but rather the pursuit of more desirable residential environments. Indeed, social and environmental problems within cities prompted relatively affluent urban dwellers to relocate to the countryside (Clout, 1993). One must not forget though the limited job creation in urban areas during all these years (i.e. 1980s and 1990s). While in other European countries (e.g. Greece in the 1980s and 1990s) out-migration flows from rural areas have declined in conjunction with a trend for return migration of economically active people to semi-urban areas. Although accessible rural areas or areas benefiting from tourist development have been the main beneficiaries, many more peripheral locations have also experienced a halt or a reversal in their long-term population decline. However, the arrival of these new inhabitants has had significant economic consequences. They often possess considerable expertise in management, information and contacts as well as the finances necessary to initiate new venture formation. Therefore, a significant minority of these new inhabitants soon became involved in entrepreneurial activities, expanding the number of enterprises in rural peripheral areas.

In addition it is important to recognize the transformation, within an increasingly globalizing environment, of Southern Europe (Greece, Portugal, Spain and Italy) into a new immigration area. This transformation has resulted from a shift in the region's position within the international division of labour (King & Rybczuk, 1993), and has led to what has been coined 'the Southern European immigration model' (King, 2000). A significant part of those immigrants settled initially in the countryside contributing to its revitalization,¹ including the enhancement of the entrepreneurial activity there (for the case of Greece see Labrianidis & Lyberaki, 2001).

According to the Economic and Social Committee of the European Union (EU) (Economic Commission, 2000: 3-4) the number of migrants that are employed in agriculture has increased significantly over the past fifteen years in Europe and especially in southern Europe.² This is attributed to: a) a significant reduction in the local labour force due to demographic changes following the restructuring of agriculture; b) the fact that the labour requirements of farms cannot be satisfied by unemployed locals, who may have other skills, as well as high expectations regarding the nature of their employment; c) the exchange rate differentials and lower purchasing power forcing immigrants to accept lower wages; d) the greater flexibility afforded by employers because of the inherently temporary nature of immigrant labour and e) the reduction of labour costs due to reduced social security payments. In the case of central and Western Europe the origin of

¹ In Greece, according to Kasimis *et al.* (2003), immigrants contributed to the alleviation of labour shortages in rural areas, which were caused by the demographic decline and the ageing of the population, the economic development and employment restructuring, and the aversion of the young and the women towards employment in agriculture.

² The local population is averted by the possibility of employment in agriculture because of: a) the temporary nature and unconventional working hours; b) the often harsh working conditions; c) the low remuneration and d) the possibility of loss of the unemployment benefit for a rather risky alternative.

immigrants employed in agriculture is neighbouring accession countries, while in southern Europe it is Africa, the Balkans and Asia.

Women constitute another important potential agent of change regarding entrepreneurship in rural areas. The overall trend towards a gradual reduction of female employment in traditional agricultural pursuits is combined with greater female entrepreneurship at the margins. In fact, as mentioned in Braithwaite (1994), in the EU the *role of women is far more important in small holdings* than in large ones. Consequently, the ‘feminization’ of farm activities is far more pronounced in southern European countries (Pfeffer, 1989; Ventura, 1994). Although in many instances this transfer of power is superficial, in those cases where it is real, the ‘feminization’ of entrepreneurial activities in agriculture, is very important since women are more prone to adopting a fresh outlook to life as well as to production. They are more ready to get involved in alternative forms of farming (e.g. biological or specialty products), and the production and direct sale of fresh or processed products through micro-retail outlets on the farm. These activities combined with agrotourism offer considerable opportunities for female entrepreneurs and the re-dressing of gender inequalities in rural peripheral areas (Bock, 1994; Miele, 1994; Ventura, 1994; Ilbery *et al.*, 1995). However, the crisis in agriculture, combined with the modernization of farms (involving a substitution of labour for capital), particularly affect women. The only conceivable remedy is the diversification of the economy; otherwise, women will inevitably become surplus labour.

Technology and knowledge constitute key elements in the external environment with the potential to both enable and hinder the entrepreneurial processes in rural peripheral areas. In fact, there is a growing belief among some researchers that knowledge is the most important source of local economic transformation (Ludval, 1992; Herdzina & Blessin, 1996). This is particularly true regarding parts of knowledge involved in untraded interdependencies (uncodified know-how), which cannot be dissociated from its human and social context. Consequently, issues such as the institutional capacity of the area, the capabilities of the political leadership, as well as social rules of conduct and human values, emerge as of equal – if not greater – importance than physical factors (such as product markets and markets for factors of production) in the entrepreneurial process (Doeringer and Terkla, 1990; Putnam, 1993), which is heavily differentiated between countries.

Knowledge-based institutions embedded in the traditional milieu of rural peripheral areas in both advanced and developing economies also play a significant role (OECD, 1992; Morgan, 1997). Indeed, the implementation of technological change is conditioned by the pervasive influence of universities and other R&D providers supporting the interregional and interpersonal transfer of knowledge and technology and reducing regional information deficiencies thus playing a significant role in the entrepreneurial process (Herdzina & Nolte, 1995; Nolte, 1996). Institutions of this type offer the possibility of gaining new technological knowledge, of taking part in technological change, and in this way of raising their own innovative and entrepreneurial potential – and thus that of the economic region. With regards to the development of rural areas, the so-called ‘intermediate’ and ‘incubatory’ functions of the institutions of knowledge and technology transfer are of particular importance.

Another set of economic actors instrumental in the process of redefining the rural milieu includes the multitude of *agencies involved in policy decision-making*. Increasing awareness of the specificities, as well as the problems associated with the rural, and the ensuing adoption of a pro-active approach at all levels of decision-making means that the role of policy agencies becomes increasingly important. Their influence upon the historical trajectories of the European countryside constitutes both a factor of unity as well as a factor of diversity (a theme recurrent throughout the book). More specifically, during the post-war era the EU, as a supranational policy organization, has been of paramount importance in the development of initiatives and actions transcending national boundaries. At the same time national and regional policy agencies reflecting distinct historical processes at work have been instrumental in generating diversity; often a reflection of diverging local and /or national realities.

Europe's rural areas, with few exceptions, have failed to attract larger firms. This is due mainly to poor provision of tangible and intangible infrastructure, and small local product and labour markets in many cases. Therefore, the pervasive influence of small and micro-scale firms condition economic growth in rural areas. Moreover, the supply of potential entrepreneurs in rural areas is by no means guaranteed, because such persons who could reasonably have been expected to become entrepreneurs might well have been the first to out-migrate. Indeed, even the most developed rural areas suffer from the loss of young and dynamic people. Within this context, *the question of how a critical mass of entrepreneurship is being build is a key economic development issue for rural areas*.

Great diversity of rural areas in Europe

The distinction between urban and rural areas is becoming increasingly blurred
A precise demarcation of rural areas in Europe, although important, is not an easy task. The difficulties stem from the changing character, as well as the varied and heterogeneous structures of rural areas. The longstanding axioms defining rural areas as the non-urban space, or the space of agriculture and physical landscape, are inadequate to describe today's complex reality and have been vigorously questioned during the past decade. The root of the division between 'urban' and 'rural' lies in the separation of society from the land through the development of increasingly indirect methods of organizing subsistence.

However, the increasing complexity of the pattern of economic organization, which underlies the urban/rural distinction, has, in turn, undermined this same distinction. Definitions of the 'urban' based on economic function have grown increasingly apart from definitions based upon physical development. Using the terms loosely, England, for example, may in physical terms be considered predominantly 'rural' but in socio-economic terms it is overwhelmingly 'urban'. Moreover, definitions that are based on population density are no longer satisfactory, since there are towns with large population and low densities (e.g. New Towns in UK).

In the past, the distinction between urban and rural areas was sufficiently unambiguous for one or two familiar attributes to provide a basis for consistent definitions. Modern societies are simply too varied for such regularities to hold.

The result is that the categories urban and rural can only be said to each have a 'resemblance' across a variety of characteristics. This 'fuzziness' of the urban/rural distinction has important implications for methods of delimiting urban and rural areas in practice. No single approach can provide the 'definitive answer' and the process of defining urban and rural areas is only partially achievable through a reliance on quantitative indicators.

Thus, it may be more appropriate to suggest that there are a series of distinctions such as land use, population characteristics and social organization. As the space-economy has evolved, these have changed. This sectoral – spatial approach directly connects rural space with agriculture and urban space with industry and services. However rural space is no longer confined to agricultural activities and land uses, but is extended to include multi-sectoral activities. Small and medium towns integrated into the agricultural context, manufacturing and tourism activities, as well as coastal areas, are fit for inclusion in rural areas. Despite significant dissimilarities between them, urban and rural areas are not autonomous and self-sufficient entities. On the contrary they constitute a continuous space of interdependence and interaction (Saraceno, 1994).

These changes are associated with a broader debate regarding the dramatic changes currently underway in rural Europe. Over the past decade or so the countryside has been socially and economically remoulded. As the post war agricultural modernization project has gradually and unevenly faded, new processes and actions, associated with both public and private interests, are at work and produce new patterns of diversity and differentiation within the contemporary countryside. The common trends affecting rural areas can be separated, according to Marsden (1999), into those affecting the entire society and those specific to rural locations. Amongst the former are globalization, the strengthening of free market ideology, a shift of governance to mass participation and partnerships, the liberalization of international trade, and changes in cultural values. Amongst the latter is the decline in agricultural employment, the emergence of environmentalism, and new uses of rural space. These processes have led to an externalized and consumerized countryside, one, which exhibits a wide range of external relationships and is subject to wide-ranging demands.

These processes vary enormously across Europe (see the dramatic changes occurring since the 1989 in former Eastern Bloc countries). Regarding the South Eastern European rural areas, as Hadjimichalis (2001) argues, they have resulted in the emergence of new uses of rural space and new societal demands on the land and landscape, not only in coastal areas and certain islands (which have changed towards tourism and holiday homes) but also in the mainland. In parallel there is a trend towards marginalization and abandonment of certain areas and a growing demand for 'nature' and 'rural heritage' in others.

Different approaches for defining urban and rural areas The very essence of researching the rural presupposes the existence of a definition or a supranational reference framework based on simple and comparable criteria that are expected to be able to capture the notion of rurality and peripherality in each country. However, in practice, there are profound differences between and within European

countries³ as regards their population density and their geomorphology, *let alone* their historical trajectories that must be taken into account. Vast lowlands form Europe's northern part while the southern part is home to mountain ranges and a few small, hemmed-in, coastal plains. European countryside is characterized by a diversity of terrains, climates, landscapes and population densities that find their counterpart in the great variety of economic activities, agricultural productions, problems and opportunities.

The Netherlands and Luxembourg apart, and this largely because of their size, each country contains at least two contrasting types of landscape. Scandinavia for example, has an arctic and sparsely populated northern part, whereas the more hospitable southern Sweden and Finland enjoy rich soils. In Germany, the large farms in the north-eastern lowlands contrast sharply with the cultivation methods and ownership structures more suited to the hilly terrain of the southwest. In mountainous countries like Spain and Italy, there seems to be an endless alternation of valleys and mountains.

Of the two most intractable natural handicaps, altitude is an omnipresent constraint in Austria, Greece, Spain and Italy. The climate is also a defining obstacle, whether it is drought in southern Spain, Italy and Greece, low rainfall in certain central regions of Germany, like Brandenburg, or the cold resulting from the latitude in Finland and Sweden. Poor soil and low-yield agriculture often predispose towards extensive farming practices and/ or the predominance of forestry over agriculture. That is the case for entire countries like Ireland, Greece, Finland and large parts of the UK, Spain, Portugal and Italy.

There are also huge disparities between the historical trajectories of different European countries. Roughly speaking a distinction can be made between a *first group* of European countries where the major changes to rural areas date back to the beginning of the 20th century, or at least to the 1950s. In these countries, the economic, demographic and social situation of rural areas is more or less stable, either slowly declining (France, Denmark, Italy) or slightly improving (Sweden and southern UK). In the *second group* (i.e. Portugal, Ireland, Spain, Greece, ex German Democratic Republic and Finland), the rural world is or was recently confronted with various crises, out-migration, a sharp rise in unemployment and the accelerated restructuring of production and farms. In the first group rural development policies encourage diversification of all economic activities, not just farming. There is an emphasis on vocational training, living conditions and tourist facilities. In the second group rural development has mainly focused on improving farmers' skills, lending assistance for restructuring and upgrading production techniques, as well as on efforts to reduce the isolation of more remote regions. However, recently new, more proactive policies to attain economic diversification have also been exercised in this group.

As a result, there are several definitions of rural areas. Traditionally, rural areas have been defined as those areas given over to particular resource based economic activities, notably agriculture and forestry, and areas of natural open space such as moorlands and mountainous areas. Alternatively, rural areas can be defined in terms of a number of socio-spatial characteristics, such as population densities and distance

³ In fact Europe is a densely populated continent and its countryside is characterised by a great diversity in many respects (i.e. territorial characteristics, climate, economic structure etc).

from major cities (this led for example to the construction of ‘an index of rurality’ for England and Wales based on census variables (Cloke, 1977; Cloke & Edwards, 1986). More recent approaches define ‘rural’ more in terms of a social representation of reality, placing the emphasis upon the way people strive after a rural ideal and try to achieve this in their everyday lives (Hoggart *et al.*, 1995). This approach is becoming more important as the traditional production functions of rural areas (i.e. agriculture and forestry) decline in importance and various consumption functions (e.g. recreation and leisure) become more significant, particularly in certain countries (Ilbery, 1998). The debate about what constitutes rurality is therefore symptomatic of the changes, which are occurring to the economy and social composition of these localities in the European context.

The operationalization of the multitude of criteria into a working definition is more than usually problematic. Therefore, the vast majority of national conventions focus upon rather simple measures of the size of the population in a locality and/or population density. For instance, despite the limited reliability of quantitative criteria, international organizations (such as the OECD and EUROSTAT) usually adopt these for the definition of rural regions, as they are particularly useful for inter-regional or inter-state comparisons. It can be argued that two of the few attributes common to European rural regions are relatively *low population densities* and the *significant role of agriculture* in the local economy. It is noteworthy that population density has been traditionally used in definitions of rural areas in Europe. In particular, at the NUTS5 level rural areas are defined by EUROSTAT as those with a population density of less than 100 inhabitants per km². Thus, according to the EUROSTAT classification, rural areas cover more than 80% of the total of the EU area, while 17.5% of the total EU population lives in administrative units classified as rural. The share of rural population ranges from less than 5% in the Netherlands and Belgium to more than 50% in Finland and Sweden.

However, the usefulness of the above classification is questionable. In particular, the criterion of population density is not sufficient for a robust classification between urban and rural regions. Low population densities are not always associated with rural populations. Neither do high population densities always suggest the existence of an urban population. For example, in the predominantly rural southern Italy the rural populations have traditionally resided in urban centres and commuted daily. In contrast, in central Italy, where manufacturing plays an important role, the populations of very small towns have been traditionally involved with ‘urban’ jobs (Saraceno, 1995: 457).

Developing an evidence based typology of rural areas in Europe⁴

One commonly used solution to the problem of dealing with the complexities of rural areas is the development of typologies. Indeed, to date there have been a number of attempts to create rural typologies. However, their success was modest. The purpose of this classification is to demonstrate the possibility of pan-European

⁴ This section is based on a joint paper with Ballas D. and Kalogeressis T. (Ballas *et al.*, 2003).

classification of rural areas on the basis of a novel database that was developed at a relatively small geographical area level (EU NUTS3 level). The classification attempts to draw a picture of European rural areas on the basis of this new information. It also compares two different approaches to classifying areas and highlights the methodological and practical difficulties of the exercise. The main innovative feature of this classification is the use of new geographical information for the creation of rural area typologies on the basis of aggregative and disaggregative classification methods (building on similar research conducted by Copus, 1996; Malinen *et al.*, 1994; Leavy, 1999; Petterson, 2001). There is a need for more sophisticated methodologies of classifying European regions, based on the increasing availability of socio-economic and demographic data at the regional level

In the context of this study we used a 149 x 1093 data table⁵ that contained socio-economic and demographic information on 1093 NUTS 3 regions. Since our main aim was to create a typology for rural regions, as a first step we decided to exclude all 'urban' regions from the analysis.⁶ The next step was to further split the rural regions into sub-groups on the basis of their accessibility. First, we disaggregated all rural regions into *least accessible*, *semi-accessible* and *most accessible* on the basis of the travel time to the nearest of 52 important international agglomerations. In particular, we used the time required to travel from each region by road, rail and boat.⁷ After exploring various combinations of travel time-based criteria we concluded that it would be reasonable to define as *least accessible* the 25% of regions with the highest travel time (211 regions in total).⁸ Likewise, we defined as *most accessible* the 50% of regions with the lowest travel time and as *Semi-accessible* all the remaining regions.⁹ Table 1.1 depicts the spatial distribution of all the regions.

The next step in the analysis was to further disaggregate the regions on the basis of their economic dynamism and competitiveness. It can be argued that the latter is expressed to a certain degree by the number of patent applications in each region. We used the average number of patent applications in each region for the years 1989-96 as a competitiveness and economic dynamism criterion.¹⁰ It should be noted that the values of the thresholds were determined on the basis of the type of area being disaggregated.¹¹ The reason for adopting this approach to

⁵ The main data source used throughout the analysis was Eurostat's *Regional database* (REGIO).

⁶ To this end two different criteria were used, according to which regions were considered urban and thus excluded if: a) they contain an urban agglomeration with population larger than 500,000 inhabitants and b) more than 65% of the regions' total population are living in conurbations with more than 10,000 inhabitants. It can be argued that these variables capture different aspects of the socio-economic, demographic and urban or rural character of NUTS3 regions.

⁷ The data on accessibility used was provided by the transport network model of the BBR (former BFLR) (Lutter & Pütz, 1998).

⁸ It is noteworthy that all these rural regions had a travel time, which was more than 135 minutes.

⁹ All the *Semi-accessible* regions had a travel time between 82 and 135 minutes, whereas the *most accessible* areas had travel times less than 82 minutes.

¹⁰ The use of patent applications as a variable is one of the most innovative features of this research. Regional innovation is becoming increasingly important, as economies become more complex and a greater variety of goods and ideas are patented (Ceh, 2001).

¹¹ For instance, all *least accessible* areas were split into *advancing* and *lagging* using the 2.275 threshold, which is also the mode of this variable for all *least accessible* areas (Table 1.1). Likewise,

determining disaggregation thresholds is that the use of the same threshold for different types of areas can lead to meaningless classifications. As a result of the second disaggregation, the 210 *least accessible* regions were split into lagging (105 regions) and advancing (106 regions). In addition, the *semi-accessible* and *most accessible rural* regions were disaggregated into areas of high and low competitiveness (418 and 421 regions respectively) (Table 1.1). The last two steps involved disaggregating the regions on the basis of their economic performance (GDP/capita) and the role of agriculture (share of employment in agriculture). We used Principal Component Analysis to reduce the original variables to a number of factors that would explain at least 90% of the variance of the original variables.

Table 1.1 Themes and criterion hierarchy (criteria used in the disaggregation)

THEMES	CRITERION HIERARCHY					
	Least accessible TTIME > 135 minutes		Semi-accessible TTIME < 135 minutes and TTIME > 82 minutes		Most accessible TTIME < 82 minutes	
1. Accessibility (Average travel time to 52 important agglomerations)						
2. Dynamism / Competitiveness (Average number of patents)	Lagging < 2.275	Advancing > 2.275	High > 8.3125	Low < 8.3125	High > 14.3625	Low < 14.3625
3. Economic Performance (GDP per capita)	Relatively High > 10379.1	Relatively Low <= 10379.1	High > 13185.52	Low <= 13185.52	High > 14224.1	Low <= 14224.1
4. Role of Agriculture (Share of employment in agriculture)	Very Important > 15.97%	Relatively Limited < 15.97%	Important > 11.39%	Limited < 11.39%	Important > 8.41%	Limited < 8.41%

Not surprisingly, the counties with the highest proportion of least accessible areas are the Nordic ones, closely followed by the southern European countries (Table 1.2). At the other end of the spectrum are the central European countries (Belgium, the Netherlands, Luxemburg and Germany), with most of their territories being most accessible rural.

The least accessible regions

A total of 211 regions are classified as least accessible (types 1-8 – Figure 1.1), of which 105 and 106 are further classified as lagging and advancing respectively (Map 1.1).

Most least accessible lagging regions are concentrated in Southern Europe, and in particular, Portugal, western Spain, southern Italy and eastern and western Greece and most of the Greek Islands.¹² Nevertheless, it is noteworthy that there are several least accessible lagging regions in the Scandinavian countries. Further, there are some least accessible-lagging regions in Germany and the UK mostly in

the patent application thresholds that were used to determine the dynamism and competitiveness of *Semi-accessible* and *most accessible* areas were 8.3125 and 14.3625 respectively.

¹² All of the Portuguese, most of the Spanish and many of the French least accessible regions are dependent on agriculture. Surprisingly, this does not appear to be the case in Greece, where only a minority of regions in the southern mainland is dependent on agriculture.

Scotland, Wales and Cornwall (Table 1.2). The geographical pattern of advancing least accessible regions appears to be more diverse than the respective pattern of lagging regions. Most of these regions are in central and northern Italy, northern Spain, central and western France, Eastern Germany and Austria, most of the northern parts of Denmark and Sweden and western Ireland.

Table 1.2 Share of area type by country

	Least accessible	Semi-accessible	Most accessible	Urban
Finland	85.9	8.4	2.3	3.3
Sweden	82.8	13.0	2.8	1.4
Greece	68.5	10.8	15.0	5.7
Denmark	62.0	16.7	21.0	0.2
Spain	54.2	12.4	11.6	21.8
Portugal	44.9	20.6	33.4	1.1
Ireland	37.6	24.6	36.4	1.3
Italy	34.5	19.4	26.8	19.3
France	29.3	29.6	29.0	12.1
Austria	27.5	38.9	30.8	2.8
UK	27.2	31.9	33.9	7.0
Germany	6.4	27.7	58.1	7.8
Netherlands	3.3	11.5	78.5	6.7
Belgium	0.0	0.0	67.3	32.7
Luxemburg	0.0	0.0	100.0	0.0
TOTAL	49.4	19.4	22.4	8.9

Semi-accessible regions

There are 209 regions that are classified as semi-accessible (types 9-16 – Figure 1.1, Map 1.2), mainly found in Germany, France, Italy, the Netherlands and the UK and to a lesser extent in Finland, Sweden, Greece, Spain and Portugal (Figure 1.1).

There is significant variation in the distribution of particular types of semi-accessible regions. Semi-accessible regions that have low competitiveness, low economic performance and are dependent on agriculture (type 9 regions – Figure 1.1) are mainly in western Spain and Portugal, southern Italy, central Greece, Northern Ireland and eastern Germany. In contrast, the most affluent areas, which are highly competitive and attain high levels of economic performance (type 16 – Figure 1.1), are mostly in northern Europe. Most of them are found in France, northern Italy, Germany, Sweden and Finland. It is noteworthy that France and Italy are the only member states, which have regions that belong to different subtypes of semi-accessible regions. It can thus be argued that there is a greater degree of dualism and polarization in these countries.

Most accessible rural regions

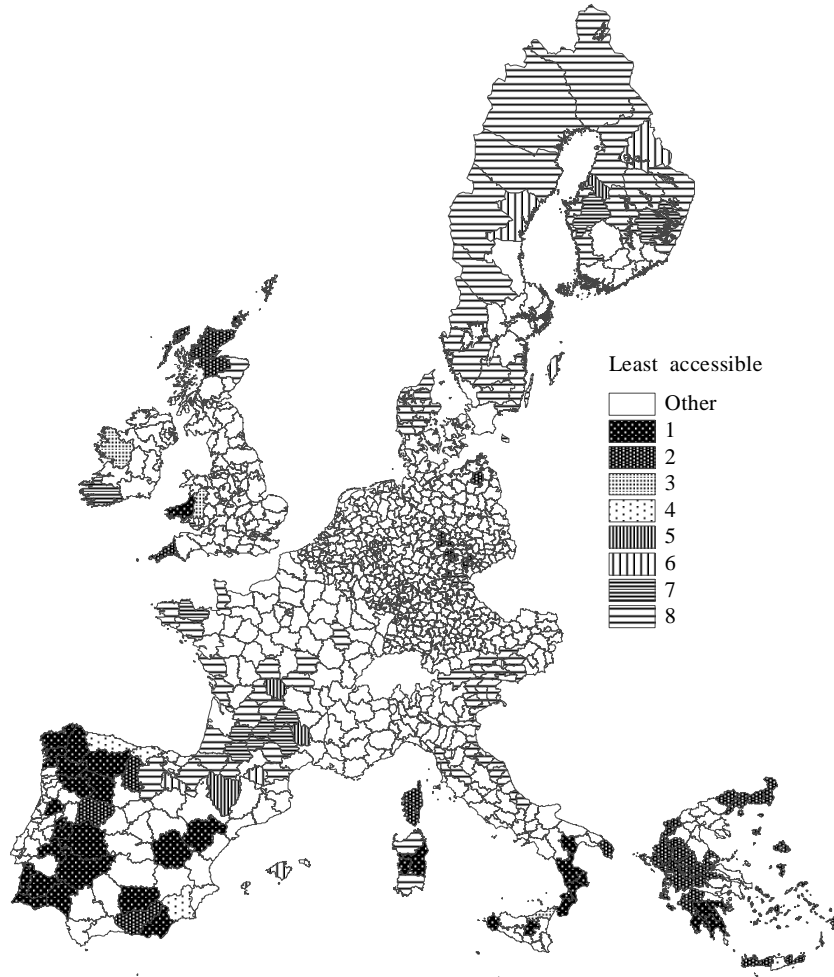
Most of the 419 *most accessible rural* regions are found in central, northern and northwestern Europe (Figure 1.1). Six countries have more than 50% of their non-urban areas classified in this category (types 17 to 24 – Figure 1.1). That is, 100% of Luxemburg's and Belgium's, 83.5% of Netherlands's, 62.9% of Germany's, 57.2% of UK's and 51.7% of Portugal's, NUTS3 regions are *most accessible rural*.

What is interesting is that Portugal's *most accessible rural* regions are almost exclusively concentrated in type 17 (low competitiveness – low economic performance – dependent on agriculture) and to a lesser extent in type 18 (low competitiveness – low economic performance – non-dependent on agriculture – Figure 1.1).

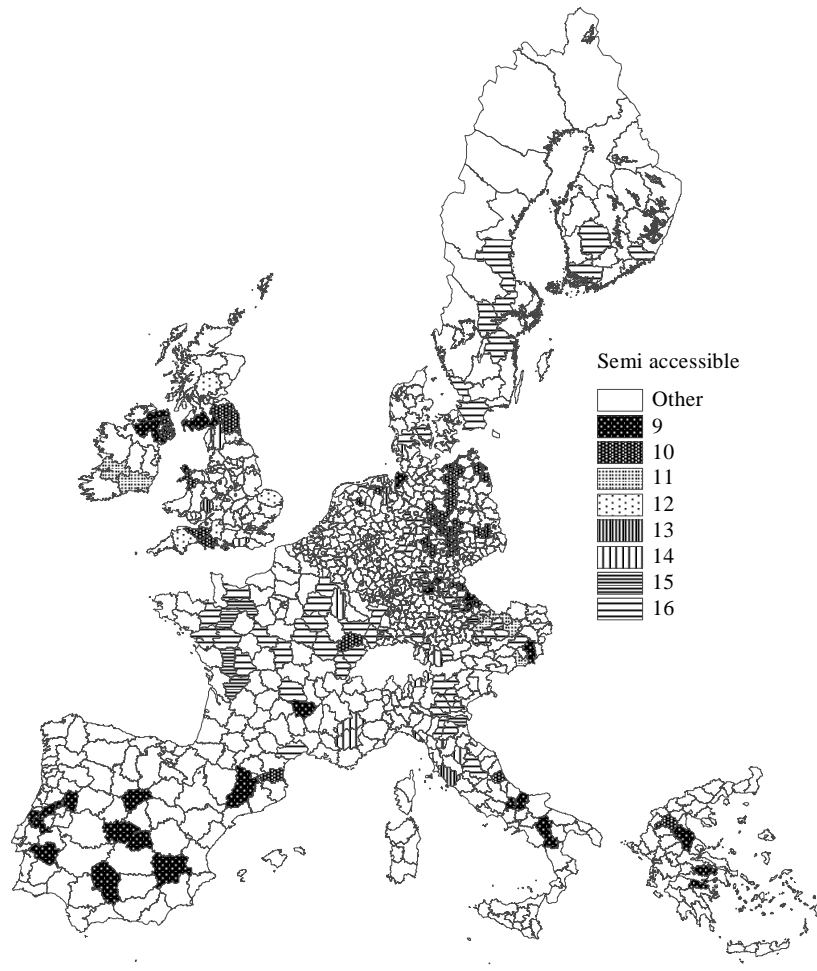
	Accessibility	Economic performance	Dynamism	Importance of agriculture	Number of NUTS3	CSAs	
1	Least Accessible	Relatively Low	Lagging	Dependent	37	Baixo Alentejo	
2				Not dependent	52	Cornwall, Lesvos	
3				Advancing	Dependent	3	
4					Not dependent	13	
5		Relatively High	Low competitiveness	Low	Dependent	4	
6					Not dependent	12	
7				High competitiveness	Dependent	10	
8					Not dependent	80	
9	Semi-accessible	Low	Low competitiveness	Dependent	28		
10				Not dependent	48		
11				High competitiveness	Dependent	10	
12					Not dependent	18	Devon
13		High	Low competitiveness	Low	dependent	5	
14					Not dependent	23	Cumbria
15				High competitiveness	dependent	9	
16					Not dependent	68	
17	Most Accessible	Low	Low competitiveness	dependent	54	NWM, Oeste	
18				Not dependent	95	Kilkis	
19				High competitiveness	dependent	11	
20					Not dependent	49	
21		High	Low competitiveness	Low	dependent	21	
22					Not dependent	39	
23				High competitiveness	dependent	20	
24					Not dependent	130	Waldshut
25	Urban				268		

Figure 1.1 Classification of EU regions (Disaggregative typology)

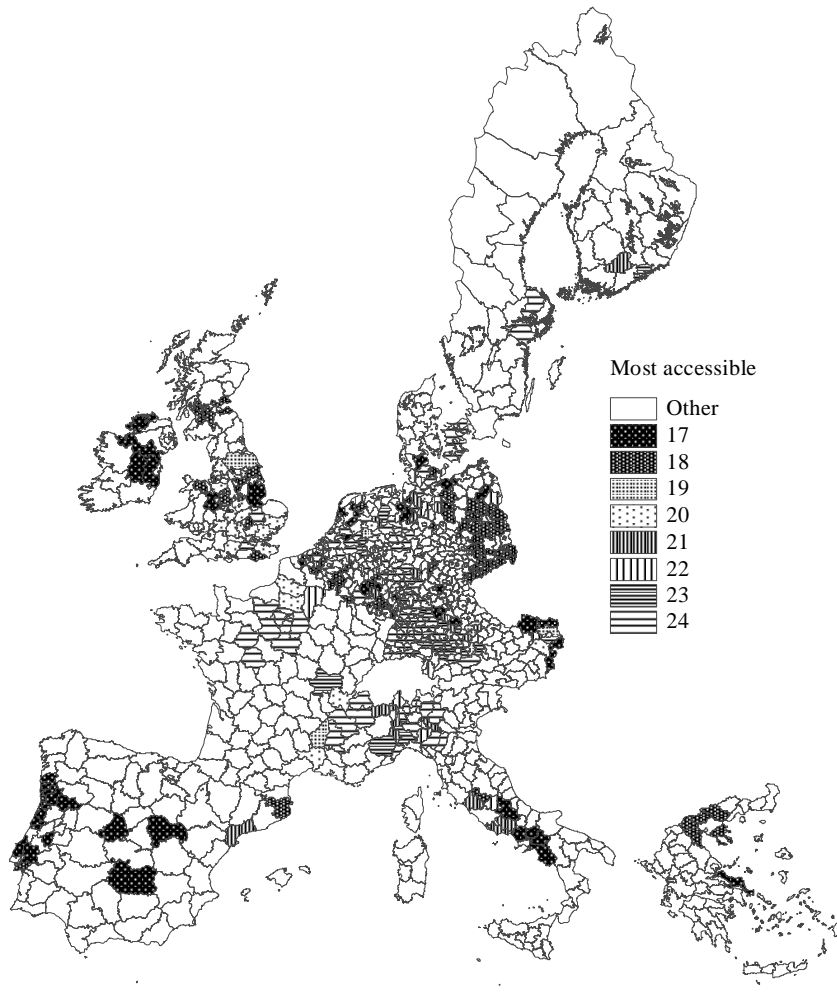
Overall, the outcome of the methodology adopted was quite satisfactory. It clearly points out the *huge diversity of rural areas between as well as within countries*. Furthermore, unlike most other classifications, it manages to depict quite well the various national differences. This is particularly important in the case of the smaller countries, such as Greece or Portugal, which, in most other classifications, usually fall into two or three classes. There are however, shortcomings to the approach. The most significant one is the fact that the outcome depends heavily on the choice of themes. Hence, it is quite clear that the results would be different had we used a different sequence of themes. In other words, this is by no means a universal classification of European regions. Nor do we think that such a classification is feasible, although it would undoubtedly be useful. The reason is that quantitative data are not capable of depicting the various processes at work, or the historical trajectories of each rural area. This is further aggravated by the fact that the proposed typology is static in the sense that the quantitative analysis is not based on data referring to a particular time period. In this context, such a classification should only be used as mere approximation of very complex and contextual realities and as a guideline into more thorough analysis.



Map 1.1 Least accessible regions of Europe



Map 1.2 Semi-accessible regions of Europe

**Map 1.3 Most accessible regions**

Methodology

Research questions

This Book sets out to explore the question of whether entrepreneurship in the countryside could perform the role of an engine for rural development and enable rural locales to re-invent themselves. In addition we set out to investigate the roles of both knowledge-based institutions and policy-makers – at the regional, national and EU wide levels – in assisting the process of rural development. The main objectives of the Book are:

- to identify the key causes and effects of the economic restructuring currently affecting Europe's rural peripheral areas;
- to identify sources of entrepreneurship (new, existing and potential) and examine their distribution between different gender, age and other social groupings;
- to evaluate the extent to which the existing institutional, social and technological environment and infrastructure encourages and facilitates entrepreneurship;
- to assess the appropriateness of existing policy approaches and instruments in identifying initiatives of wider application in Europe's rural periphery.

Basic economic and locational characteristics of the CSAs

The fieldwork has been carried out in 10 CSAs in five countries (Germany, Greece, Poland, Portugal and UK). Overall, we studied two diverse rural areas in each of the five countries that participated in the project. More specifically we explored the experience of Lesvos and Kilkis in Greece, Oeste and Baixo Alentejo in Portugal, Nordwestmecklenburg and Waldshut in Germany, Zary and Bialystock in Poland, and Devon & Cornwall and Cumbria in the UK. Four countries that are EU members and the fifth one (Poland) a country in a transition state that is to become an EU member in 2004.

The typology developed earlier (see Section above) lends support to the appropriateness of the CSA selected. From the positioning of each case study area (CSA) in the typology (Figure 1.1) it is evident that all the three basic types (least accessible, semi-accessible and most accessible rural) are represented. The peripheral character as well as the relative backwardness of Baixo Alentejo, Lesvos and Cornwall is evident, while Devon and Cumbria are classified as semi-accessible areas. Finally Nordwestmecklenburg, Oeste and Kilkis are in the most accessible category but are of low competitiveness and economic performance. It is only Waldshut that stands up as a most accessible rural area highly competitive, with high economic performance, which is not dependent on agriculture. The two Polish regions are not positioned in this classification due to the lack of compatible data.

Common characteristics of the CSAs are: a higher share of GVA coming from agriculture than the national average and a greater proportion of employment in agriculture than the national average, the only exception seems to be Zary but this

must be attributed to the gross distortion due to the huge contribution of the black economy and a population density lower than the national average, the only exception being Oeste; lower GDP per capita than the national average, the only exception being Cumbria and Kilkis (Table 1.3). Finally, all CSAs are 'border' regions in the sense that either they have borders with another country (i.e. Baixo Alentejo, Kilkis, Waldshut, Bialystok, Zary and Waldshut) or a coastline (i.e. Oeste, Lesvos, Nordwestmecklenburg, Devon and Cumbria) (Map 1.4).

The analytical approach

Our review of the literature on peripherality and rurality suggests *that there is a need for a more comprehensive view of rural areas*. This perspective should take into account the importance of transition development processes, of the actors involved in them, as well as the contexts that shape their actions. It should also take into account both objective and subjective aspects (attitudes, values, behaviour, and expectations). In other words, the complexity and diversity which we know to be characteristic of peripheral rural areas today implies *a need for a holistic approach* capable of bringing together the multiplicity of factors involved in a coherent and balanced way.

Our main points of departure are: a) a 'post-consumerist' view of rurality, which is the main reason that led us to focus our analysis on entrepreneurship as a key factor that might facilitate the development of rural areas. In fact we consider entrepreneurship as a social process which in turn led us to adopt a historical, contextual approach to issues related to entrepreneurship (e.g. propensity towards and incidences of entrepreneurship). b) an integrated, territorially based view of rural development, which led us to a holistic approach to the development of rural areas. Peripherality has different meanings, corresponding both to threats and opportunities, which led us to adopt a multi-dimensional concept of periphery i.e. as distance, dependence, distinctiveness and discourse. c). Even the most remote rural areas are becoming more and more integrated into wider spaces of interdependency, leading us to consider globalization processes and the evolution of the EU in particular as crucial contextual factors to our analysis. d) Technology is becoming a crucial means for development, hence technology and even more so ICTs, can be of particular importance for rural areas. e) Market failures are particularly relevant in peripheral rural areas, which led us to focus our analysis on the need for public intervention. Present policy initiatives are not sensitive enough to distinctive characteristics of the rural environment, which is the main reason we are stressing rural complexity and diversity and defining target-groups with specific needs.

In order to systematically analyze the empirical findings from the diverse environmental settings of the ten CSAs under investigation we have developed and implemented a suggestive analytical approach.

Our point of departure is the introduction of a divide between the factors or clusters of unity (FoU) and the factors or clusters of diversity (FoD). These refer to similarities and differences between the different rural settings, in order to provide a more manageable and focused schema than mere description. This was combined with the development of a *coherent analytical approach* based upon the

idea that both the development of rural areas and the development of entrepreneurship in them are highly determined by issues such as: access to main markets, economic base of the area (i.e. of the nation and the particularities of the CSAs, such as the importance of agriculture), social norms, modes of governance, degree of development of social capital as well as the characteristics of key actors/stakeholders in the area which all are highly differentiated between the various rural areas.

Admittedly, the specificities of the analytical approach may differ according to the purpose for which it is deployed. Thus, whilst the essential schemas remain unchanged, the relative importance and the choice of constituent sub-elements may vary (e.g., whether for regional development purposes or to enhance entrepreneurship). This analytical approach has enabled us to gain an in-depth understanding of the processes at work in diverse geographical settings.

The core of the project is the relationship between entrepreneurship (i.e. type of entrepreneurs, business strategies) and the characteristics of rural regions (FoU, FoD, trajectories of regional development). Both entrepreneurship and rural areas are heavily influenced by the characteristics of the country in which they operate. The combination of these two factors led to the proposed policy initiatives (i.e. common issues, distinctive issues, policy lessons and good practice transfer). The main aim of the project is *policy formulation*.

The analysis of this interplay between regional characteristics and entrepreneurship gives rise to a whole range of policy responses, which are a very significant part of the book, forming the main input to our policy recommendations (chapter 6). More specifically, policy formulation must be sensitive to the needs of entrepreneurs, as well as of rural areas. Existing policies do are analyzed in relation to this aim regarding entrepreneurship in the CSAs. The impacts of policy are also identified, together with the lessons emerging, both from good policy practice and those that may be considered sell successful. Problems related to policy delivery are also considered. Finally, policy recommendations are made at a strategic level, with specific target groups (i.e. particular types of: regions – entrepreneurs – activities) and priorities identified.

Research Methods

The study of rural entrepreneurship made use of a number of research methods, including desktop research, key informant interviews, a survey of rural inhabitants, and a survey of innovative entrepreneurs.

The desktop research involved a comprehensive review of national and international literature as well as the collection and processing of secondary data. Specific datasets used in each country included: annual agricultural surveys, annual population change data, population census, the annual employment survey, and census of employment, amongst others.

Key-informant interviews were conducted in order to examine the extent to which the existing institutional and social environment encourages and facilitates entrepreneurship. Key informants were persons with considerable knowledge of the areas under investigation as well as suppliers of education, training and support. A semi-structured questionnaire was used in the conduct of the key-informant interviews. A total of 150 key informant interviews were conducted in the summer of 2000 in the CSAs.

Table 1.3 Basic characteristics of CSAs, 1995

CASE STUDY AREA/ COUNTRY	Area (km ²)	Population (000 inh.)	Population density (inh/km ²)	Share of employment in agriculture	Share of employment in manufacturing	Share of employment in services	Gross Value Added in Agriculture	Unemploy- ment	GDP per capita	GDP per capita as % of country
Waldshut – DE	1.131	165	145.5	4.2	39.8	56.0	1.9	7.3	19.362,4	85.8
Nordwestmecklenburg – DE	2.075	120	57.9	9.0	40.2	50.9	6.2	22.0	9.373,1	41.5
Cumbria – UK	6.824	492	72.1	6.6	29.1	64.2	1.8	5.0	15.741,1	101.5
Devon & Cornwall – UK	6.703	1.063	158.6	5.5	21.9	72.7	3.5	6.0	13.086,6	84.4
Kilkis – EL	2.519	83	33.0	21.2	25.7	53.2	40.4	10.4	9.658,3	104.1
Lesvos – EL	2.154	97	45.0	27.6	20.1	52.3	27.7	10.6	7.435,6	80.1
Oeste – PT	2.512	363	144.6	26.3	32.3	41.4	12.6	5.7	7.329,7	84.7
Baixo Alentejo – PT	8.503	134	15.7	24.5	13.7	61.9	11.4	8.0	5.921,3	68.4
Zary – PL*	7.877	639	81.1	22.2	31.3	46.5	4.7	9.1	3.500,7	88.1
Bialystok – PL*	14.871	904	60.8	49.2	16.9	33.9	8.2	6.0	3.127,5	78.7
Germany (DE)	357.021	81.979	229.6	2.9	34.8	62.2	1.1	9.8	22.575,2	
United Kingdom (UK)	243.820	59.009	242.0	2.2	24.2	73.5	1.8	6.2	15.504,3	
Greece (EL)	131.626	10.499	79.8	20.3	24.0	55.7	14.9	10.8	9.278,0	
Portugal (PT)	91.906	9.946	108.2	14.0	32.3	53.7	4.1	4.7	8.649,4	
Poland* (PL)	312.685	38.644	123.6	30.6	26.1	39.3	4.1	7.0	3.970,8	

* 2000 for Polish data

Source: Regio Database, Eurostat



Map 1.4 The location of the 10 Case Study Areas

Population sample The population survey was used in order to explore the potential for entrepreneurial activity. Based on the findings of desktop research and key informant interviews a stratified random sample of the population was identified. The criteria used in the stratification and the subsequent analysis of the data included age and gender. The survey instrument comprised a structured questionnaire, with 47 common variables and a few country specific additional variables. The questionnaire included sections on the personal details of respondents (age, gender, socio-economic strata), educational and work experience, general perceptions of entrepreneurship, and (specific to those who display an entrepreneurial propensity) causes, processes and obstacles in the

realization of their enterprising potential. The respondents were selected through a random sample of permanent residents of the area with quotas for gender and age and a control for unemployment. Permanent residence was a prerequisite for respondents, since we were interested to register the views and opinions of the inhabitants of the selected rural areas, not the transient impressions of temporary visitors.

A total of 4,939 questionnaires were completed, between January and March 2001.¹³ All national teams had carried out a number of in-situ pre-tests in advance. Pre-tests led to minor amendments in routing and phrasing of a small number of questions, as well as to the addition of a few 'national' questions, mainly of an explanatory nature. Before the beginning of fieldwork the project was announced/advertised locally, so as to inform the population and hence reduce the rate of rejection among the interviewees. In order to reach different subgroups of the population the interviews were conducted at varying daytimes between 9 a.m. and 8 p.m.

The entrepreneurship survey From the outset of this survey, there was no intention to create a representative sample. More specifically, the firms chosen for inclusion in the sample had to be *innovative or dynamic in a regional context*. This highly selective sampling means that it is difficult to generalize on the characteristics of entrepreneurship in rural areas, because of differences in the nature and extent of innovative activities between different regions.

The main aim of the Entrepreneurship Survey was *to evaluate the contribution of the entrepreneurial and innovative ventures in stimulating economic development in rural areas*. Analysis of the data collected has provided us with a valuable amount of information on this key question, as well as on a number of interrelated topics, such as: the nature and type of existing 'dynamic' enterprises in the CSAs; a profile of local entrepreneurs, the significance of entrepreneurship in generating employment and economic growth in a rural environment; the extent to which the existing institutional, social and technological environment and infrastructure, encourages and facilitates entrepreneurship, the implications of ICTs for local firms; and their actual contribution to surmounting the barrier of remote location.

A survey of 996 innovative entrepreneurs (approximately 100 in each CSA) was conducted in order to gain an in-depth understanding of the processes at work in the countryside. In order to monitor the innovative propensity of the enterprise a number of screening questions were asked during a short telephone interview containing five questions.¹⁴ The initial intention of the Survey was to include innovative enterprises only. However a first round of searching for innovative firms revealed that these were thin on the ground in several CSAs (e.g. Greece, Portugal and Poland). Hence, an additional criterion of efficiency was added.

¹³ Due to a number of reasons, the proportion of the sample age-gender segments was slightly different than the total population figures. In order to correct for these discrepancies, so that inferences to the total population could be made, we had to apply weightings to the sample. In the tests that followed it became evident that the weightings had only a marginal effect but, for reasons of comparability it was decided that the weights should remain. In the few cases where weightings distort the results, they were removed, and clearly marked.

¹⁴ The precondition for eligibility was at least one positive answer. The first three questions check the innovativeness, while the remaining two the efficiency of the firm.

Therefore the Survey is addressed to *innovative and/or growth-oriented* enterprises. Hereafter these will be referred to jointly under the joint term *dynamic*. The rejection rate during the telephoning filter questionnaires was low, because a majority of entrepreneurs were willing to participate in the survey.

An additional stratification criterion used in the selection of the sample was sector. There were some minor discrepancies between the sectoral composition of employment in the regions and the composition of the sample but this was on account of the difficulty in identifying innovative enterprises in some of the sectors concerned (agriculture, hotels and restaurants and other services). However, the enterprises surveyed are broadly representative of the total in each CSA and thus innovative within their sectoral context. For the purposes of the survey a questionnaire that combined mainly closed and, to a lesser extent, open-ended questions were used. The questionnaire included sections on the enterprise, the start-up process, product/service innovation, market change, technological change, information, and the entrepreneur.

In most areas the sample selection was not an easy task. Few local agencies had a clear picture of the actual enterprise stock active in the area and its dynamics. Hence it was necessary to collect partial information from a multitude of sources (e.g. directories of firms, list of firms assisted by any scheme, such as Incentives Laws, the Leader initiative). Key informants (e.g. Regional Chambers of Industry and Commerce, Regional branch of Ministry of Agriculture, Local Development Agencies and Business Consultants) also provided national teams with lists of local enterprises that were known to be in some way innovative or dynamic. Finally, the snowball method was also used, since during the initial stages of the survey interviewees were asked to indicate us specific firms they considered dynamic.

The survey instrument comprised a structured questionnaire of 709 common variables, produced after several rounds of discussions and amendments made by all participating teams in order to ensure its efficiency in alternative rural environments. The subject of the survey investigation was the entrepreneur. However, since entrepreneurs are difficult to trace outside their businesses, in practice, the unit of analysis was the enterprise. One member of the research team visited the entrepreneurs and the interviews were conducted over periods that lasted up to 3 hours in some cases. Prior to the commencement of the fieldwork, the project was announced in several local and regional publications.

The survey was conducted during the winter/spring/summer of 2001. The precise period was selected so as to locate the various seasonal economic units related to tourist sector in operation, but still in the low season of their activities, in order to ensure the participation of the entrepreneurs in the survey.

Drawing upon the findings of the entrepreneur survey we conducted 10 case studies per CSA where we analyzed in great detail the particular characteristics of the historical trajectory of each enterprise. For that matter in each case study we conducted interviews with both the entrepreneurs and 1 or 2 employees.

The structure of the book

The book combines a review of previous literature with analysis of original data, based on fieldwork in 10 CSAs in five European countries. It is divided in two

main parts. The first one is on *Rurality and peripherality* and consists of five chapters that is:

Understanding peripheral rural areas as contexts for economic development (chapter 2). This chapter provides an analytical framework for a better understanding of contemporary peripheral rural areas as contexts for economic development, combining different interpretative traditions in studies on peripheral rural areas. The re-interpretation of existing concepts, seeks to add value to the available literature, leading to a four-dimensional approach to peripherality (periphery as distance, as dependency, as difference and as discourse) as well as a holistic approach to rurality. These approaches are then combined to produce a multi-dimensional, dynamic view, which seeks to generate a broader theoretical understanding of the processes underlying economic development in peripheral rural areas, thus providing a suitable framework for policy formulation and delivery.

Entrepreneurial behaviour in rural contexts (chapter 3). This chapter points out that our understanding of the impact of the entrepreneurial process in rural socio-economic milieus is incomplete, which is used as a justification for revisiting the issue of entrepreneurship in a rural context. Two key research questions are addressed: firstly, what are the sources of entrepreneurial talent; and secondly, to what extent are they influenced by the characteristics of rural areas. The approach adopted differs in two significant ways from earlier empirical and conceptual studies. Firstly, it develops a model derived in large part from empirical findings in the ten CSAs, and previous work in the area of entrepreneurial studies. The model is not a 'de novo' creation, but rather a process in which certain contributions are central. Secondly, in order to capture the characteristics of the CSAs under investigation, an approach is used that identifies elements of similarity and elements of diversity.

European rural SMEs in the context of globalization and enlargement (chapter 4); Europe has witnessed the combination of two sweeping and overarching trends which are leaving deep imprints on its economy. The first is globalization, the effects of which are felt even in the most remote parts of the world. The second is the deepening economic and political integration of Europe. Both trends are influencing the future development of Europe's peripheral rural areas, although in different ways. For this reason the chapter focuses on three key issues: the influence of EU policies on rural peripheral areas, the level of participation of SMEs located in the rural peripheral areas in the process of globalization and finally opportunities and challenges appearing for SMEs as a result of the imminent enlargement of the EU.

Technology, peripherality and rurality (chapter 5); This chapter is critical for the understanding of the role of entrepreneurship in rural areas due to the increasing importance of innovation in the development process, and the inequalities in the distribution of innovation between rural areas. The literature review highlights the importance an innovation systems approach, pointing out the multidimensional character of the innovation process, the importance of various factors to it, and the nature and extent of interaction between them. Companies, institutions, organizations, human skills, public policies and infrastructure all play a crucial role in the production, diffusion and integration of new, economically

useful knowledge in an area. In this context, our empirical evidence points to the lack of most of these preconditions, thereby affecting the development path of rural regions with respect to innovation.

European policy to foster entrepreneurship in rural peripheral areas (chapter 6); this chapter is concerned with various policies aimed with encouraging entrepreneurship and enterprise development in peripheral rural regions. It aims to unravel the current complexity of enterprise support policy distinguishing between different levels of governance and types of policy. Using evidence from the ten CSAs, the chapter focuses upon a number of lessons that can be drawn from the experience of rural enterprise policy before discussing some of the areas that policy needs to address in order to build-up the entrepreneurial capacity of peripheral rural areas, including potential sources of entrepreneurship, the physical and social infrastructure, and ways of overcoming barriers to entrepreneurship and innovation.

The second part of the book is concerned with *Entrepreneurship in rural areas of Europe*, comprising of six chapters:

Sources of entrepreneurial supply and embeddedness in rural Cumbria (chapter 7); The chapter assesses the nature of entrepreneurship, exploring the degree to which embeddedness upon a rural setting constitutes a source of competitive advantage or provides obstacles to entrepreneurial ventures. In doing so, this chapter utilizes conceptual schemata developed by institutionalist economists and economic sociologists in interpreting micro-level findings of extensive fieldwork investigation in the CSA. The impact of rurality upon the strategies of innovative enterprises does not appear to be exclusively and heavily negative. Indeed, most enterprises attract their workforce locally, acquire a large percentage of their materials from within the region, and direct nearly half of their total outputs to the region. Thus, in many significant ways the local socio-economic structure underpins the survival and growth of these enterprises. The rural location of the enterprises acts as a barrier to product and market innovation.

Entrepreneurship in Devon & Cornwall: policy perspectives (chapter 8); This chapter is concerned with entrepreneurship and SMEs development in Devon & Cornwall, focusing particularly on rural districts outside the region's urban centres. It considers how entrepreneurship is contributing to the needs of rural development in the sub-region, as well as identifying the needs of entrepreneurs, which policy might help to address. The final section critically assesses the adequacy of existing policy approaches.

Entrepreneurship in rural Germany: Waldsüt and Nordwestmecklenburg (chapter 9); the chapter sets out the results of the empirical fieldwork conducted in the German CSAs. The main purpose of the population survey was to identify subgroups in the population that show a high propensity for and positive attitude towards entrepreneurship. The main purpose of the entrepreneurship survey was to classify enterprises according to their innovative ability and their attitudes towards innovation over recent years and looking into the future. In order to derive a reliable system of classification a cluster analysis was undertaken. The empirical findings and the characteristics of rural regions are used as a basis for

conceptual suggestions for business support measures and rural development policies.

Entrepreneurship in rural Greece – Kilikis and Lesvos (chapter 10); The chapter emphasizes the great importance of agriculture in the Greek economy, the underdevelopment of civil society that hinders the development processes, as well as the fact that the countryside is understood in a very negative way in Greece. Based on the fieldwork, it is argued that entrepreneurship is a source of employment. The two CSAs are characterized by factors of unity such as: the over representation between the entrepreneurs of those that their parents were entrepreneurs themselves, of the in-migrants, of those that have leaved outside their rural environment, of those that received support from the government and finally that firms trying to introduce innovative activities face similar hindrances. On the other hand, there are factors of diversity too such as that companies in Lesvos are much smaller than those in Kilikis.

Entrepreneurship and innovation in two contrasting Portuguese rural areas (chapter 11); Important features of economic development are context-specific and path-dependent. With this in mind, different regional contexts are investigated to examine aspects, such as the incidence of entrepreneurship, entrepreneurial culture, learning processes and innovation behaviour. Two contrasting rural areas were studied: Baixo Alentejo, a remote rural area close to the Spanish border, and Oeste, a peripheral rural area close to the Lisbon metropolitan area. The fieldwork results suggest three main aspects to adequately address entrepreneurship and innovation local needs in peripheral and marginal rural areas: increasing policy sensitivity to rural diversity and contingent factors, fostering mobility as a source of learning, and reshaping local rationalities of action towards social and regional openness and reflexivity.

Entrepreneurship in rural Poland: Zary and Bialystok (chapter 12): The chapter presents a short profile of Poland, making allowances primarily for the characteristics of rural areas and socio-economic characteristic of the two CSAs, and presenting the main findings of research work. The regions chosen for field studies are located in peripheral regions but belong to two different types of regions. Zary represents regions characterized by a large share of land previously belonging to state-owned farms, and Bialystok represents regions characterized by a lower density of enterprises in the agriculture and food sectors. As a consequence, these districts reflect the polarization processes occurring in Poland.

The concluding chapter (13) represents a synthesis combining theoretical issues with analysis of entrepreneurship in the 10 rural areas of Europe.

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PART I
RURALITY AND PERIPHERALITY:
THE STATE OF THE ART

Chapter 2

Understanding Peripheral Rural Areas as Contexts for Economic Development

João Ferrão and Raul Lopes

Introduction

This Chapter suggests some basic guidelines for a better understanding of contemporary *peripheral rural areas* as contexts for economic development.

There is no consensus on the meaning and content of the phrase *peripheral rural areas*. It is therefore necessary to explain the analytical framework used in this book.

This chapter offers an analytical framework put together from the various different interpretative traditions in periphery and rural areas studies. Regardless of the historical conditions under which these studies were written, the different interpretative traditions contain a number of aspects which can be applied using a new approach – one which can integrate them into a coherent theoretical whole. At the same time, the history of the many theoretical debates in this field is suggestive of growing intellectual maturity over the years, with clear lessons for today.

This exercise, in which older concepts have been re-interpreted, thus seeks to add a new value which will be of use in understanding the underlying processes of economic development in peripheral rural areas.

For practical reasons we have analyzed separately the different interpretative traditions in the literature on periphery and on rural issues.

In the first case (Section 2, p. 32), the available literature leads us to put forward a four-dimensional concept of periphery: periphery as distance, periphery as dependency, periphery as difference and periphery as discourse. A final *comprehensive 4D approach* is then presented. In relation to the latter (Section 3, p. 44), we sum up by suggesting the use of a *holistic approach* able to capture the complexity and diversity of contemporary rural areas.

The comprehensive 4D approach and the holistic approach are then combined (Section 4, p. 53) to produce an analytical framework which helps us to understand how economic development takes place in peripheral rural areas.

The proposed multi-dimensional, dynamic view seeks to generate a broader theoretical understanding of the processes underlying economic development in peripheral rural areas, thus providing a suitable framework for policy formulation and delivery.

Periphery: adding new value to academic tradition*Introduction*

Over the last few decades, different meanings have been attributed to periphery in the literature of regional analysis. In some cases, periphery issues are discussed against a clear conceptual backdrop. In others, descriptive categories or mere spatial metaphors are put forward. In yet others implicit references underlie the ideas which are set out, but this is never quite formalized. This diversity of situations makes it difficult to carry out a literature survey on the main theoretical approaches to periphery. The attempt to organize such a survey, which follows, inevitably reflects that difficulty.

Periphery as distance: the Spatial Analysis approach

Peripheral location and the friction of distance In Spatial Analysis studies there is no explicit concern with peripheral regions. Nevertheless, the whole underlying rationale for these studies contains an implicit reference to this type of situation. In stressing the concept of relative distance and in focussing much of their research on the distance – movement relationship (see the summaries in Isard 1956 and Olsson 1965), Spatial Analysis researchers bring some specific characteristics of peripheral areas to the fore.

Spatial Analysis defines the periphery on the basis of its (time and cost) relative distance from certain places or areas which are regarded as being central by the markets they represent, or by the specialized functions they carry out. The underlying reasoning is based both on common sense facts and on ideas and principles formulated in particular by physicists two or three centuries earlier.

As a point of departure it is recognized that there is an inverse relationship between spatial interaction and distance: the greater the absolute or relative distance between two areas, the smaller will be the movement of people, goods or ideas. This relationship has been described as the friction of distance.

Peripheral location and transport costs Applying the principle of least effort formulated by Lagrange in the 18th century (natural events reach their goal by the easiest route), Zipf (1949) suggests that it is possible to define ideal spatial patterns, on the assumption that all individuals act rationally, seeking to reconcile the minimization of the cost and time taken to go from one place to another with obtaining the maximum benefit from that movement.

The friction of distance is then reflected in distance decay rates. These rates can be represented in graphical form as curves which fit Pareto's theorem. Models developed by Spatial Analysis researchers seek in particular to identify the optimum trade-off between transport costs (which increase as one moves further away from the central reference point) and land prices (which, by contrast, fall as distance increases), by defining bid-prices curves for specific functions.

With this type of procedure it proved possible to develop several models of location,¹⁵ land use,¹⁶ human settlement¹⁷ and population density.¹⁸ In all these, relative distance to a central location, the effect of friction of distance, and the consequent association between distance and the intensity of spatial interaction, are crucial elements to an understanding of the characteristics of spaces which have different relative geographical positions. Even though the word 'periphery' is not even mentioned in most Spatial Analysis studies, it is clear that the implicit concept of periphery as 'relative location' is always there.

Peripheral location and remoteness In the models mentioned above there is a clear dominance of the concept of distance-cost. But the relative distance of one place relative to another can also be evaluated on the basis of other criteria: the time it takes to get from one to the other, the type of contacts there are between them or even, as was to be emphasized from the end of the 1960s onwards (Gould & White, 1974), the kind of subjective assessments of preference/rejection.

In this second context of Spatial Analysis models of spatial diffusion of innovations stand out. Based on the frictional effect of distance assumptions, writers such as Hagerstrandt (1952) and Gould (1969) investigated the mechanisms on which processes of spatial diffusion of different types of innovation are based.

Both writers judge the probability of innovation to be greater the better the communication with innovative individuals. This inter-personal communication is made easier the greater the proximity between effective and potential innovators. Where diffusion occurs by contagion, that proximity is geographical (in other words, it involves adjacent areas). Where diffusion is hierarchical, proximity is functional (from upper-level to lower-level urban centres, for example), and there may be significant physical distances between the places in question. Friction of distance influences inter-personal communication, but the way that effect is felt depends on the type of innovation, on its carriers and on the different types of barriers (cultural, social, political, linguistic, etc.) which it may face.

Although this approach accepts that the frictional effect of distance plays an equally central role, it brings in some new elements in relation to the models of spatial interaction mentioned earlier (Pred, 1967). The fact that diffusion theories deal with intangible factors (ideas and messages) means that the role of the cost component of relative distance is of lesser significance, and makes it possible to tone down the more economic vision of the periphery as relative geographical position. And the use of some elements of the theory of communication broadens the concept of periphery to the idea of remoteness, that is, of difficulty in accessing networks of information and communication, the geography of which is not limited to the type of proximity spatial systems taken into account by the location and land use models.

¹⁵ Launhardt, 1882; Weber, 1909; Predöhl, 1925; Palander, 1935; Hoover, 1937; Isard, 1956; Alonso, 1964; and Smith, 1971.

¹⁶ Von Thünen, 1966 [1826]; Dunn, 1954; and Chisholm, 1962, for agriculture; Hoyt, 1939, and Harris and Ulman, 1945, for intra-urban space.

¹⁷ Christaller, 1966 [1933] and Lösch, 1954 [1940].

¹⁸ Clark, 1940.

Periphery as distance: a summary In traditional regional studies, the concept of periphery is associated with the distance from a given location to a point of reference, basically a place which is central in terms of markets and access to information.

Many studies have sought to show the extent to which the distance effect influences location decisions, the spatial distribution of different phenomena, processes of spatial diffusion, mechanisms of spatial interaction and even the perceptions of the local population.

The concept of periphery as distance presupposes a predominantly physical or geometric reading of space, uses the relative position of each place as the key explanatory factor for understanding its characteristics, and has two relatively independent analytical dimensions: increased transport costs and remoteness.

Periphery as dependency: the core – periphery models approach

Unequal development: a new stance Theories of location and land use based on the traditional spatial analysis approach adopt the principles of neo-classical economics. They assume that market self-regulation mechanisms will lead, sooner or later, to situations of spatial equilibrium. In this approach, 'peripheral regions' are transitional. The doubt which arises is the speed at which peripheral regions 'catch up'. For this reason the catching-up process is seen as one of the main issues to be addressed.

However, the assumption of spatial equilibrium had already been the target of some criticism. According to Holland (1976: 5), the economist Brocard stressed, in a 1929-31 work, that the spatial distribution of activities 'represents a process of continual and asymmetrical disequilibrium rather than equilibrium or self-balance'.

At the same time Spatial Analysis studies tended to lay emphasis on micro-economic aspects (the location of firms). Each space is defined on the basis of its internal characteristics, according to how production factors are spatially distributed within it.

Again according to Holland (1976), this predominantly micro-economic view had already been criticized by writers such as Ohlin (1933). For this writer, a region should be defined taking into account both its internal characteristics and the types of relations it sets up with the national and international economy (trade flows, for example).

The idea thus became established that there was a structural relationship between the unequal nature of capitalist development and the formation of core–periphery territorial models. But there were two extreme positions on this issue, one of them liberal, the other radical.

Unequal development and backwardness: the liberal and functionalist view The critique of the assumption of spatial equilibrium and the geographical conception of spatial systems would later come to be broadened through the seminal works of Myrdal (1957). A new perspective of peripheral regions thus began to emerge, whereby they were seen more as a problem of dependency and not so much as one of relative distance from developed regions or more central locations.

Albeit in different ways, the work of Perroux (1950) and Myrdal (1957) put the emphasis on four fundamental statements for the emergence of this new conceptual approach to periphery:

- the theory of location is inseparable from the theory of economic growth;
- greater knowledge of the international dimension of regional problems is required;
- inter-regional disparities are a structural feature of capitalist development (Myrdal's notion of circular, cumulative causation);
- public policies are needed to fight against the deepening of inter-regional disparities.

This view would be formulated in a more general framework in the doctrine of unequal development (Robinson, 1962).

In this new context, Friedmann (1966) suggested the term *core region* as a replacement for the term *growth pole* initially used by Perroux and later by Boudeville (1961). A few years later, Friedmann (1972) applies Hirschmann's (1958) north/south divide to the regional level: 'in this model, Hirschmann's distinction between a "developed" north and an "underdeveloped" south was transformed into a *core and a periphery* respectively. The latter was defined as a region that stood in a relation of external dependency to powerful core region interests' (Friedmann & Weaver, 1979:116).

The same writers comment further: 'This unequal relationship could as easily produce increasing tension, conflict, repression...as it could result in gradual reform and adjustment' (*ibid.*).

For Friedmann and others who stressed the association between economic growth and regional planning, 'the elimination of the "periphery" through the careful implantation of new core regions became the principal intermediate objective', the main objective being to consolidate 'a nationally integrated space economy that would facilitate the efficient attainment of further increments of economic growth' (Friedmann & Weaver, 1979:118, referring to a study carried out by the former in Venezuela in 1966). For Hilhorst (1971), for example, better access to information on techniques of production and communication, together with the adoption of 'core' values by the elites in the periphery, would lead to convergence between the two types of areas, though this writer does recognize that the process may require five or six generations.

Under this liberal and functionalist approach, the problem of peripheral regions is basically a matter of backwardness in relation to modernization processes currently under way. Periphery is therefore synonymous with laggard region, and the eradication of peripheral situations is one of the key objectives of policies which seek to combat regional imbalances.

Unequal development and the spatial division of labour: the radical and structuralist view For other writers however, the structural interdependence between the centre and the periphery and the manner in which that relationship is essential to the development of the capitalist economy justifies a more radical interpretation. The end of the 1960s and the beginning of the 1970s witnessed the

publication of a series of works on the unequal nature of the international division of labour which would question the liberal, functionalist view on unequal development. As a group, these publications, which are Marxist in orientation, converge on some essential points (see, for example, Baran, 1957; Frank, 1969; Emmanuel, 1969; Amin, 1970 and 1973; Palloix, 1972):

- there is growing world integration under the capitalist mode of production;
- the historic consolidation of this world economy implies a structural opposition between two types of areas with different development models: an advanced centre and an underdeveloped and dependent periphery, particularly as far technology and finance are concerned;
- expansion of the centre's development model is not possible without the existence of the periphery;
- exploitation of the periphery by the centre took place initially as a result of the imposition of a primary products export sector developed on an extraverted basis, and later by the relocation of unskilled labour-intensive industries.

In this approach, the periphery of the world system is necessary for the progress of the development model at the core of that system. Its development depends on the way it is integrated into a system of global capital accumulation. And it is precisely this structural dependency on the centre's development model which explains the increasing underdevelopment of the periphery, reflected both in its increased external dependency and in the exacerbation of its internal fragmentation between areas which have benefited from capital on the basis of exploitation of existing resources, and areas where pre-capitalist forms of production persist.

According to Friedmann and Weaver (1979), South American writers like Sunkel (1970) and Coraggio (1972) were the first to apply Marxist theories of dependency to regional development. The publication edited by Seers *et al.* in 1979 is the first attempt to systematize this doctrine in relation to Europe, with special emphasis on the countries of Southern Europe. The transposal of Marxist theories of the international division of labour to the intra-national level, based on the branch-circuit concept and on the role of multi-national and multi-regional corporations, is to be found in a growing number of scholars.

Lipietz (1977), for example, develops the concept of the branch circuit, suggesting a clear parallel between the new international division of labour and the spatial division of labour which arises between regions with unequal levels of development within the same country. Using the case of France as his point of reference, Lipietz argues that there are three types of regions, the unequal development of these various types of regions being the result of inter-regional relations which develop in the framework of an intra-industry division of labour which is imposed by the logic of capitalist accumulation.

Along the same lines, Aydalot (1980 and 1983) sees a relationship between the emergence of a new spatial division of labour and the role of the major multi-national and multi-regional corporations. These corporations can choose the most favourable location for their various businesses, taking advantage in particular of the type of labour force available in each region. Thus it is to the periphery that operations involving intensive use of unskilled labour are allocated. This approach

takes up the theory of the new international division of labour adopted by Fröbel *et al.*, (1980) for the world economy as a whole. Under this approach, the periphery is just the passive recipient of outside investment by the TNCs.

It is true that there is no overall consensus, even among writers of Marxist orientation, on this analogy with international unequal development theories (see, for example, the publication edited by Carney *et al.*, 1980). But for all of them unequal spatial development is not just the inevitable consequence of the expansion of capitalism, but a condition for its further progress. The peripheral nature of certain regions is therefore a structural fact of this type of economy.¹⁹

Periphery as dependency: a summary The concept of periphery as dependency was used in particular in the framework of core-periphery models of development, mainly under the theory of circular, cumulative causation (liberal and functionalist view) as well as in the Marxist unequal exchange theory (radical and structuralist view).

Both views share the idea that there is a structural interdependence between the centre and the periphery in capitalist societies. But while the former see in that interdependence a relation of domination which can (and should) be fought against by taking the centre to the periphery, the Marxist view sees a relationship of exploitation which will only cease when countries disconnect from the capitalist model or, in the extreme case, when capitalism itself collapses.

From the point of view of the development of concepts of periphery, centre-periphery models made two important contributions. First, they rejected the assumption of spatial equilibrium which underlies the neo-classical models. Secondly, they broaden the range of factors which explain the formation of peripheral situations, both in terms of scale (integration of the periphery in national and global systems) and in terms of the analytical dimensions to be considered (economic, political, cultural and social aspects which are specific to the periphery). Henceforth, periphery would not be seen as basically a problem of location, but rather as an issue related to development models. The periphery is structurally associated with situations of dependency, and consequently with under-development.

For both views, the *peripheral condition* is seen as a situation to be denounced and fought against. They stress the reasons for, and the consequences from, actually *being* peripheral, not the implications of *being located* in the periphery.

Periphery as difference: the global–local interplay approach

Beyond dichotomous views From the 1970s onwards, the limitations of both views on unequal development became ever more apparent.

The diffusionist view of development, associated with the idea that the centre could be taken to the periphery by setting up growth poles specifically for that purpose, was shown to be too simple when confronted with the failure of many such initiatives.

¹⁹ For a more recent contribution of the neo-Marxist interpretation to the centre-periphery problem in Europe see Amoroso *et al.*, (1993).

At the same time a critique emerged of the excessively mechanical nature of Marxist theories of the international division of labour and the problems associated with carrying them across to the intra-national level. Core-periphery theories were accused of suggesting a reified interpretation of space, in which regions with certain predefined characteristics 'exploit' areas with different characteristics (Peet, 1998). The geometric metaphor of core-periphery had been taken too far, going beyond even the problems of the ecological fallacy of which spatial analysis studies had long been accused.

In two complementary texts, Ferrão and Jensen-Butler (1984 and 1987) criticized the theoretical basis of the various versions of the core-periphery model, while nevertheless recognizing their possible relevance, in a number of cases, from a descriptive point of view.

Alongside this, great importance is attached to path-dependency, so as to avoid any kind of determinism associated with the idea of the peripheral condition being the inevitable and lasting consequence of the mechanisms of economic growth. Rather than identifying centre-periphery patterns, these writers seek to establish to what extent, and under what conditions, regions with differing degrees of economic centrality and geographical position developed in different ways.

Once a broader interpretation of the peripheral condition had been achieved, revisions to the concept of periphery focussed on the nature of the global-local interplay.

The question raised by a growing number of writers is the following: why do similar regions (even peripheral regions) not react in the same way to the global restructurings which affect modern societies and economies, when even the most remote regions are known to be not immune to the impact of increasing global integration? From this point of view, the work of Massey (1984) or the work edited by Cooke (1986), significantly entitled 'Global restructuring, local response', to quote just two examples, mark the transition to a new series of debates, with clear implications for the concept of periphery.

Theoretical output during the 1980s and 1990s does not explicitly mention periphery. This may be a reaction to the overly dichotomous view which underlies the core-periphery models of the two previous decades. But it does contain a series of aspects which are particularly relevant for a new interpretation of periphery. We will focus on three of these aspects which seem to us to be the most significant.

The relevance of the internal dynamics of regions The extraverted view of periphery, which underlies the unequal development models, gave way to a clear concern for a better understanding of, and more effective control over, the internal dynamics of regions. In general terms, the argument runs that the strength of regions derives mainly from their internal economic, social and cultural dynamics.

Recognition of the endogenous component in regional development leads on to studies of the multiplicity of regions' historical backgrounds and, in consequence, to the discovery that there are different local development models within an increasingly interactive global system.

For those mainly concerned with social development issues (poverty, unemployment and social inequality), this justifies strategies of self-reliance in the name of a 'different development', territorially integrated and seeking to satisfy the

basic needs of people by mobilizing local resources (Friedmann & Weaver, 1979; Stöhr & Taylor, 1981).

For those who are the critical descendants of the structuralist view, global integration gives added value to, and is based on, local differentiation, thus making territorial diversity a persistent characteristic of the world-economy itself (Dunford & Perrons, 1983; Gregory & Urry, 1985; Leborgne & Lipietz, 1988).

In both cases, however, territories are seen as having specific individual characteristics and a capacity for independent action which would have been unthinkable in the dichotomous models of unequal development. It can therefore be concluded that there is not just one periphery, but several; that the nature and intensity of each one's dependency relationships with the outside world are too diversified and too complex to allow themselves to be encapsulated in general unifying theories; and that there is a dialectical relationship between global changes and local changes which is incompatible with structuralist interpretations (Asheim & Dunford, 1997).

The unexpected emergence of peripheral success stories A second key contribution to the reshaping of concepts of periphery has to do with the debate on the emergence of new industrial areas, mainly the industrial districts of 'Third Italy' (Bagnasco, 1977; Garofoli, 1981; Fua & Zaccchia, 1983; Beccattini, 1987).

The 'discovery' of these highly specialized local production systems based on SMEs drew attention to the existence of competitive forms of organisation of production and markets which do not fit in with the Fordist solutions which are characteristic of the 'centre'. At the same time, the idea of the industrial divide put forward by Piore and Sabel (1984) underlines the fact that there are two possible ways of making production more flexible, one by means of the vertical disintegration of the large Fordist corporations and another which is associated with peripheral realities, where the social division of labour and geographical proximity create an environment which encourages 'untraded interdependencies' (Storper, 1998) and reciprocity practices, which in turn boost the performance of those SMEs under dynamic localized clusters. The emergence of these realities is, therefore, interpreted in the light of a particular development model, different from the Fordist model, predominant in the 'central' regions.

Regardless of whether the extensive literature on Marshallian local production systems is more or less reliable in theoretical and empirical terms (see, for example, Benko & Lipietz, 1992), this debate contributed greatly to enriching the vein of localities studies, bringing out the importance of specific local characteristics as an object of research and the genealogy of places as a method of analysis.

The debate on emerging new spaces made it possible to demonstrate the existence of successful milieus containing institutions, collective learning processes, innovation practices and forms of governance which were quite untypical when viewed in the light of the rigid perspective of Fordist principles of production organisation and consumption (Aydalot, 1986; Maillat *et al.*, 1993; Putnam, 1993; Amin & Thrift, 1994; Asheim, 1996; Ratti *et al.*, 1997). Surprisingly, it is possible to find successful territories in non-central situations as well, even if we admit that most of them face specific structural handicaps

(institutional inertia, limited learning capacities, etc.) demanding particular proactive public interventions (Cooke, 1996; Garmise & Rees, 1997; Morgan, 1997; Santos, 2000).

The concept of 'peripheral condition' inherent in unequal development models can therefore be enriched: on the one hand, by adding the components of singularity and difference to that of dependency; and, on the other hand, by balancing the notion of external threat with that of the opportunity to conquer non-domestic markets on the basis of specific local competitive advantages.

Globalization and the new processes of inclusion and exclusion A third significant contribution to a new understanding of periphery is related to the linkage between the increasing time-space compression brought about by the new information and communication technologies (Harvey, 1989), the intensification of globalization processes (Castells, 1996) and the establishment of an archipelago economy (Veltz, 1996) which is based on a restricted number of territories, mainly urban in nature.

These two trends developing in tandem challenge the traditional views of periphery in at least two aspects.

On the one hand the world is increasingly organized into polycentric networks which question the old geography which regards many situations as peripheral. As Paul Claval states (1990: 25), 'the opposition between core and periphery has been superseded by an opposition between metropolitan and non-metropolitan areas. The new geography is made of a complex intertwining of developed islands scattered over less efficient environments'.

On the other hand, new forms of inclusion and exclusion are being generated, both in economic terms and in social, cultural and symbolic terms, and these have little to do with the classical patterns of location or the previous peripheral condition (Dunford, 1994; Hadjimichalis & Sadler, 1994). The rigid opposition between core and periphery has in a way been superseded by that which opposes the included and the excluded. And both groups – be they individuals, corporations or sectors – are to be found, admittedly unevenly distributed, as much in the 'centres' as in the 'peripheries'.

Periphery as difference: a summary The main theoretical debates of the 1980s and 1990s do not explicitly mention periphery. But they have enabled a rethink to take place in the light of one key word: difference. The notion of difference has a double meaning here: a static one, which underlines the fact that a great many situations are regarded as peripheral, and a dynamic one, which stresses the diversity of ways in which it is possible for peripheral areas to be active players in the world-economy.

Between 1985 and 1989 the European Science Foundation financed a comparative research project, involving nine countries, with the objective of assessing the applicability of the core-periphery concept at both the world level (Shachar & Oberg, 1990) and the national level (Hebbert & Hansen, 1990). The results of this project led Hansen to write in the epilogue to the book: 'the spatial organisation of Europe cannot be adequately described within the framework of the traditional centre-periphery models. These models may be helpful enough in

studies of the impact of urban centres on the surrounding areas. But the hierarchical central place system, conceived within the framework of a nation or a larger region within a country, does not help us to understand the complexity of human interactions in space. So many Europeans at present relate to different territories for different purposes' (Hebbert & Hansen, 1990: 254-5). Internal diversity and the many ways in which they can be part of wider spaces are therefore crucial features of peripheral regions.

From the end of the 1980s onwards, the genealogical approach to places led to an emphasis on the particular nature of each place. Places are presented as unique entities, by virtue of their history and the specific way in which they relate to processes which are universal in scope. In this context, the particular characteristics of many peripheral rural areas began to be seen as a positive local distinguishing factor (Moseley 1996, in Scott 2002).

The idea of difference enables us to put aside any evolutionary determinism which might be applied to all situations regarded as peripheral, both in a positive sense (the idea of catching-up, in the neo-classical view) and in a negative sense (circular, cumulative causation in the theories of unequal development). Peripheral regions are not necessarily underdeveloped, even if most of them still face serious problems. The local-global interplay is a source of both constraints and opportunities, and there is a significant degree of uncertainty to their final outcome. Contrary to the neo-classical and the structuralist views, people and institutions matter. This is the reason why the relationship between the context of action and the behaviour of the actors is an interaction which has an uncertain outcome – even in peripheral regions.

Periphery as discourse: the representational approach

From difference recognition to positive distinctiveness-building During the 1990s several non-central regions increasingly began to be associated with success stories based on competitive advantages specific to this kind of territory. The emergence of the concept of periphery as difference opened the door to these possibilities. But it was the prominence which environmental issues had meanwhile achieved, and the growing concern with identity issues in a world where globalization was fast accelerating, which led to positive social representations being constructed for some peripheral regions, supported by discourses aimed at giving these types of territories visibility and an attractive public image.

Development and damage to the environment During the 1990s environmental issues took a firm place on the public and political agenda. The debates that these issues gave rise to produced a new consciousness of the seriousness of environmental problems in the more developed countries. Thus the positive image of economic efficiency and social equality generally associated with the more advanced regions was now tempered with a negative and even pessimistic vision of the state of its environment (Johnston, 1996; Harvey, 1996).

After the classical debate between efficiency and social justice, which led to the concept of growth being replaced by the concept of development, what is now at stake is the issue of environmental sustainability. It is in this context that

discourses about periphery start to spread and to become popular. Periphery is seen as an area which is still relatively untouched by pollution or by the other environmental evils of development.

Surprisingly, the concept of periphery as distance is again invoked, but this time at the level of public opinion and with a positive symbolic connotation: distance acts in the interests of conservation because, precisely as pointed out by the neo-classical doctrines, the frictional effect of distance reduces spatial interaction. Moseley (2003: 50), for instance, talks about remoteness as a resource 'for those wishing [for] peace, tranquillity and a wilderness experience'.

Globalization and community identity At the same time a new set of concerns emerged closely associated with the potentially homogenizing effects of globalization. Politicians and public opinion in general started to focus a great deal on the memory and identity of different communities, particularly in those territories which felt most threatened by the advance of globalization.

Cultural diversity had to be preserved and encouraged as a factor contributing to social cohesion in a world which was becoming increasingly fragmented (Massey & Jess, 1995; Graham, 1998, especially Part IV; Leontidou & Afouxenidis, 1999). At the same time, maintaining that diversity came to be seen as an essential factor for a society, in which the relative significance of leisure and tourism activities was greatly on the increase. As with the environment, relative distance may assist in the survival of cultural diversity and render strategies to resist uniformity more effective.

Heritage as a new opportunity for the periphery Environment, memory, identity, sense of belonging and culture are all elements of one and the same reality: heritage. Those discourses whose object is to reinforce the positive and attractive social representations of the periphery have a solid grounding of support in the idea of collective heritage. Studies carried out in the United Kingdom on the character of rural landscapes are good examples of this position (Countryside Commission, 1998).

In a world made up of images, symbols and forms of media discourse, heritage issues have achieved pride of place. And, ironically for a world in which people are highly mobile and move around a great deal, conservation of that heritage and of its 'authenticity' demands restrictions on its use which are in part managed by the imposition of relative distance for this specific purpose.

The supporters of 'new regionalism' (see, as an example, Keating, 1998) establish a causal relationship between the re-emergence of the importance of the region and some structural aspects of society today: a new economic development model, growing interest in environmental sustainability, increasing regional consciousness and concern with, regional identity, new modes of regional governance. This new context, it is said, seems particularly favourable to peripheral regions.

Periphery as discourse: a summary The representational approach to places puts a strong emphasis on the significance of the specific character of each place, not only on the basis of its special characteristics in objective terms, but above all on

the basis of the social meaning attributed to it. The key concept here is that of periphery as a positive distinctiveness-building discourse.

The existence of particular 'authentic' landscapes and cultures helps to develop strategies of differentiation which attract people and investment from the outside. In an increasingly competitive and globalized world, forms of discourse which stress the local distinctiveness of peripheral areas become strategically significant.

However, a recent study by Tomaney and Ward (2000) on the 'new regionalism' movement looks critically at many of the above-mentioned aspects. Tomaney and Ward do not deny the importance of many of these aspects in some regions, including peripheral regions. However, they wisely remind us that 'Even now it is not clear whether they represent a contingent response to turbulent economic conditions in the late twentieth century or a new model of economic development for the twenty-first' (Tomaney & Ward, 2000: 473).

Periphery: towards a comprehensive 4D approach

The succession of different perspectives on peripheral regions is not just the result of a formal playing down of earlier doctrine. The world has changed, and it is change itself which shows up how interpretations which seemed to be theoretically sound in the light of the prevailing orthodoxies have in fact become naive or inappropriate.

Even though the approaches to periphery are contradictory in themselves, they do contain complementary elements. In fact an all-embracing view of peripheral regions must take into account all four aspects identified above: distance, dependency, difference and discourse. But in the meantime, in the light of the changes which have taken place in contemporary economies and societies, each of these four elements has a different meaning to the one originally attributed to it.

Relative distance from places that concentrate strategic resources relating to quality of life and economic performance is still relevant. But the effect of friction of distance, to adopt the language formerly used, is very different today. Factors as diverse as the elimination or reduction of tariff and non-tariff barriers to the mobility of people and goods or the expansion of the new information and communications technologies reduce relative distance, sometimes in dramatic fashion, in terms of transport costs, travel time and access to knowledge and new markets (Grimes & Lyons, 1994; Ray & Talbot, 1999; Grimes, 2000). At the same time, the growth of networked organizations and the emergence of polycentric structures, many of them at a global level, make the relationships between centre and periphery much more complex, encouraging multiple and cross-linked forms of integration which in no way fit in with the old dichotomies (Copus, 2001). In spite of these trends, relative distance from the main urban agglomerations and more developed regions still matters. And the view of periphery as relative geographical position remains dominant in a number of studies (see Wegener *et al.*, 2001, and the extensive bibliography mentioned therein).

The idea of periphery as dependency is also still relevant provided it is re-assessed in the light of today's facts. The way in which mechanisms of internationalization, trans-nationalization and globalization have developed over the last few decades suggests the need to replace the dichotomous concept of core-

periphery dependency by more complex relations of interdependence and forms of inclusion/exclusion. The general notion of peripheral territories which are dominated or exploited by interests from the 'centre' has to give way to an understanding that the real world is much more fragmented, in part made up of networks of interdependence which 'peripheral' actors develop and control in various ways, and in part being on the edge of current processes of globalization.

The question of difference is therefore crucial if we are to have a good understanding of the reality of periphery as a whole. Perhaps the relatively unexpected emergence of success stories during the 1970s in some countries and regions which had been classified as peripheral led to an overestimation of the possibility of such positive and relatively singular trajectories becoming widespread. But it had the merit of breaking down the earlier structural association between periphery and underdevelopment, opening the door to associating periphery with positive difference from the standards of development prevailing in more advanced regions and countries. For the first time, the periphery issue is not just a problem of regional imbalances to be eradicated. It is also a challenge, the assertion of difference and distinctiveness.

The idea of periphery as discourse derives from the concept of periphery as difference and, at the same time, nourishes it. In several cases it has been shown to be very effective. But on occasion there are question marks over its sustainability over time. It is true that some peripheral regions became well-known in a way which few would have thought possible until recently, some by reason of the 'authenticity' of their culture, others by reason of the wealth of their landscapes and environment, and yet others, in smaller numbers, by reason of the niches of the world market which they have succeeded in creating. But in a world where the media role is so strong and the thirst for novelty is so pervasive, the visibility which some peripheral regions have achieved is not always reflected in lasting mechanisms enabling new models of local development to take root. Once again, the end-result seems to be relatively unpredictable. The way forward is not blocked. But it is also not guaranteed.

The idea which emerges most forcefully from this set of comments is that an analytical framework useful to foster economic development in peripheral regions should be able to understand both opportunities and threats in the light of the proposed comprehensive 4D approach, with a view to building more balanced, polycentric spatial systems (EU Commission, 1997; Azevedo & Cichowlaz, 2002; Baudelle & Castagnède, 2002).

Rurality: deepening current academic trends

Introduction

Until a few years ago, the rural had been basically defined as a space where those who devoted their lives to agriculture lived and worked, agriculture being the main specific feature of the rural world. As a matter of fact, in the main international literature up to the 1990s (Lowe & Bodiguel, 1990) rural areas are predominantly defined by their opposition to the corresponding characteristics of urban spaces:

the economic function; the patterns of human settlement and land use; the way of life and the cultural identity of those who live in the country.

As changes took place, so the approach to the rural in the specialist European literature also changed. In chronological terms these changes can be organized into three distinct periods: the period leading up to World War II, the 30 years which followed it, and the last 15 years.

Until World War II rural areas were seen as those which were left over from the urban world, a space in which the main economic function was to produce food, a space which from the point of view of land use was dominated by the 'natural' landscape and which, from the cultural point of view, carried the stigma of affording those who lived in it a poor standard of living and lacked a framework of the values and behaviours of 'urban civilization'.

This identification of the rural with the archaic in society must have contributed to a situation where, for a considerable period of time, rural issues were low down on the agenda of social researchers, to such an extent that as late as the mid-20th century few national statistics systems collected data on the facts of the rural world.

This situation was to change radically with World War II. It began to be seen that apart from its not inconsiderable positive effect on the balance of trade, self-sufficiency in food played a strategic role. In addition, the modernization of agriculture was seen as an essential part of the effort to industrialize Europe. These two factors explain why academics and politicians began to show an interest in the rural world.

Rural areas as spaces for agricultural production: four competing views

In the decades following World War II rural issues achieved a significant degree of prominence in the academic literature, especially in the 1960s and 1970s. Four main approaches to rural issues are to be found during this period:

- a neo-classical approach which focuses on the management of agricultural units or farms;
- a Marxist-oriented approach which stresses the social change taking place in the countryside;
- a populist approach and a Catholic-inspired socio-economic approach, both focusing on the peasant family and on its modes of reproduction, trying to base in those families a third development path between capitalism and socialism.

Modernizing agriculture: the neo-classical approach Studies carried out by agronomists and economists in the decades following World War II were chiefly concerned with the modernization of agriculture. The rural was subordinate to agriculture. For this reason the rural exodus was seen as a positive feature. It was perceived as a necessary condition for the modernization of agriculture demanded by the urban-industrial growth model. The effects were twofold: to feed the urban population at a low cost, so as not to put upward pressure on industrial wages, and to ensure a steady supply of labour for a rapidly growing industry.

Agronomists and economists – especially those of the neo-classical tendency – discussed what factors were essential to make the agricultural ‘enterprise’ viable (Heady, 1952; Lauwe *et al.*, 1963). This explains their concern to create the conditions for the economic optimization of the factors of production (land, labour and capital). The core issues in this approach are the ways in which resources are utilized and what factors affect their efficiency, its highlights being the discussion of agricultural mechanization and technological effectiveness.

This was, accordingly, a micro-economic level analysis concerned mainly with the effectiveness of agriculture as an activity. It underestimated the social and territorial context of agriculture, and in so doing ignored the rural environment as such.

Social change in the countryside: the Marxist-oriented approach Karl Marx regarded the opposition of town and country as a pervasive feature in the history of civilization reflecting, and feeding, processes of division of labour. In the 20th century the urban-rural dichotomy was often used as an ideological tool for political ends. Kayser (1990:14) makes a revealing comment on the presentations made at a seminar in Paris in 1951 entitled *Villes et campagnes, civilization urbaine et civilization rurale en France*: ‘in the face of the complex new developments which are on the horizon, the best minds of this age in the social sciences refuse to abandon the solid and comfortable ground of the rural-urban dichotomy.’

The approach which relied on the rural-urban dichotomy continued to dominate European rural studies in the 1960s and 1970s (Rambaud, 1969; Kayser, 1973; Williams, 1973). Most of its exponents adopted a Marxist-oriented position which they saw as an alternative to the neo-classical perspective, whether they were economists, geographers or sociologists (Halbwachs, 1955; George, 1964; Gervais *et al.*, 1965; Ossard, 1976; Massey & Catalano, 1978; Newby, 1979 and 1981; Bradley & Lowe, 1984).

In this dichotomous approach the country is defined by opposition to the city, so that the rural becomes a formal category with no individual existence of its own. In this way – especially in France, where this line of thinking became a school of thought – changes in the countryside are perceived as being the particular expression of the process of capitalist accumulation which has its epicentre in the cities.

Analysis in the 1960s and 1970s was predominantly based on a Marxist conceptual framework. The main objective was to provide an interpretation of the economic and social changes which were taking place in the rural world, focussing more on the economic and social structure of rural areas rather than on the analysis of agricultural activity – by contrast to neo-classical studies. These studies covered a wide range of subjects, and sought to comprehend them on the basis of a methodology which was interdisciplinary in nature.

Stressing peasant motivations and ethics: two contrasting approaches Populism undertakes the daunting task of considering a viable alternative to capitalism. Within this context, traditional non-capitalist institutions, such as the family and the community, are instrumental in the process of development.

Populism can be broadly perceived as a protest against capitalism from the point of view of the small immediate producer, agricultural or otherwise. Populism demanded the abolition of feudal forms of production, as well as capitalism and socialist policies of collectivization. Therefore, populism is characterized by a return to, or adaptation of, more simple and traditional forms and values that emanate from rural people, and particularly from the more archaic sections of the population who are taken to be a repository of virtue.

Despite the fact that populism has emerged in many different regions of the world at various times it flourishes in a basically analogous landscape: traditional societies undergoing a transition towards modern industrial production.

Populist ideas were boosted by the ambitious and highly authoritative work of Alexander Chayanov, who, drawing on the evidence in early modern Russia, questioned the economic rationale for large enterprise-led industrialization.

Chayanov's main argument (1966, original 1925) is that the peasant family constitutes the basic unit of both production and consumption. The fact that production and consumption are combined within the same unit means that family production is constrained by the minimum socially acceptable level of subsistence. Thus, each family works for as long and as hard as is required in order to ensure survival. This might lead to what seem 'irrational' decisions, especially in periods of hardship, such as the employment of labour-absorbing activities with extremely low returns until subsistence demands are met. Once this is achieved the family's labour input can drop off quite drastically. Chayanov calls this phenomenon the labour-consumer balance. This idea has been further elaborated by Scott (1976) as an explanation of the subsistence ethic of the peasantry.

During the 1970s there was a revival of interest in Chayanov's work, and the development potential of non-capitalist modes of production, drawing heavily on the experience of Greece (Vergopoulos & Amin, 1975; Kasimis & Papadopoulos, 1997; Mann & Dickinson, 1978; Mouzelis, 1978; Vergopoulos, 1978; Friedman, 1978 and 1980).

At the same time, several writers adopted a Catholic-inspired socio-economic approach, a doctrinal form of discourse which was taken up by the Catholic Agricultural Youth movement in the predominantly Catholic countries of Europe – especially the Mediterranean countries.

In these studies there was an attempt to understand the process of agricultural production on the basis of the assumption that farm workers' decisions are rooted in motivations which are not just strictly economic and financial, but also involve elements of rationality deriving from the social sphere. They stress the need to incorporate into any analysis, alongside the economic unit represented by the farm or smallholding, that other 'economic unit' which is the peasant family. The understanding of the many linkages arising between the peasant family, and both agricultural and non-agricultural economic activities, is regarded as crucial.

In its normative aspects this approach did not question the liberal-productivist discourse of the neo-classical approach, in that it regarded self-sufficiency in food and solving the problem of Third World malnutrition as requiring the technological and scientific modernization of European agriculture (see, in particular, Colson, 1980). However, as a counterpoint to the mercantilist emphasis of liberal discourse the Catholic writers put forward the need for the farm worker to adopt an ethical

code of conduct, bearing in mind that his role was not just to supply food to the people but also to preserve the biological diversity of the environment, as well as to provide quality products which did not put the consumer's health at risk. What they were doing was counteracting the selfish logic of profit maximization with a different behavioural motivation founded on solidarity and paying close attention to the social aspects of agricultural activity. In current debate, this concern has found continuity in the environmental approach.

Both the populist and the Catholic-inspired socio-economic approach place greater emphasis on rurality than any of the preceding approaches. Nevertheless, its handling of the 'rural' is limited to a geographical and descriptive treatment, and there is no conceptual definition which distinguishes clearly between 'rural' and 'agricultural'.

Rural areas as spaces for agricultural production: a summary The Marxist approach, the populist approach and the Catholic-inspired socio-economic approach tended to interpret the changes taking place in the rural world as being basically determined by factors which were national in scope. And this rural world is basically perceived as being a space for agricultural production even in those studies focussing mainly on social analysis. The 'rural' remained merely an empirical reference – a small, thinly populated space which derived its economic and social structure from agriculture – to which the theories which were deemed valid for the whole of society were applied.

In any event, these approaches did make it possible to go beyond the limited view of the rural offered by the neo-classical studies. At the same time, they show that in order to understand the rural world it is necessary to adopt an interdisciplinary methodological approach.

The territorial turn

The attempt to modernize agriculture which had been started in the preceding decades led to profound changes in the rural world: the social and economic importance of agriculture declined; the rural exodus stagnated; standards of living in the country rose to a level which was close to that of the towns; and there was a growing social consciousness of the environmental consequences of intensive farming methods.

At the same time the censuses which were carried out at the beginning of the 1990s show that there was a degree of resettlement of some rural areas, to the extent that some authors even began to speak of a 'turnaround', of 'reversal' or of the 'rural renaissance' to describe the process of revitalization of rural areas which took place in most industrialized countries (see, for example, Kayser, 1990).

However, if we examine this whole process in greater detail it can fairly quickly be concluded that what had happened was a segmentation of the rural world between, on the one hand, a part of the country where the commitment to intensive farming had worked and, on the other, the rural areas which had been unable to modernize their agriculture.

In addition, the processes of economic growth together with the increase in mobility had led to new linkages between the rural and urban worlds, so that rural

areas now became increasingly differentiated according to how accessible they were from urban centres.

Finally, the emergence of environmental concerns and awareness of the ecological consequences of intensive farming methods placed the environmental debate firmly on the rural development agenda.

Since the mid-eighties a revival of interest and a new way of looking at the rural environment has become evident. Three main approaches can be identified in the literature:

- the 'urbanization of the countryside' approach, which stresses the social urbanization of the countryside, although recognizing the persistence of cultural and symbolic meanings related to rural identity;
- the environmental approach, focused on ecological concerns;
- the multidimensional approach, based on a comprehensive and systemic view of the environmental, social, economic and institutional components of the rural world.

Taken as a whole, these approaches represent what Shorthall and Shucksmith (2001) have called the shift from a sectoral (agriculture) approach to a territorial approach.

The 'urbanization of the countryside' approach With the decline in the economic and social significance of agriculture in recent decades, the traditional economic role of the rural world has been called into question.

At the same time some rural areas on the periphery of cities have increasingly come to be part of the process of urban growth – as evidenced by commuting movements between them – and this means that some European rural areas are becoming increasingly urbanized in social and economic terms. As Henri Mendras (1985) says (quoted by Kayser, 1990:12), 'La campagne redevient un lieu de vie plus qu'un lieu de production agricole'. Along the same lines, Kayser (2000) regards the rural population of today as a 'mainly urban population which lives in the country'. This writer therefore concludes that it is useless to go back to the traditional concepts and analytical categories of rurality. To understand the new reality we have to bear in mind 'the widespread use of modern technologies, the marked improvement in standards of living and amenities, the fact that collective facilities are much more accessible, and the uncontrolled spread of information, ...' (Kayser, 2000: 100).

Since the mid-seventies a group of writers have questioned the traditional dichotomy between town and country, and in its place have suggested – albeit with subtle differences – a view which sees the rural and urban as interdependent and complementary (Chamboredon, 1985; Mathieu, 1985; Jollivet, 1988; Kayser, 1990).

Mathieu (1985) is of the opinion that since the seventies there has been a trend towards modernization which makes all space homogenous. In place of asymmetry, she stresses the spatial continuum which exists between the town and the country, the result of the assimilation by country dwellers of cultural and economic urban traits. R. Pahl (1966) had already used the spatial continuum idea

to question the rural-urban dichotomy approach and the relevance of analyzing the rural independently; arguing that each individual's way of life had nothing to do with his or her geographical location but rather with his or her class position.

Chamboredon (1985) argues that the increasing economic and social integration of the rural and urban worlds should encourage us to replace the town/country duality with the notion of dual territorial belonging (urban and rural) for individuals, where rural belonging is the basis for the cultural and symbolic functions which underpin the reproduction of identity of peasant societies.

Kayser (1990: 13) recognizes the growing number of interdependencies but stresses that the dependence of the rural world on the urban is still a defining characteristic: 'L'appartenance [de la campagne] à un ensemble dont le commandement lui échappe constitue son caractère fondamental'. To this trait Kayser adds four others which together define the rural world as a 'particular mode of utilization of space and of social life':

- low density of buildings and predominance of landscapes covered in vegetation;
- economic use of the land predominantly for agriculture, forestry and pastoral purposes;
- a way of life in which people are part of the group and have a special local embeddedness;
- an identity which has strong associations with the peasant culture.

The 'urbanization of the countryside' approach leads us to a differentiation of rural areas according to their proximity to urban centres and the degree to which their production structures are modernized. This trend expresses itself in the division of the rural world into: 'core' or 'economically integrated' rural areas; 'remote' or 'marginal' rural areas; 'the deep country' or 'low density' areas; and 'intermediate' or 'peripheral' rural areas (OECD, 1993; Schmitt & Goffette-Nagot, 2000). These taxonomies reflect a diverse range of views of the asymmetries which are to be found in inter-spatial relations, the traditional rural-urban dichotomy being replaced by a view in which the city and its surrounding 'core rural areas' are seen as having a high degree of complementarity, while 'remote rural areas' are seen as areas with weak relational density whose loss of complementarity with urban areas may place them on a road to marginalization, although it is true – as Kayser, 2000 stresses – that some 'islands of resistance' to desertification, and even of progress, have emerged in remote rural areas, in cases where new social actors have appeared in the villages.

The environmental approach For many years, agricultural activity gave the rural world the aura of an environmental paradise, and farmers were viewed as the gardeners in that paradise. In the light of the process of change which had taken place in earlier decades, a number of studies which emerged in the 1980s adopted a conservationist approach which sought to protect the rural landscape (Shoard, 1980; Hampicke, 1990, for example). But the image of the rural world as an environmental paradise rapidly crumbled.

Since the end of the 1980s the environmental effects of intensive farming methods have come under the scrutiny of ecologists and thereby have also become part of the concerns of agricultural policy. The fight was on between those who argued in favour of intensive farming methods (in the name of competitiveness) and those who argued for an environmentally-friendly agriculture, based on preserving biological diversity and on the use of sustainable production technologies (Buckwell, 1989; Mathieu & Jollivet, 1989; Bromley, 1991 and 2000; Lowe & Ward, 1993; Whitby, 1994; Dreyer & Riedl, 1995; Winter, 1996; Larrere & Vermersch, 2000).

With frequent invocations of the economic concept of externality, the key debate has focused on the guidelines for the use of public subsidies to agriculture and on what the farmer's role should be: that of a producer of food and/or of a producer of environmental public resources.

These have been conceptualized as rural amenities (OECD, 1994), seen as precious unique attributes of the territory (culture, natural and architectural heritage, land resources), to which value and utility are added according to individual taste.

Despite the relatively poor success rate achieved by the amenities solution in terms of leveraging rural development (see Guglielmi, 1995), it seems premature to be drawing conclusions from the environmental debate regarding its consequences for the rural world. For the time being we can already see that it has had an influence on the shaping of agricultural policies, in which the concepts of multi-functionality (OECD, 1998), diversity and sustainability (Flora, 1999) have taken a firm place (Hoisl, 1996).

It should however be noted that the environmental approach to the rural world is still very much tied to agriculture and natural resources, and does not therefore add up to an integrated approach to rurality.

In any event, it should also be noted that, as with the Catholic-inspired writers of the earlier period, the current environmental debate once more puts firmly on the agenda the discussion of the motivations which should govern any analysis of the rural. On one side we have the economists, looking at the environment as an externality: they attempt to incorporate its implications in the calculations which they presume govern the behaviour of economic actors.²⁰ On the other side we have those who recognize that there are many different types of motivations which must be viewed in an integrated manner: 'instrumental motivation (that of the individual as producer or consumer of private property or goods), axiomatic motivation (of the individual as a moral being) and political motivation (of the individual as citizen)' (Larrere & Vermersch, 2000: 112).

The multidimensional approach Kayser (1990: 28) reminds us that 'we cannot make judgements about the rural world without acknowledging the key role of farmers, who are its 'overlords' and who provide the inspiration for its ways of life. But we must also take care not to reduce the field of study of country societies to peasant societies.' He also argues that the rural world cannot be properly

²⁰ [There are some economists, however, who have a different view of the concept of externalities and of their implications for the formulation of agricultural and environmental policies](#) (Bromley, 1996; Bromley & Vatn, 1997).

understood solely as a counterpoint to the city or in relation to its past. These many aspects can be seen in the variety of empirical categories which have been created for the rural world, and in the diversity of topics covered by more recent rural studies (Mathieu 1998). Amongst these the following stand out:

- the study of changes in territorial organisation, in the landscape and in the fabric of rural society as a result of economic restructuring, the increase in the number of second homes in the country and the environmental effects of production choices in the agricultural sphere (Huigen *et al.* , 1992; Short, 1992; Buller & Hoggart, 1994; Murdoch & Marsden, 1994; Hoggart *et al.*, 1995; Schama, 1995; Clout, 1998; Kronert *et al.*, 1999);
- entrepreneurial (non-agricultural) dynamics in rural areas (Huigen *et al.* , 1992; Goffette-Nagot & Schmitt, 1999; North & Smallbone, 2000);
- the expansion of country tourism and its contribution to sustainable rural development (Bramwell & Lane, 1994);
- (sustainable) rural development policies and how they tie in with the CAP (Marsden, 1993; Winter, 1996; Shepherd, 1998; Hadjimichalis 2001; Moseley, 2003).

We can summarize this diversity of studies by stating that, even though they come from different disciplinary backgrounds and have different objectives, current rural studies have four features in common: they are not tied to a view of the rural as being equivalent to agriculture, they attempt to overcome the rural-urban dichotomy, they stress the diversity of rural spaces and rural development trajectories, and they seek to establish a theoretical and conceptual frame of reference which will make it possible to adopt a territorially integrated approach.

The territorial turn: a summary The approaches which have emerged over the last decade have made clear the need to take a multidimensional territorially-integrated view in order to better understand rural areas.

As a consequence, following a whole generation of policies, starting in the 1950s, in which rural development was basically seen as modernizing agriculture by providing rural areas with basic facilities and infra-structures, the 1990s mark the beginning of a new generation of rural development policies based on a territorially-integrated vision of the rural environment. These new policies seek to ensure that rural areas will maintain their long-term competitiveness by adding value to the comparative advantages of the rural environment. Rural development has obviously acquired a new meaning and a new purpose (Moseley, 2003).

Rurality: towards a holistic approach

As mentioned by Perrier-Cornet and Hervieu (2002), the changes which have taken place in the countryside in Europe over the last thirty years have meant that it no longer makes sense to speak of rural societies. As an alternative, it does make sense today to speak of rurality as a way of describing and understanding spaces which, despite their diversity, continue to share certain characteristics such as low

population density and the economic, social and symbolic significance of natural resources.

There are not many studies which go so far as to give concrete form to a general theory of rurality linked to specific types of space, as Kayser (1990) and Berger and Rouzier (1995) have tried to do. Schmitt and Goffette-Nagot (2000: 44) seem to be correct when they conclude from a review of the more recent literature in the field that we are still faced with the impossibility of 'putting forward a simple, precise and complete definition of rural space', let alone a general theory of rural development.

In accordance with this statement, in this book the word *rural* will be used as a useful category for identifying and describing certain areas which have relatively specific uses or which give rise to certain specific social representations, while the term *rurality* will be used as a concept which seeks to describe those characteristics and development processes of areas which are classified as rural.

The adoption of a holistic approach to rurality provides us with a broader perspective for understanding economic development conditions and processes in rural areas. Such an approach would have to be based on a multi-dimensional and territorialized view, encompassing seven dimensions:

1. environment and landscape (endowment in natural resources, rural amenities);
2. settlement pattern and the demographic dynamics (population density, age structure, migration patterns);
3. quality of life (access to collective facilities and infra-structures, mobility);
4. human capital (values, attitudes, skills, capabilities) and social capital (identity, sense of belonging, networks);
5. economic profile (economic externalities, entrepreneurship, multi-functionality, long-term competitiveness);
6. institutions (collective actors, governance, policies);
7. territorial integration into broader spaces (rural-urban interdependency, local-global interplay).

Addressing complexity

Figure 2.1 contains an analytical grid which seeks to operationalize the integrated approach deriving from combining the comprehensive 4D and the holistic approaches to peripherality. With this grid we are able to capture, in a systematic way which enables comparisons to be made, the strengths and weaknesses and the threats and opportunities which affect the economic development of different peripheral rural areas.

This analytical grid makes it possible to apply the proposed wider theoretical understanding of the processes underlying economic development in peripheral rural areas, thus providing an adequate framework for policy formulation and delivery.

To what extent are peripheral rural areas and economic development mutually related? In what distinctive, contingent ways do different profiles of rurality affect crucial features like the propensity to entrepreneurship, entrepreneurial behaviour,

corporate structure and company performance? To what extent should the relationship between rurality and economic prosperity be reflected in policies and tools aiming at promoting development in peripheral rural areas? These are key questions which this book will seek to answer, with a view to converting peripheral rural areas into contexts of opportunity.

Peripherality: A comprehensive 4D approach	Rurality: A holistic approach						
	Environment and Landscape	Settlement and Demography	Quality of Life	Human and social capital	Economic profile	Institutions	Territorial integration
Periphery as Distance							
Periphery as Dependence							
Periphery as Difference							
Periphery as Discourse							

Figure 2.1 An analytical grid for understanding peripheral rural areas as contexts for economic development

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Chapter 3

Entrepreneurial Behaviour in Rural Contexts

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Introduction

Europe's rural areas, with the exception of a handful of celebrated cases, failed to attract the attention of larger businesses. This is not particularly unexpected as the characteristics of the rural have significant implications upon the availability of resources (tangible and intangible) as well as product/service markets. Therefore, economic growth in rural areas is invariably conditioned by the pervasive influence of a myriad of often small and micro-scale entrepreneurial ventures. However, the supply of potential entrepreneurs is by no means guaranteed, because such persons who could reasonably have been expected to respond to opportunities might well have been the first to out-migrate to urban areas. Indeed, even rural areas benefiting from the recent trend towards counter-urbanization endure the loss of young and dynamic individuals who pursue higher education qualifications in urban agglomerations. Within this context, the question of how a critical mass of entrepreneurship is being built is a key economic development issue for rural areas.

However, our understanding of the interface between rurality and the entrepreneurial process is incomplete. We know little about how the characteristics of the rural influence the incidence and attributes of entrepreneurial agents, and, probably, less about the function of entrepreneurship as an engine of growth and structural transformation in the countryside. This is because, to date, there have been only a handful of relatively small-scale, empirical studies deploying diverse methodological approaches in different settings (reviewed in greater detail in the following Section). As a consequence, the findings of bottom-up studies cannot be compared with each other providing only limited scope for generalization. Top-down approaches on the other side are virtually non-existent. Indeed, to date there has been only one attempt to conceptualize entrepreneurship in a rural context (Chell, 1990). Although the proposed model is suggestive it was never followed-up with rigorous empirical research. This could be explained in large part by the main argument developed by Elizabeth Chell, i.e. that *'to understand the process of entrepreneurship it is essential to discern those factors in the environment that impact upon the performance and hence success of the business. Whether the location is urban, semi-urban, semi-rural or rural is not important in itself'* (Chell, 1990: 194). Instead, she advances the idea that

entrepreneurship research should focus upon specific localities rather than abstract spatial categories – such as the rural.

This outcome is not particularly unexpected given the absence of a widely accepted paradigm in entrepreneurship research, and the diverse ‘realities’ associated with the rural. The conceptualization of the rural – like most analytical categories – is based upon commonality in a small number of important characteristics. However, profound diversities exist, between localities that possess the characteristics associated with the rural, regarding a host of other salient factors influencing entrepreneurial behaviour. Moreover, more than two hundred and fifty years after Cantillon introduced the ‘entrepreneur’ to the social sciences, and despite the publication of a large number of theoretical and empirical studies no generally accepted theory of entrepreneurship has emerged. The accumulated body of literature, emanating from diverse disciplinary backgrounds (such as anthropology, economics, education, history, political science, psychology, sociology and the broad area of business studies), provides suggestive insights in understanding entrepreneurship and the dynamics of the entrepreneurial process. However, it falls short of a consistent theoretical system of the statute or scope of the classical political economists or the marginalists.²¹

This chapter sets out to revisit the issue of entrepreneurship in a rural context. We aim to address two key research questions. The first concerns with the identification of sources of entrepreneurship in rural areas whilst the second explores the extent to which entrepreneurship is influenced by the characteristics of the rural. Our approach differs in three significant ways from earlier empirical and conceptual studies. Firstly, the Chapter presents and interprets a large body of empirical data collected in five countries (Germany, Greece, Poland, Portugal and the UK) as part of an EU funded project. The fieldwork research comprised of a survey of a representative sample of the population using a structured questionnaire (4,939 valid responses), and a survey of dynamic²² entrepreneurs in the same localities (996 valid responses). Secondly, in order to capture the characteristics of the CSAs under investigation we deploy an approach that identifies Factors of Unity (FoU) and Factors of Diversity (FoD). This approach provides suggestive insights into the entrepreneurial processes at work in the rural areas under investigation. Thirdly, we advance number of conceptual propositions regarding rural entrepreneurship derived in large part from empirical findings in ten rural areas, across Europe, and previous work in the area of entrepreneurial studies. Our model is not a creation *de novo* but a process in which certain contributions are central. These contributions are explicitly acknowledged, enabling other scholars to position our research in the wider literature.

²¹This inability to develop a broadly accepted theoretical construct, emanates – in part – from the multi-disciplinary character of research in this field. Thus, researchers from one discipline tended to work more or less independently from their counterparts in other disciplines. This combined with the fact that the study of entrepreneurship invariably constituted part of a broader agenda influenced by the specificities of time, space and discipline provided further obstacles in theory building.

²²Criteria used for the selection of dynamic entrepreneurs included: product or process innovation (at least at the regional context), strong growth in sales turnover, or recent start-up.

Rural entrepreneurship: theoretical and empirical studies*Theorizing entrepreneurship*

It is widely held in the literature that the entrepreneur constitutes a key influence in conditioning the pace and direction of change as few – if any – other economic actors are able to do. But this much having been acknowledged, it has been proved more than usually problematic to incorporate the entrepreneurial function into the mainstream models of value theory or the theory of the firm (Baumol, 1995). Earlier research in the field has concentrated in defining entrepreneurship, as well as addressing a multitude of often disjointed research questions.

We think of entrepreneurship as putting together factors of production, as well as contracts with other entrepreneurs and other economic actors in a network of production and distribution. Entrepreneurship, unlike management, involves the realization, and, the ability to make judgemental decisions about the process in its entirety. This function is commonly, though not exclusively, performed by individuals. Indeed, other units of analysis (some of them emanating from pre-capitalist or non-capitalist milieus) may display entrepreneurial behaviour.

Previous research in the area of entrepreneurial studies has addressed a large number of research questions. A comprehensive review of these key research issues goes well beyond the confines of our inquiry (for good reviews of the literature see Ricketts, 1987; Binks & Vale, 1991; Martinelli, 1994). There are however, two key research issues, identified in the literature that are of particular relevance for the purposes of our inquiry: what drives individuals to become involved in entrepreneurial pursuits, and whether and how environmental factors influence the decisions of entrepreneurs.

In economics, the debate around what drives the entrepreneur has been heavily influenced by mainstream assumptions regarding rationality and profit maximization. An unwillingness to diverge from the prevailing orthodoxy led economists involved in the study of entrepreneurship to complement rather than replace the existing model of human agency. Some scholars focused upon the mental capacities and processes of the entrepreneur. Superior foresight has been commonly identified as the attribute that distinguishes the entrepreneur from other economic actors (Cantillon, 1755; Knight, 1921). Foresight is defined as one's ability to perceive and predict the actions and reactions of other economic agents better than they could predict his own. The concept of foresight bears some resemblance to the Austrian notion of entrepreneurial alertness (Kirzner, 1981) – though the latter places a greater emphasis on awareness of opportunities rather than superior calculative abilities. However, Schumpeter (1934) rejects arguments explaining entrepreneurship in terms of different mental processes: instead he points at the significance of motivational factors. He identified the dream and the will to establish a private kingdom; the will to conquer – to succeed for the sake of it not the fruits of success; and the joy of creating as the main motives behind the realization of entrepreneurial behaviour. However, attempts at addressing this issue were tempered by an innate desire to maintain the essence of the 'economic man' in one format or another.

Psychologists and other specialists of human behaviour have also shown a considerable interest on entrepreneurial behaviour. All the arguments developed within this context, implicitly or explicitly assume that entrepreneurship is associated with specific traits and/or characteristics. Thus, entrepreneurs are economic agents that differ in some way or another from the norm: they are unique (in a way reminiscent of Schumpeter and to some extent Cantillon, Knight and advocated of the Austrian tradition). The list of characteristics attached to the entrepreneur is lengthy, and could include creativity, need-achievement, leadership, independence, tolerance of ambiguity and uncertainty, resourcefulness, optimism. The association of entrepreneurship with traits and characteristics has significant implications upon the research approach used in the identification of factors that influence the incidence of entrepreneurial behaviour. Whereas economists (who focus on the function) explore the environment in broad and abstract terms, psychologists set out to identify specific processes at work. Within this context, the research question is transformed into: why certain individuals or socio-economic groupings display a greater propensity to entrepreneurship? The responses to this question tend to be elaborate and sophisticated explanations. However, the explanatory power of such explanations diminishes outside the context in which they were derived.

On the question: what determines the incidence of entrepreneurial behaviour, there is considerable diversity of opinion among economists. One school (Cantillon, 1755; Say, 1804; Leibenstein, 1961; Wilken, 1979) has it that economic stimulus through the market mechanism provides the best explanation for the advent of entrepreneurs. According to this approach the same factors that account for economic growth (such as market opportunities, risk, availability of labour, capital and raw materials) explain the emergence of entrepreneurship. More specifically, Cantillon argued that the economy is an organized system of interconnected markets that operate in such a fashion as to achieve equilibrium. Therefore, entrepreneurs are allocated through the same mechanism that allocates labourers or goods. Wilken offers a more sophisticated interpretation of the stimuli to entrepreneurial behaviour. He argued that emergence of entrepreneurship should be explained firstly in terms of economic opportunity, and only to a secondary degree to non-economic factors. A similar argument (in the sense of advancing the supremacy of economic factors) is developed by the Austrian tradition, which emphasizes the role of prices in transmitting information about market opportunities.

In contrast, Schumpeter highlights the importance of an appropriate social climate for entrepreneurship – in the sense of affording legitimacy and recognition to innovative behaviour (an argument also advanced by Binks & Vale, 1991). Cochran also stressed the importance of cultural themes and sanctions in the emergence of entrepreneurship. Baumol (1995), in a very suggestive contribution, points at the importance of social and institutional factors in the direction and form of entrepreneurial behaviour.²³ He argues that although entrepreneurship is present in all socio-economic milieus, entrepreneurial energies may not always take the

²³ However, we must stress that the presence of social structures and legal frameworks that hinder entrepreneurship may be overcome. The experience of developing countries suggests that entrepreneurial talent can be imported (TNCs) and legal frameworks evaded (informal sector).

form of constructive and innovative activities. In fact, the entrepreneur may at times lead a parasitic existence that may be damaging to the economy.²⁴ Thus, in early middle ages, where wealth and social status were the main determinants of wealth and social status, the pursuit of economic objectives was manifested in warfare. Poorly defined private property rights, combined with no legitimacy to entrepreneurial pursuits in post-socialist economies may result in the realization of entrepreneurship in informal or outright illegal pursuits. Thus, following Baumol's argument changes in the rules (in the sense of social norms and institutions) of the economic game results to changes in the manifestations of entrepreneurial behaviour.

Casson (1993) attempts to combine these two – not mutually exclusive – approaches using a supply and demand side diagrammatic presentation. The demand curve traces the expected rewards per entrepreneur as the number of entrepreneurs increases – economic stimulus. The supply curve is influenced by the prevailing 'reserve wage' in the local socio-economic milieu. The position of the supply curve traces the stock of entrepreneurial talent existing in the population – which is socially and institutionally determined – and the proportion of these who are qualified (in the sense of having command over resources) to become entrepreneurs. In the long-run the intersection of the demand and the supply side curve will determine the active number of entrepreneurs.

Rural entrepreneurship research

Scholarly research on Europe's rural areas has come from a number of quarters, including agricultural economics, economic anthropology, sociology and more recently business studies. However, the bulk of this work has focused upon structural issues, and transformations at the macro-level (region), whilst there have been only a small number of published studies investigating entrepreneurship at the micro level. As a result, our knowledge of the processes at work is fragmented, often coming from one or two locality specific studies that hinder generalization, and rarely building upon existing theoretical constructs from the area of entrepreneurial studies.

One of the key factors that historically defined rurality has been the prevailing agrarian structure. Admittedly the significance of agriculture has diminished significantly in certain regions and countries, however, a number of studies explore the contribution of the size of the holding to the incidence of entrepreneurship. In the case of Cambridgeshire, Carter (1997) found that large farmers demonstrated a considerable propensity to entrepreneurial ventures outside agriculture. At the same time however, a number of other empirical studies (Kalantaridis, 1997; Kasimis & Papadopoulos, 1997; Daskalopoulou & Petrou, 1998) support the argument that there is a negative relationship between the size of holding and the incidence of entrepreneurial ventures outside agriculture. Research from Germany also provides support in this direction (Anderson, 2000).

²⁴This stands in sharp contrast with the bulk of published work that departs from the premise that entrepreneurial activities constitute a positive influence in the process of economic growth. This is particularly apparent in the case of Schumpeter who explores the revolutionary character of the entrepreneur with the same admiration that Marx showed for the proletariat.

The role of the State in stimulating entrepreneurial ventures has also been identified by a number of studies. More specifically, in Greece the entrepreneurial process within small agricultural holdings was boosted by state initiatives (Dimara & Skouras, 1998). They enabled small farmers to adjust quickly and effectively to the new conditions, since the new crops required different production techniques and novel managerial practices. A similar process of State-induced entrepreneurship has been reported in Portugal. The experience of the UK, however, differs significantly from that of Southern European economies. In the UK the State focused in the provision of infrastructural support, ensuring 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' (Keeble & Tyler, 1995: 991). This combined with well functioning markets, and marginal direct state interventions were often perceived as instrumental in the realization of entrepreneurial behaviour (Mallalieu, 1993).

Markets, or more precisely imperfect markets, were cited as a negative influence in the emergence of rural entrepreneurship in Poland. As a result of the process of post-socialist transformation the functioning of the market process is more than usually problematic. This combined with the marginal marketing potential of producers mean that Polish farmers enter and develop new areas of agricultural economic activity only to a small degree. The impact of the specificities of rural markets has also been identified in the UK. However, in this national context the defining characteristic of rural product and service markets is their small size, and the ensuing enterprise need to expand beyond the local context earlier than businesses located in urban agglomerations (Smallbone *et al.*, 1999).

In some instances the disadvantages associated with rurality and peripherality were overcome through the development of forms of local co-operations. This was particularly the case regarding co-operatives in Germany, which constitute the main distribution channel for agricultural produce of small and medium-sized farmers. These co-operatives also provide many of the inputs required for the production process, as well as getting involved in food-processing, particularly in the case of milk and dairy products. In the case of Greece, the problem of unequal possession of means of production is alleviated by local networks of inter-family co-operation (Goussios, 1995). Rural communities are instrumental in facilitating the flow of information, and production factor availability both in agricultural and non-agricultural pursuits (Kalantaridis, 1997).

Production factor endowments have also been identified as instrumental in the emergence of entrepreneurial ventures in rural peripheral areas. Specifically, the contribution of human capital has been often highlighted in empirical studies. This took two forms in the experience of the British countryside. Firstly, the inflow of new inhabitants (seeking a rural lifestyle) increased the supply of entrepreneurial talent. Indeed, there is a growing body of empirical evidence suggesting that newcomers – equipped with a multitude of skills and contacts – account for a significant percentage of entrepreneurial ventures in the UK (Keeble & Tyler, 1995). Secondly, the traditional labour characteristics of the rural space have also been perceived as an enabling factor. Earlier research carried out by Smallbone (1999) has shown that entrepreneurs in remote rural firms were adopted more

labour intensive forms of expansion than their urban counterparts. This was the case not only because of the lower cost of labour but also because of a number of qualitative advantages of the rural workforce such as its reliability, adaptability and relatively low turnover rates. A corollary of this is that in environments where there is little availability of human capital, there is a lower incidence of entrepreneurial ventures. This is the case in mountainous and semi-mountainous parts of Greece (Greek Ministry of Agriculture, 1999).

The availability of capital has often been identified as an influence conditioning the incidence of entrepreneurship. Taking once more as an example the Greek case, with the possible exception of a limited number, mostly tourist areas, the majority of rural areas are defined by low per capita incomes. The majority of the population is still employed in low productivity traditional segments of agriculture while the employment opportunities in the other sectors of economic activity are extremely limited. As a result, a significant part of the population cannot afford to initiate any business assuming risks related to entrepreneurial activity. The presence of a positive relationship between the availability of capital and entrepreneurship is also supported by evidence emanating from the UK. Indeed, Carter (1997) argues that larger agriculturists venture into non-agricultural enterprise on account of easy access to finance.

The degree of integration of rural areas in the economic systems of the main urban conurbations has been a positive influence in the incidence of entrepreneurship in the majority of national environments explored. In the case of Greece the incidence of entrepreneurial ventures outside agriculture, and the ensuing employment diversification has been associated with proximity to urban centres (Hadjimichalis & Vaiou, 1987; Simmons & Kalantaridis, 1994).

Theoretical constructs in entrepreneurial studies have been successful in advancing our understanding of the 'life and works' of the entrepreneur. Whilst no coherent and all-embracing theory of entrepreneurship has emerged to date, our knowledge of agency as well as the interface between agency and context has advanced considerably. However, empirical research in the area of entrepreneurial studies in Europe's rural areas has failed to keep in pace with theorization. One plausible explanation for this is that rurality 'does not matter'. Indeed, whilst there is growing consensus among scholars in the field that locality matters, this stops well short of acknowledging the importance and exploring the implications of spatial categories such as the rural. Addressing this gap in the literature – through rigorous, international research – is the main contribution of this Chapter.

The incidence of entrepreneurship

The incidence of entrepreneurship – as measured in the survey of a sample representative of the population – varies significantly between CSAs. The highest incidence of entrepreneurial behaviour is apparent in the two Greek CSAs, where more than one in four of those of working age are involved in such activities (see Figure 3.1). The lowest incidence of entrepreneurship is reported in the peripheral Bialystock (8.5%) as well as the two German areas, Nordwestmecklenburg (9.3%) and Waldshut (10%).

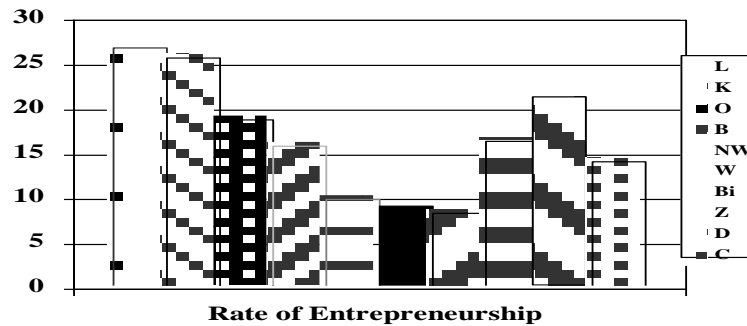


Figure 3.1 Incidence of Entrepreneurship by Case Study Area

At first sight there appear to be precious few consistent patterns regarding the incidence of entrepreneurs in the rural CSA. Overall, Southern European CSAs report a higher incidence of entrepreneurship than those in the Northern and Western parts of the continent. Devon & Cornwall constitute an obvious exception in this case. There is also appears to be a similarity in the entrepreneurial propensity of the population in CSAs that come from within the same country. Indeed, the differences between the two German CSAs is 0.7%, the two Greek CSAs is just 1.1%, and the Portuguese 2.9%. This underlines the importance of the national context, a theme apparent in several aspects of our investigation. Marked differences exist in the incidence of entrepreneurship between Zary (16.5%) and Bialystock (8.5%), though this could be attributed in large part to the profound differences in location and the ensuing entrepreneurial opportunities. There is also a significant disparity in the incidence of entrepreneurship between Devon & Cornwall (21%) and Cumbria (14.2%). This disparity is largely on account of the influence of Western Cumbria (an old industrial area undergoing a process of structural change), where the incidence of entrepreneurship is very low (11%). No such locality exists within the Devon & Cornwall study area.

Contextual considerations: factors of unity and factors of diversity

The CSAs under consideration, by virtue of their rurality, share some common environmental factors among those influencing the emergence of entrepreneurship. More specifically, the local output markets in each locality under investigation are smaller than those in core metropolitan regions. Thus, opportunities for expansion locally are limited prompting the most dynamic enterprises to adopt an outward orientation. They also possess smaller and idiosyncratic input markets, i.e. demonstrating greater availability of land and land related skills than urban areas in the same country. Of course the degree of availability of such resources varies

considerably between CSAs. Moreover, they all have recent records of out-migration among the young, and most energetic members of the local population. The intensity, direction, temporality and impact of such population movements however, may vary between CSAs even within the same national context. Another factor of unity concerns the weaker than elsewhere in the same country – and undoubtedly the main urban conurbations – knowledge infrastructure. Even CSAs that enjoy the benefits of local higher education institution (such as Lesvos), or the diffusion effects from a large, high technology company (such as Cumbria) are at a disadvantage when compared with the corresponding national cores. Lastly, all ten CSAs possess relatively distinct norms: that place greater emphasis upon tradition, and continuity.

The CSAs under investigation are also characterized by considerable diversity, which is indicative, though not representative, of that prevailing in Europe as a whole. Thus, the size of each national market, as well as the prevailing distribution channels differs significantly. The Greek and Portuguese localities operate within very small national markets – encouraging internationalization – in contrast to their British and German counterparts. Moreover, areas located in the outer periphery of Europe, such as Bialystock and Lesvos, are examined alongside accessible, in relation to the EU (Waldshut) or national (Kilkis, Oeste) core localities. Therefore, the degree and nature of integration in the national and global context varies significantly between CSAs. Population density and change as well as the degree of economic advancement are also profoundly different. Even the significance of agriculture – a defining feature of the countryside – varies significantly between Southern European regions and their counterparts in the UK and Germany. Moreover, three of the CSAs examined here are currently undergoing processes of post-socialist transformation. However, their experiences vary significantly: Nordwestmecklenburg enjoys the advantage of early EU membership and a supportive state, Zary benefits from geographical proximity to the German markets combined with lower wage and land costs, whilst Bialystock is relatively peripheral. Thus, any attempts at enhancing our understanding across such disparate space are problematic: abstraction may lead to inappropriate generalizations, whilst attempts at synthesis may create arguments so complex and subject to numerous qualifications that are rendered meaningless. Our point of departure, is an attempt to gain a systematic and purposeful understanding of the similarities and the differences of rurality in the CSAs.

The CSAs under investigation could only be loosely grouped together regarding the characteristics of the environment confronting entrepreneurs. The areas that appear to offer the most hostile setting for the emergence of entrepreneurial ventures are Lesvos and Baixo Alentejo in Southern Europe, and in a different manner Bialystock in Poland. However, given the profound impact of post-socialist transformation the latter can not be readily placed alongside the two Southern European CSAs. It occupies the bottom end of the transition regimes: which also include Zary, and Nordwestmecklenburg. The latter however, exists in the interface between post-socialist regimes and advanced industrialized CSAs (alongside Waldshut, Devon & Cornwall, and Cumbria). Lastly, Oeste and Kilkis constitute more advantageous Southern European rural areas.

Agency considerations: factors of unity and diversity

Because the diverse nature of the socio-economic structures prevailing in the rural localities under investigation comparisons between the factors that influence the availability of economic agents would could be reasonably be expected entrepreneurial roles is problematic. This is because factors which may appear influential in some contexts, may merely reflect differences in characteristics in the population as a whole. Thus, a more cautious approach is adopted here, where the characteristics of the entrepreneurs are compared with those of the rest of the population within the same CSA. In doing so we developed eleven indices (see Table 3.1). These indices aim to capture key characteristics such as gender, origin, education, employment history, previous entrepreneurial experience, parental entrepreneurship, and age.

Table 3.1 Indices of Entrepreneurial Characteristics by Case Study Area

	L	K	O	Ba	NWM	W	Bi	Z	D	C
1	0.54	0.78	0.83	0.72	0.24	0.59	0.40	0.69	0.69	0.84
2	0.99	0.81	0.92	0.81	1.31	0.87	1.33	0.73	0.92	1.19
3	1.19	0.87	0.63	1.19	0.00	0.00	1.07	1.21	0.00	1.21
4	0.99	1.16	1.46	0.90	1.00	0.68	1.21	0.90	0.96	0.62
5	1.13	0.89	0.87	0.70	0.41	0.92	0.97	0.72	0.74	0.68
6	0.98	1.32	0.81	1.99	0.62	0.31	1.1	1.51	0.40	1.26
7	1.95	1.08	0.47	1.25	1.08	1.36	0.65	2.18	0.93	1.40
8	0.00	0.00	2.30	2.34	3.68	2.78	1.07	4.04	1.69	1.46
9	1.06	1.60	0.85	1.56	2.15	1.09	3.39	1.61	1.17	1.53
10	2.48	1.21	2.11	2.30	4.68	2.83	0.00	0.81	2.46	2.21
11	1.61	1.60	1.43	1.88	1.00	2.11	3.15	1.62	1.88	1.66
12	0.86	0.89	0.90	0.87	0.96	0.91	0.94	0.90	NA	0.95

1= Female
 2= In-migration
 3= Unemployment before startup
 4= Education before start-up
 5= Manual background
 6= Administrative Background
 7= Managerial background
 8= Profess. Background
 9= University education
 10=Previous enterprise
 11=Parental influence
 12=Age

There are five entrepreneurial demographic characteristics that are apparent in all or most CSAs (FoU). *The first concerns with the lower incidence of females among entrepreneurs* than the rest of the population, a characteristic common in all ten localities. This is particularly the case in Nordwestmecklenburg (0.24) and Bialystock (0.4), even though former socialist regimes were considered advanced on issues of gender equality. A corollary of this is the greater incidence of males among entrepreneurs than the population as a whole. *The second entrepreneurial characteristic that is common in all CSAs is age.* Entrepreneurs appear to be younger than the population at large especially in the Southern European localities. A possible interpretation of this could be found in the ageing of rural inhabitants, partly on account of a recent history of out-migration, rather than early start-up on

behalf of entrepreneurs. *The third common characteristic is the positive influence of parental entrepreneurship.* Indeed, in all but one locality (Nordwestmecklenburg) parental involvement in business enterprise is more widely reported among entrepreneurs than the rest of the population. *The fourth entrepreneurial characteristic was the greater than average incidence of higher education qualifications* (with the exception of Oeste). This was particularly profound in all three CSAs undergoing a process of post-socialist transformation: underlying the point, already stressed in the literature, that entrepreneurship in this context constitutes a preferred option for the most dynamic and best qualified individuals (Ageev *et al.*, 1995; Smallbone & Welter, 2001). *The final common entrepreneurial characteristic is previous experience of running a business.* This did not apply in the case of the two Polish CSAs – probably on account of the limitations imposed by the previous regime. However, it was relevant in the case of Nordwestmecklenburg where nearly half of all entrepreneurs were in-migrants from the former West Germany.

There are four entrepreneurial demographic characteristics, which differ significantly between CSAs (FoD). *The first concerns with the origin of rural entrepreneurs.* In most CSAs they are locally born. This is particularly the case in Zary, in Poland (0.73), and the Southern European countryside. In contrast, there is an over-representation of in-migrant entrepreneurs (in comparison to non-entrepreneurs) in Bialystock (1.33), Nordwestmecklenburg (1.31) and Cumbria (1.19). *The second concerns with the greater incidence of unemployment prior to entrepreneurship than salaried employment.* This is apparent in the peripheral Southern European areas (Lesvos, Baixo Alentejo), as well as the two Polish CSAs. It also appears to be important in the case of Cumbria; however, this is based on a comparison of very low rates unemployment and thus is not significant. At the other extreme, unemployment was never prior to entrepreneurial ventures in the two German areas and Devon. *The third factor of diversity is the decision to become an entrepreneur soon after completing education.* This appears to be often the case in Oeste, Kilkis and Bialystock, in contrast to Cumbria and Waldshut. *The fourth factor of diversity involves the occupation background of individuals* (captured through four variables in Table 1). Entrepreneurs coming from professional occupations are common in Zary, as well as all the Portuguese, German and UK cases whilst non-existent in rural Greece. Entrepreneurs coming from managerial occupations are widely reported in Lesvos, Baixo Alentejo, Nordwestmecklenburg, Zary and Cumbria, whilst manual occupations appear to be over-represented only in the case of entrepreneurs in Lesvos.

Distinguishing entrepreneurial clusters

Hierarchical cluster analysis was used in order to identify distinct categories of entrepreneurs. In doing so we have used variables relating to entrepreneurial characteristics and attributes (see Table 3.2). We outline below the key characteristics which ensure a group's cohesiveness, and which indicate what differentiates one group from the other. The same statistical procedure was performed individually for each CSA.

Table 3.2 Variables and possible answers used in constructing the typology of rural entrepreneurs

Variable	Possible Answers
Gender = Female	Binary (0=No/1=Yes)
In-migration	Binary (0=No/1=Yes)
Unemployment prior to starting-up	Binary (0=No/1=Yes)
Education prior to starting-up	Binary (0=No/1=Yes)
Manual occupation prior to entrepreneurship	Binary (0=No/1=Yes)
Administrative occupation prior to entrepreneurship	Binary (0=No/1=Yes)
Managerial occupation prior to entrepreneurship	Binary (0=No/1=Yes)
Professional occupation prior to entrepreneurship	Binary (0=No/1=Yes)
Educational level at degree level or above	Binary (0=No/1=Yes)
Previous involvement in entrepreneurship	Binary (0=No/1=Yes)
Parents involvement in entrepreneurship	Binary (0=No/1=Yes)
Age of the entrepreneur	Interval

The conduct of the same Hierarchical Cluster Analysis procedure in each CSA, resulted in considerable disparity in the number and characteristics of the emerging entrepreneurial grouping. Indeed, in areas such as Kilkis and Bialystok we have only two such clusters, whilst in Zary five. The main characteristics of the twenty-eight clusters identified in nine CSAs are presented in Table 3.3. There is considerable diversity between the entrepreneurial groupings, however, some common patterns are also apparent. Gender disparities are apparent in most groupings, whilst in virtually all CSAs there are groups that demonstrate considerable incidence of individuals who became involved with entrepreneurial pursuits soon after completing education.

Clusters of Unity

Given the presence of some similarities between entrepreneurial groupings we decided to examine whether we could derive composite clusters that were present in more than one CSAs. Systematic analysis of the defining characteristics of the outputs of the hierarchical enabled us to identify five clusters that were common to more than one national contexts.

Female Petty Entrepreneurs The first composite cluster comprises mainly of females (the only one of its kind), who mainly come from within the localities under investigation. Even those who were in-migrants, have moved in the area some time ago (a mean of 18.5 years prior to the date of the survey). Thus, they are embedded within the institutional settings prevailing in the countryside. There are some disparities regarding the influence of parental entrepreneurship in this composite cluster. This is commonplace among the Portuguese, but not among the Greek and Polish respondents. An upbringing within an entrepreneurial family was combined with poor educational attainment. Indeed, the respondents falling in this composite cluster were rarely educated to degree level and were engaged in administrative pursuits prior to entrepreneurship. Thus, it is not particularly unexpected that most of them did not have any experience of running a business

Table 3.3 Entrepreneurial Clusters by Case Study Area

	Cluster 1	Cluster 2	Cluster 3	Cluster 4	Cluster 5
Lesvos	111 Female, admin and professional occupations (35)	112 Male, previously unemployed (14)	113 Male, manual occupations (37)	114 Mainly male, straight from education, university q. (28)	
Kilkis	121 Male, unemployed or straight from education, university q. (44)	122 Both genders, in-migrants, manual occupations (53)			
Oeste	211 Mainly male, in-migrants, manual occupations, previous e-experience (42)	212 Female, in-migrants, administr. Occupations (37)	213 Mainly male, straight from education, previous e-experience (35)		
Baixo Alentejo	221 Male, straight from education, university q. (31)	222 Mainly male, manual occupations, previous e-experience (46)	223 Mainly female, administr. Occupations, parental e. (31)		
Nordwestmecklenburg	311 Male, straight from education and manual occupation (17)	312 Mainly male, managerial occupations, university q. (18)	313 Male, professional occupations (8)		
Waldshut	321 Managerial occupations (18)	322 Straight from education (14)	323 Professional occupations (14)		
Bialystok	411 Mainly male, straight from education, parental e (20)	412 Male, manual occupations (23)			
Zary	421 Male, manual occupations (15)	422 Mainly female, Unemployed and administr. Occupations (23)	423 Male, in-migrants, managerial occupations, university q. (13)	424 Mainly male, professional occupations, previous e-experience, parental e (10)	425 Mainly male, straight from education, university q. (12)
Cumbria	521 Mainly female, adminstr. Occupations (20)	522 Mainly male, in-migrants, professional and managerial occupations, university q. (31)	523 Manual occupations (19)		

before they started their current venture. As a consequence, the incidence of managerial experience in this cluster was very similar to that for the sample as a whole. Attempts to gain managerial qualifications or receive training were also very infrequent among those falling in this cluster. Sectoral experience was of

some importance among female petty entrepreneurs: nearly 30% started businesses in the sector of their previous employment (the highest figure among all five composite clusters). Female petty entrepreneurs demonstrated considerable stability in their employment history prior to start-up: indeed more than half (54%) had worked for a single or no employer in the past. At the time of the survey the mean age for these entrepreneurs was the early forties, and in many cases started in their contemporary business during their mid thirties.

The characteristics of the individuals making-up this composite cluster undoubtedly influenced the types of enterprises created. Thus in most instances (96%) enterprises were very small, employing only a handful of people. The remaining 4% of the enterprises created by female petty entrepreneurs were small-scale. As far as the sectoral composition of the enterprises is concerned, more than two thirds (67.5%) were engaged in distribution and consumer services – sectors traditionally associated with female entrepreneurship. No other sector accounted for more than a tenth of the total. Most female petty entrepreneur run relatively mature businesses (63% more than seven years old), a figure not dissimilar with that for the sample. Despite the very small of size and mature nature of the enterprises, the incidence of innovation is reported by some 43% of those in this cluster – a figure above average.²⁵ Four groupings (one from Greece, two from Portugal and one from Poland) fell in this composite cluster, accounting for 17.9% of rural entrepreneurs.

Local Artisans The second composite cluster comprises mainly, though not exclusively of males. In all but two of the groupings they are predominantly of local origin. Even those who were in-migrants moved in the study areas concerned nearly twenty years prior to the conduct of the survey. Thus, embeddedness to the local setting appears to be strong among those falling in this grouping. Parental entrepreneurship is reported by around one in three individuals, and appears to be of lesser importance in stimulating start-up. Two common characteristics among the respondents falling in this composite cluster are that they very rarely possess university qualifications, and were involved in manual occupations before start-up. Previous entrepreneurial experience is infrequent, and this is reflected in limited managerial experience (reported by just one in ten of those falling in this cluster). There was also little – if any – effort to develop management skills through formal qualifications (3.7%) or training (6.4%). Previous industrial experience was of modest importance in the choice of sector: reported by 23% of the total. In just under half of the cases (45%) their employment history involves just one previous employer. The average age of those falling in this composite cluster at the time of the survey was the late forties, and most were over forty when their contemporary ventures were started.

The enterprises created by individuals falling in the second composite cluster were invariably micro (96%) or small (4%). In terms of sectors, distribution and consumer services accounted for 56% followed by construction (16%) and

²⁵The incidence of innovation is based exclusively on the respondent's perceptions and ideas. No additional questions – probing into the nature and degree of innovation – were asked. Thus, the results presented here are used only as broad indicators and are meaningful only in instances where wide disparities are apparent.

manufacturing (16%). As far as the age of the businesses is concerned, more than half (59%) existed for seven years or more. However, the incidence of innovation was relatively modest at only 29%. Six groupings (two from Greece and Poland, one from Portugal and one from the UK) fall in this composite cluster, accounting for 27.6% of rural entrepreneurs.

In-migrant Artisans There are certain similarities between the second and the third composite cluster. More specifically, they are both made-up predominantly of males, with little – if any – incidence of university education. Moreover, both groupings comprise individuals who were engaged in manual occupations prior to setting-up their business ventures, and were relatively older (late forties early fifties) at the time of the survey. However, this is where similarities end. In-migration is frequent among those falling in the third composite cluster (unlike the second one). However, artisans who in-migrated in the rural areas under investigated have developed very strong local roots: indeed nearly 70% have lived locally for more than twenty years, whilst the mean time since the move was 32 years. They reported considerable employment instability (in relation to the sample as a whole): with just 32% having worked for a single employer prior to start-up. Moreover, the great majority (around two thirds) of those in the third composite grouping have previous experience of starting or running a business, thus managerial experience was reported by nearly 80% of these entrepreneurs. This was complemented with the acquisition of managerial qualification (16%) and training (23.6%) by a significant minority of those falling in this cluster. Parental entrepreneurship is also frequent.

The enterprises created by those falling in the third composite grouping are different from those formed by entrepreneurs in the second composite grouping, despite similarities in the attributes of the entrepreneur. More specifically, there is a considerable incidence of micro (86%), small (8%) and some medium-scale (6%) enterprises in the former cluster, with mean employment of eight persons per unit. Most enterprises were involved in distribution and consumer services (40%), agriculture (15%), manufacturing (13%) and construction (13%). Two thirds of the enterprises were formed seven years ago or earlier, whilst innovation was reported by 61% of the total. Two groupings (one from Portugal and one from Germany) fall within the third composite cluster, accounting for 8.5% of the total.

Young Entrepreneurs The fourth composite cluster comprises predominantly of males, who – in all but two groupings (Nordwestmecklenburg and Zary) – originated from within the study area. The incidence of university education among those falling in the third composite cluster is low, with the notable exception of two groupings (Nordwestmecklenburg and Zary). A defining feature of the entrepreneurs falling in this cluster is that they became involved in the process of business enterprise immediately after education. Indeed, the mean age of the respondents at the time they started their current venture was just twenty-seven years old, whilst some 40% have not worked (full-time) anywhere else throughout their lives. An interesting feature of the third

composite cluster is that there appears to be a trade-off in the incidence of previous involvement with running a business and parental entrepreneurship: i.e. those groupings reporting a high incidence of the former identified a low incidence of the latter and vice-versa. Thus, management experience is reported by around in four (23%) of entrepreneurs in this cluster, who however, also pursued managerial qualifications (21%) and training (19%). Sectoral background is not relevant among young entrepreneurs, as many of them do not possess any employment history. In terms of average age, those falling in this composite grouping, were either in their late thirties or early forties, at the time of the survey.

Entrepreneurs falling in this composite cluster created enterprises of similar size with in-migrant artisans. Thus some 85% were micro, with 10% being small and 5% medium-sized. The sectoral profile of the enterprises was similar to that of the previous composite cluster, concentrating in distribution and consumer services (40%), manufacturing (14%) and construction (13%). Mature businesses were also very prominent, whilst innovation was reported by 37% of respondents. Overall, eight groupings fell in the third composite cluster, accounting for 28.7% of rural entrepreneurs.

Opportunity-seeking Entrepreneurs The fifth composite cluster comprises overwhelmingly of males, who were born outside the study areas under investigation. In fact, many of them (one in every five) moved in the study areas under consideration during the five years prior to the conduct of the survey. Individuals in this cluster are invariably educated to degree level or above, and were involved in professional and managerial occupations prior to start-up. The overwhelming majority – some 80% – of those falling in this composite cluster had two or more (full-time). More than half (58%) of the total reported some previous managerial experience, whilst a significant minority (14%) also possessed managerial qualifications, and received management training (30%). Within this composite cluster there were disparities regarding the incidence of previous experience in starting and/or running a business and parental entrepreneurship: these being very infrequent in Poland and commonplace in the UK. The importance of the sectoral context was the highest among all composite clusters – 35% had worked in the past in the same the industry as their enterprise venture. The average age of those falling in this cluster, at the time of the survey, was early forties.

Most enterprises created by those falling in the fifth composite cluster were micro ones (73%). However, a minority of opportunity-seeking entrepreneurs were involved in managing medium (5%) and even large enterprises (7%). As far as the sectoral divide of the enterprises is concerned, some 31% were in distribution and consumer services, with 20% in construction and 17% in financial and business services. An interesting feature of the enterprises created by these entrepreneurs was that they were to a considerable extent (35%) new initiatives. Innovation was reported by 37% of the opportunity-seeking entrepreneurs, a figure virtually identical with the average. Only two groupings (one from Cumbria and one from Zary) fell in the fifth composite cluster, accounting for 6.4% of the rural entrepreneurs.

The descriptions of the five composite clusters that are present in at least two national contexts provide suggestive insights in the entrepreneurial processes reported in European rural areas. More specifically, we argue that, firstly, in many instances the decision to become an entrepreneur is 'need driven'. This is apparent in the experiences of both female petty entrepreneurs as well as local artisans, and to lesser degree young entrepreneurs. These are individuals who are neither well equipped to engage in entrepreneurial ventures nor have shown in the past a disposition to engage in such pursuits (through previous ventures, frequent employment change etc).

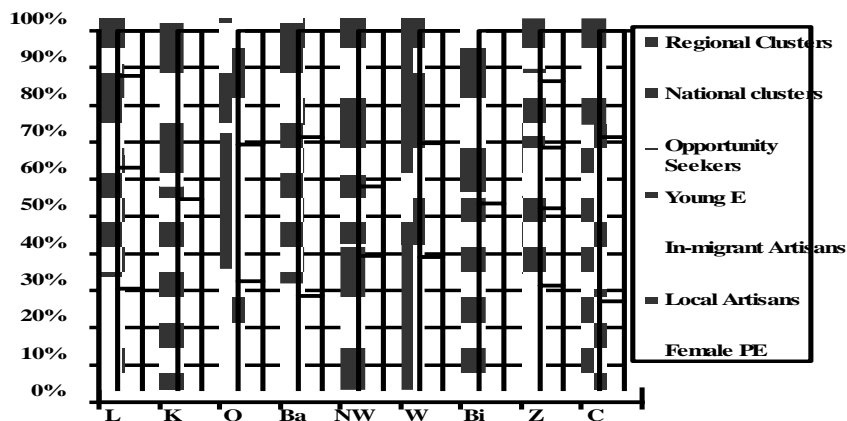


Figure 3.2 Entrepreneurial clusters by Case Study Area

Interestingly, female petty entrepreneurs and local artisans are present only in the poorest CSAs in Greece, Portugal and Poland, where they make-up a significant of all entrepreneurs: this ranges from 32.5% in Oeste to 63.3% in Lesvos and 71.3% in Baixo Alentejo (Figure 3.2). They rely heavily upon their embeddedness to the local (and invariably traditional) institutional setting for survival, whilst growth is not of paramount importance. Indeed, the vast majority of entrepreneurs in these two composite groupings run very small enterprises, which have not expanded despite the fact that they have existed over a number of years. However, the importance of female petty entrepreneurs and local artisans should not be underestimated: it rests with their numbers (significant at the local level), and their ability to generate opportunities for themselves, i.e. individuals not well equipped for entrepreneurship. Secondly, in a minority of cases family reasons, and especially the need to maintain the family business or farm, constitute a key driving influence. This is nowhere more apparent than in the case of young entrepreneurs. They have little – if any – educational qualifications, often no experience of working outside the family venture, and become involved in business enterprise very early on in their lives. They are present in all but one of the CSAs (Cumbria), and make up a significant percentage of the total entrepreneurs in these localities. This varies

from 16.4% in the case of Zary to nearly half of the total in Bialystock and Kilkis (see Figure 3.2). Their importance rests with continuity of individual ventures over the generations, which enables some of them to expand beyond the very small, to small and medium-scale. Thirdly, in some cases entrepreneurs are driven by the opportunities available in rural areas. This appears to be the case among in-migrant artisans, and opportunity-seeking entrepreneurs. Both of these composite clusters comprises predominantly of in-migrants, who may bring in access to new sources of information and institutional settings. Even though in some cases these individuals have lived in the locality under consideration for a long period of time, they appear to be best equipped to introduce discontinuities and change. Opportunity-seeking entrepreneurs operate in the advantageous setting of Cumbria and the challenging but opportune Zary, whilst in-migrant artisans are present in Oeste and Waldshut. Not unexpectedly Zary, Waldshut, and Oeste are accessible to the European or national core, whilst Cumbria benefits from a long-term move away from the main population centres – particularly profound in the UK context. Although a minority, even within these CSAs, such individuals create a number of medium and even large-scale enterprises which exist in a multitude of sectoral contexts.

Clusters of diversity

The remaining six groupings that emerged from the Hierarchical Cluster Analysis of the population survey data did not readily fit in any composite cluster that had an international dimension, i.e. groupings from at least two countries. Three of these groupings were from the German CSAs, and one (each) from Greece, Poland and the UK. Together, they accounted for 11% of rural entrepreneurs. Their characteristics are briefly presented below.

Local Need-Driven Entrepreneurs: Lesvos This grouping comprises exclusively of males, who in two third of the cases were born locally. They do not possess any university qualifications and were all unemployed prior to start-up. Thus, none of them has experience in management or managerial qualifications and training. Their mean age at the time of the survey was 44 years old, but have started their contemporary venture earlier on in life, i.e. when 26 years old. As far as the characteristics of their enterprises are concerned, all of them were very small, engaging in distribution and consumer services (43%) and construction (29%). None of them claimed that their organizations were innovative. Fourteen individuals from Lesvos fell in this grouping, making 12% of all entrepreneurs in the CSA.

Opportunity-Driven: Nordwestmecklenburg Those falling in this grouping possess some, though not sufficient, similarities with the opportunity-seeking entrepreneurs of Cumbria and Zary. They are mainly, though by no means solely, males (60%). Some of them (44%) were born outside the area, and had no entrepreneurial influences in the parental household. Instead they opted for university education – nine out of ten possess degrees or above – and managerial

careers. Thus, they possess managerial expertise, as well as management qualifications and training, despite the fact that they have no previous experience of start-up. Their mean age at the time of the survey was 46, however, they were late starters, setting-up their own ventures when they were nearly 40. Opportunity driven entrepreneurs created enterprises of all sizes: some 12% established medium-scale ventures, whilst 5% large ones. In terms of sector, they are mainly involved in manufacturing (44%) and construction (25%). Innovation is reported by around half of the total. Overall, there were eighteen opportunity-driven entrepreneurs, accounting for 42% of the total in Nordwestmecklenburg.

Entrepreneurial Professionals: Nordwestmecklenburg This group comprises mainly – though not exclusively – males, nine out of ten of whom are in-migrants. Parental entrepreneurship is of importance in influencing the decision to become entrepreneurs. However, most of these individuals did not acquire university qualifications, and worked in professional occupations prior to start-up. Despite the fact that they did not possess any experience of running their own business, they report considerable uptake of management qualifications and training. They are older individuals, mean age of 49 at the time of the survey, who became involved with entrepreneurship relatively later on in life (42). Nearly two thirds (63%) run very small businesses, with the remaining owning small ventures. In terms of sector they are engaged in manufacturing (38%) and construction (38%). Six out of every ten respondents in this grouping claimed that their enterprises were innovative. There are eight such individuals, making up 19% of the total in Nordwestmecklenburg.

Entrepreneurial Professionals: Waldshut This group is very similar with the synonymous one in Nordwestmecklenburg, and when put together they comprise an entrepreneurial process common in the rural localities of Germany, but exclusively so i.e. not present in any other country examined here. They are also males, many of whom migrated in the CSA. Parental entrepreneurship was a significant influence among opportunity-driven entrepreneurs in Waldshut. Most of them had university qualifications, and were previously engaged in professional occupations. Despite the absence of earlier entrepreneurial experiences, most individuals falling in this grouping had managerial experience, as well as management qualifications and training. They were somewhat younger than their counterparts in Nordwestmecklenburg: their mean age was 40 years, whilst the age at start-up was 29. The enterprises created by entrepreneurial professionals were very small (86%) and small (14%), involved in distribution and consumer services (36%) and manufacturing (21%). Innovation is reported by six out of every ten enterprises run by entrepreneurs of this type. There were fourteen entrepreneurial professionals making-up 30% of the total in Waldshut.

Local need-driven professionals: Zary This grouping comprises mainly – though not exclusively of males – who were born locally, many in families who were involved in entrepreneurial pursuits. None of them have acquired university qualifications, but were in professional occupations prior to start-up. This combined with the fact that they did not have previous experience of business

enterprise, meant that they did not possess managerial experience or management qualifications and experience. Their mean age at the time of the survey was only 35 years old, in comparison to 30 when start-up occurred. All of their enterprises were of very small scale, engaged heavily in distribution and consumer services. Overall, there were ten such individuals accounting for 13.7% of total entrepreneurs in Zary.

Enterprising Females: Cumbria This group comprises overwhelmingly of females, who were born locally (55%) or elsewhere in the UK (45%). Nearly half of them were brought-up in entrepreneurial families, but did not acquire any university qualifications. Although coming from administrative occupations, many of them have previous experience of start-up. This equipped them with managerial experience, which was complemented in some cases with management qualifications and training. Their mean age at the time of the survey was 50 years old. More than two thirds of the businesses created by enterprising females were very small, with the remaining being small, whilst nearly two thirds were in distribution and consumer services.

The descriptions of the six entrepreneurial groupings that do not easily fit in international patterns reinforce the issue of the specificity of the processes at work. In the case of Lesvos there is a distinct though again, as in nearly all of the Greek entrepreneurial groupings, need-driven process: from unemployment to petty venture creation. These are individuals who do not identify opportunities but rather create them in order to meet individual and family needs. Though not of considerable importance in terms of the numbers of jobs created they provide employment to unemployed individuals. Pull factors in contrast are of considerable importance in the case of the opportunity-driven entrepreneurs of Nordwestmecklenburg. In their case, as in that of opportunity-seekers in Zary, they exist because of their ability to exploit opportunities generated in the relatively hostile environment of post-socialist transformation. The case of entrepreneurial professionals is of particular interest: present in both CSAs it appears to be nation-specific entrepreneurial process. Individuals in this grouping do not fit easily into a push/pull motivational schema. Instead they appear to exploit the skills they possess in order to set-up ventures that do not have considerable potential or drive to expand. The case of local need-driven professionals in Zary constitutes another variant of the need-driven processes: influenced by the local employment and social structures. Lastly, enterprising females in Cumbria appear to be needs driven onto entrepreneurial pursuits, however, they possess significantly greater attributes and capabilities than the female petty entrepreneurs elsewhere in the European countryside.

Entrepreneurial clusters: a corrective

We have examined the comprehensiveness of the rural entrepreneurial clusters upon the findings of the entrepreneurs' survey, with the underlying aim of examining whether there were entrepreneurial groupings which have been excluded by the population survey on account of the methodology deployed. Indeed, the entrepreneurs' survey indicated the importance of entrepreneurs who

live outside the CSA in Kilgis and Nordwestmecklenburg. In the latter category such individuals were present in the population survey, whilst this was not the case in Kilgis.²⁶ Thus, we decided to present the characteristics of this entrepreneurial cluster in the Greek CSA.

These individuals are overwhelmingly males, who live in the nearby city of Thessaloniki, even though at least one third of them come from within Kilgis. Parental entrepreneurship was non-existent among those falling in this grouping. Some 40% of them were educated to degree level or above and had some experience in management, though not at starting and running their own business. Most of them have started in business earlier on in their life (mean age of 25), however at the time of the survey nearly 40% were fifty years old or above. The enterprises created by urban-based entrepreneurs are – some 21% are medium and large-scale ventures. In terms of sectoral divide they are engaged mainly in manufacturing industries (60%).

Conclusion

One of the main objectives of this Chapter was to identify the sources of entrepreneurship in Europe's rural areas. It is apparent from the evidence presented here that there is a profound diversity in the sources of rural entrepreneurs. Individuals performing the entrepreneurial function could be locally born or in-migrants, of artisanal or professional background, with or without education qualifications. As a consequence, the entrepreneurial clusters identified here could be conceived as proxies of fairly distinct entrepreneurial processes. These processes appear to be path dependent (i.e. they can not be readily replicated from one context to another) and evolving through time (as some are common among older age groups, falling to attract new recruits, whilst others comprise overwhelmingly younger economic agents).

This Chapter also lends support to the thesis that rurality influences the incidence and characteristics of entrepreneurship. This influence is concealed by the profound diversity of rural areas, but becomes apparent when the data is disaggregated. An example of this is regarding the incidence of entrepreneurship in rural areas. Initially, there does not appear to be a link between specific (enabling, hostile or otherwise) environmental settings and the percentage of the population involved in entrepreneurial ventures. In fact, some of the most hostile settings report the highest rates of economically active individuals involved in entrepreneurship. However, this perception alters when the details of the distinct entrepreneurial processes (clusters) at work are taken into account. Thus, specific environments can be associated with the emergence of certain entrepreneurial clusters (processes). Need driven entrepreneurial clusters (processes) are profound in the case of the two most hostile socio-economic regimes, namely Lesvos and Baixo Alentejo. An element of pursuing opportunities is present in all the other CSAs, however its form and significance varies from CSA to CSA.

²⁶Mainly on account of the decision to deliver the population survey on a face-to-face basis in the small towns and villages of Kilgis.

These findings lend support to a handful of conceptual propositions regarding entrepreneurship in rural areas. Firstly, our study reiterates *the importance of the availability of economic agents who could reasonably be expected to perform the entrepreneurial function*. This issue constitutes a direct consequence of population movements between the rural and the urban. In the past out-migration from the rural dominated economic development considerations in Europe and beyond during the last thirty years or so. Contemporary counter-urbanization in some parts of rural Europe further stresses the importance of the attributes of agency. This does not advance psychological or traits conceptual schemata in entrepreneurial studies but a growing emphasis on the human agency factor of entrepreneurship. Secondly, *the issue of embeddedness – or otherwise – of entrepreneurial agents in the local context is of particular importance for rural economic development*. The evidence presented here indicates diversity of context on account of distinct locales as well as due to different degrees of embeddedness of individual agents in the very same setting. Lastly, previous research as well as evidence regarding our five CSAs suggests that rural areas are relatively disadvantaged in certain aspects of factor and output markets. Thus, *the ability of entrepreneurs to leverage resources (both tangible and intangible) from outside the locale may constitute a significant influence upon the attainment of the objectives of the entrepreneurial venture*. At the same time however, this raises some concerns about the long-term influence of such entrepreneurial ventures for the locale.

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Chapter 4

European Rural SMEs in the Context of Globalization and Enlargement

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Introduction

Europe is witnessing the confluence of two sweeping and overarching trends which are leaving deep imprints on its economy. The first is globalization, the effects of which are being felt even in the remotest parts of the world. The second is the deepening economic and political integration of Europe. Both these trends are directing the future development, albeit in different ways, of Europe's peripheral rural areas. The impact of globalization is indirect, its force softened/cushioned somewhat by the thick walls of protectionism. European integration on the other hand, especially in light of the forthcoming enlargement of the EU, is directly stamping its imprint on the contours of rural development, especially when it is accompanied by large streams of funds flowing in, in accordance with existing policies.

For this reason the remaining part of this chapter is divided into three basic sections. The first section examines the influence of EU policies on rural peripheral areas. The second concentrates on SMEs located in the rural peripheral areas and their participation in the process of globalization. The third section is devoted to emerging opportunities and challenges for SMEs as a result of the imminent enlargement.

The effects of EU policies on rural peripheral areas

The effects of the Common Agriculture Policy of the EU

From the beginning of the Common Agriculture Policy (CAP)²⁷ consumers have benefited in a number of ways. The choice of available goods became wider and the self-sufficiency of agricultural goods within the Community was ensured. Despite price increases however, the amount that the average community household spends on food has in fact fallen over the past twenty years from 28% of

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²⁷ For details about CAP and its revisions since the establishment in 1962 see Anderegg, 1999; Colman, 2001; EC, 2000a; El-Agraa, 2001; WTO, 2002.

the total family budget to less than 20% (EC, 1996a: 7). On the other hand a number of disadvantages resulted from the unifying of product prices in the Community and the implementation of guaranteed minimum prices for agricultural products in the context of increasing productivity. As a consequence the gap between world market and EU prices widened further and surplus 'food mountains' and 'milk lakes' were created (Schmitt, 1998: 178-187). The continuation of the common practice of showing preference for products grown and produced within the Community has inevitably led to rising costs (Koester, 2001: 321).

As a result of the CAP and its reforms, average farm incomes across the Community have risen steadily but these increases have depended on the scale of the agricultural business concerned (Schmitt, 1998: 190). Meanwhile the majority of farmers have diversified and become pluri-active, increasing the proportion of their incomes coming from non-agricultural sources.

Following the global economic trend, the number of jobs in the agricultural sector as well as the number of farms in the EU has decreased steadily over the last twenty years (Grant, 1997; Huck, 1999). In 2000, there were approximately 6.8 million people working in the agriculture sector in the EU-15 accounting for 4.3% of all EU jobs. The decrease in agricultural employment has been particularly severe in those countries with the greatest proportions of jobs in farming. Italy, Spain, Portugal and France lost more than one-third of their farming jobs between 1987 and 1997. Following the CAP reform in 1992 however, the downward trend has somewhat slowed. Employment in agriculture is falling more slowly and the rate of farm closures has noticeably been reduced at the Community level, from -5.2% in 1991 to -1.6% in 1998 (Barthelemy, 1999).

Agricultural production impacts negatively on the environment in different ways (Brouwer & Lowe, 2000). Seeking to ameliorate these and encourage farm diversification the EU has implemented certain diversification measures. According to Barthelemy (1999) organic farming is, among other factors, important for job creation in rural areas.

Organic farming in the EU is still a minority activity covering only 3% of the agriculturally used area (Häring, 2002: 15) and accounted for only 1.49% of all farms in 1998. However, the situation changed – from 6,300 organic and in-conversion farms in the EU in 1985 to more than 100,000 by 1998 (Foster & Lampkin, 2000). The increase in organic farming was particularly high in Italy, Austria, Sweden, Spain, Finland and Greece. Austria, Finland and Sweden were already well advanced along this path before joining the EU (Hau & Joaris, 1999) so the 1992 CAP reform may have been an important stimulus to organic farming for Greece and Italy. As Offermann and Nieberg (2000: 89) note, on average the 1992 CAP reform had positive effects on organic farming due to the combination of the effects from the support within the framework of the EC Reg. 2078/92, the introduction of the compensatory payments independent of output level, and the set-aside premium. Other studies estimate that there will be little stimulation for the labour market through organic farming (Häring, 2002) and the effects on rural areas will be felt rather indirectly, such as through increased tourism due to the promotion and exploitation of the ecological image of the region (Häring *et al.*, 2001: 1).

Studies on agri-environmental programmes have, in general, shown a positive influence. Gilg and Battershill (1997) and Morris and Potter (1997) identified a positive ecological impact in the form of resurgent bio-diversity and positive income effects caused by agri-environmental programmes in the south of England. For Germany, Ahrens *et al.* (2000) point to a number of income effects from agri-environmental programmes. In some cases these programmes generate income effects that may substantially exceed 20% of the total transfer payments to farmers.

The effects of the Structural Policy of the EU

According to the European Commission (EC) (1999b and 2001a) the process of convergence within the EU has been successful. The GDP per capita of the poorer regions has been converging with the EU average. From 1988 to 1998 the poorest 10% of regions experienced an increase in GDP per capita from 55% to 61% of the EU average. At the same time, the GDP per capita in the cohesion countries (Spain, Portugal and Greece) increased from 68% to 76% of the EU average. Rural peripheral areas tend to catch up more slowly than urban areas. An analysis of developments in the unemployment rate leads to a less positive conclusion. The unemployment rate of the most affected regions increased during the last ten years from 20% to nearly 24%. There are also considerable differences between regions within specific countries. Significant regional disparities also persist in the activity rate, which in 2000 was 77.2% in the 10% richest regions and only 46% in the 10% poorest regions. However, a positive development trend can be observed in rural areas: the employment growth in these regions was 1% p.a. (1995 to 1999), somewhat higher than the overall European value of 0.8% p.a. (EC, 1999b, 2001a and 2002a).

Armstrong (2002) and Tondl (2001a) describe several studies that show a decrease in the economic disparities between the Member States. Irmen and Blach (1996: 718) see a general trend towards convergence between the Member States, since the activity rates in weaker countries have been growing faster than those in stronger countries. Differences in incomes have also decreased over the last few years. With regard to income per capita the cohesion countries have made up their leeway, but income per capita still differs between rural and urban areas. Most economic development from 1983 until 1993 occurred in urban regions (Klemmer, 1998: 486). Busch *et al.* (1997) investigated 143 regions on NUTS I level. They argued that regions with a higher base level grew more slowly than weak regions.

Holtzmann (1997) outlines the nature of the dependency of evaluations which attempt to analyze the level and development of regional disparities. Such results are highly dependent on the chosen analysis methods and the variables used. With the 'right' choice either an increase or a decrease in disparities may be proved. However, with a cluster analysis that included the static income situation as well as the labour market situation and dynamic developments he showed an increase in disparities between the regions analyzed during the period 1984 to 1991.

In conclusion, the overall picture of regional development in the EU results from a number of very different individual processes. It would appear impossible to identify either a common process of convergence or of divergence (Neven & Gouyette 1995; Axt, 2000). Moreover, according to Quah (1996 and 1999),

although the catching-up process by the cohesion countries is driven mainly by the richer regions within these countries, the different development paths are determined by national growth and national convergence. Between 1980 and 1989 Greece experienced the lowest national growth rate together with an increase in national convergence. Spain and Portugal showed higher national growth rates, but also increases in regional divergence. There would seem to be a trade-off²⁸ between national growth and national convergence in the Cohesion Countries. This trade-off appears clearly in the early stages of the catching-up process, whereas in wealthier countries a combination of national growth and a reduction in regional disparities may be possible²⁹ (Davis & Hallet, 2002).

In what follows, only the effects of one part of the structural policy of the EU, the Regional Policy, will be described.³⁰

The evaluation of the effects of policy programmes presents several methodological problems: first, finding a valid scientific definition of 'economic and social cohesion'; second, measuring the 'real' influence of the structural policy on macroeconomic indicators without knowing the development of these indicators in the absence of the policy support measures; thirdly, 'regional factors' that also exert influence on regional development cannot be adequately evaluated (Axt, 2000: 138). Furthermore, the evaluation of the effects of the structural policy on rural areas has to deal with the difficulty of the scarcity of sources that adequately describe the effects on rural areas, mainly in the context of support in the framework of the former Objective 5b³¹ and LEADER.³² For the cohesion countries (former Objective 1³³) the effects are described for the whole country, since the whole country receives support (EC, 1997; Axt, 2000).

Although the GDP per capita in the Objective 1 areas converged from 63% of the average within the EU in 1988 to 71% in 1999 (EC, 1999b and 2001a), it was still very low. There were also considerable differences in the development process between the Objective 1 regions. For example, the East German regions and Ireland caught up rapidly while parts of Greece and Italy even lost ground. The Commission (1999b) explains this difference as due to a low productivity (78% of the European average) and a lower activity rate (52%) in 1997 in these regions. However, the Commission has also indicated that the gap between the Objective 1 regions and the other regions is decreasing because of faster growing productivity in these regions. On the other hand, the unemployment rate in the Objective 1 regions increased from 15.6% in 1989 to 16.2% in 1999 against an average of 9.2% throughout the EU in 1999, despite the support given in these regions. During

²⁸ The problem of a potential trade-off between national and regional development in catching-up countries has already been described by Williamson (1965) using the work of Kuznets, Myrdal and Hirschmann.

²⁹ But this relationship is not 'automatic'. Whereas West Germany can be seen as an example of this case, the case of Italy is less clear-cut.

³⁰ Regional policy is defined as the explicitly spatially concentrated form of the structural policy (Klemmer 1998: 459). For further details about the Regional Policy of the EU see Armstrong, 2001; Axt, 2000; Tkaczynski & Rossmann, 2001; and Tondl, 2001b.

³¹ Objective 5b facilitated the development and structural adjustment of rural areas. For a detailed description of the Objectives see Axt 2000 and inforegio 2003.

³² For details about LEADER see AEIDL 2003.

³³ Objective 1 regions: regions where the BIP per inhabitant is less than 75% of the EU average.

the previous three years the unemployment rate decreased slightly in the Objective 1 regions, but the gap between those and the rest of the EU grew wider (EC, 1999b: 226; EC, 2001a). Higgins *et al.* (1999) assume that aid from funds from 1994 to 1999 strengthened the future growth capacity in Objective 1 regions by supporting research, technology development and innovation, although direct economic impacts at this stage were very low.

As to the impacts of the Objective 5b policy, there are a number of positive effects so far (EC, 2000b). A survey of the impacts of the Objective 5b policy for each country was delivered by the EC (1997). The implementation of the Objective 5b policy has indeed contributed to a significant improvement of the socio-economic structure in the regions concerned. In Germany and the Netherlands a significant number of new jobs were created, especially outside the agricultural sector. Also important in this context was the support of SMEs with new information technologies and efforts to extend economic activities to international markets, as in the case of Finland. In several countries (e.g. Denmark) many existing jobs were made secure, especially due to farm diversification measures such as farm tourism and landscaping. Another significant impact of the Objective 5b policy has been the improvement of the rural infrastructure and the improvement of ecological conditions.

The impacts of LEADER depend largely on the general starting conditions and socio-economic circumstances in the different member countries (Jouen, 1999: 1). The overall impacts of LEADER seem to have been very satisfactory so far. According to Esparcia *et al.* (1999: 192) many of the LEADER principles had a leverage effect in the wider decision-making process and development strategies of the member countries. They state that LEADER frequently encouraged the constitution or consolidation of associations, co-operatives, and businesses. Geissendörfer *et al.* (1998: 554) describe a number of significant impacts on the German LEADER I regions such as the preservation or creation of jobs, the economic stabilization of farms, the increase in tourism due to an improvement of the leisure infrastructure, and the improvement of living and working conditions due to village development measures.

There is, however no unanimity of opinion concerning the total effects of the Regional Policy. Busch *et al.* (1997) did not find any statistical significant correlation between the economic growth per capita and the amount of subsidies from the regional funds. On the other hand the EC (2001b) estimates that by using the HERMIN Model,³⁴ that the Regional Policy positively influences the GDP and the employment situation.

SMEs located in rural peripheries in the processes of globalization

As earlier indicated, rural areas (constituting more than 80% of EU territory) vary extensively in economic and social structure. (Berkowitz & Schulz-Greve, 2000).

³⁴ The validity of such econometric models is controversial due to the problems of defining their assumptions. Therefore these models are not considered suitable for the determination of exact values (Fankenfeld, 2002).

In addition to areas integrated into the overall economy,³⁵ intermediate³⁶ and remote rural areas³⁷ are also encountered (EC, 2001a). Each of these areas are characterized by varying levels of saturation of phenomena considered to be sources of globalization,³⁸ thus each demonstrates a different level of sensitivity to globalization processes.

In the broadest sense of the word globalization is a process of expanding the openness of both traditional as well as less material borders, the unification of time and space across national borders to encompass businesses and organizations, cultural norms, and opinions on topics of common concern to the same reality which surrounds all (Parker, 1998). As such it is difficult to find a direct means of measuring the process and it is sometimes associated with internationalization (EC, 1993; Strategor, 1993). Others argue, however, that globalization is the personification of a functional integration of activities widely spread geographically (Dicken, 1998), and of the decline in the significance of states and governments and the corresponding increase in significance of transnational corporations³⁹ (Hirst & Thompson, 1996).

This difference in viewpoints is reflected in the various assessments regarding the degree of globalization of the modern economy. One the one end of the spectrum there are those arguing that national borders will retain their significance for a long time to come, and that at present we can only speak of an increasing economic internationalization and talk of a global economy would seem to be premature. This is the case, it is argued, for the following reasons (Hirst & Thompson, 1996; Tsoukalis, 1997):

- the bulk of production and exchange still take place within national borders;
- the mobility of capital is still not greater than it was at the beginning of the 20th century;
- only a small number of corporations can truly be called transnational;⁴⁰
- governments continue to constitute an integral part of overall economic structures.

³⁵ Areas located near central metropolitan areas which evidence dynamic economic growth above average income levels, and well developed industries and service sectors evidencing net job creation.

³⁶ Areas located distant from central regions, developing on the basis of agriculture, yet having a good communications network, a developed infrastructure, and diversified economic activities.

³⁷ Peripheral areas, sparsely inhabited, characterized by an elderly population, having a poor infrastructure, poor access to services, and low per capita income. Very often such areas also have a poorly qualified workforce, a high level of employment in agriculture, and weak connections with the rest of the economy.

³⁸ The classic sources of globalization include trade liberalisation, intensified inflow of international capital, and the development of transnational corporations. (Parker, 1998; EC, 1999a). A new source of globalisation is the development of a global information infrastructure and the entire complex known as the 'new economy' (OECD, 1997 and 2000).

³⁹ For more on the topic concerning the similarities and differences between globalisation and internationalisation, see authors such as: Ohmae, 1994; Hirst & Thompson, 1996; Allen & Hamnett, 1997; Dicken, 1998.

⁴⁰ The majority of firms known as 'transnational corporations' would be more properly defined as 'multinational corporations', building their international successes on the basis of a clearly national comparative economic advantage.

The above observations are especially true of rural peripheries, which remain isolated from global markets. This isolation is a consequence of low dynamics of growth resulting from the incomplete liberalization of international trade in products as well as the continued maintenance of a number of troublesome non-tariff barriers. It is true that according to the Uruguay Round Agreement on Agriculture (1994) the EC committed itself to reduce agricultural protectionism in areas such as access to markets, national subsidies, and support offered for exports. These steps were supposed to be implemented over the 6 years following the signing of the final agreement. Yet an analysis of the short term effects of the Uruguay Round Agreement on the OECD countries (Diakosavvas, 2001) indicates that the Agreement has had only a limited impact on either increasing agricultural imports to, or exports from OECD countries. As regards a number of agricultural products no significant opening of markets has to date taken place, inasmuch as:

- tariffs on agricultural products continue to remain at a very high level (in part as a result of the flexibility given to individual governments to set their own tariff rates). At a time when the majority of tariff rates for industrial products range between 5-10%, the average tariff rate for agricultural products is 62%;
- there is a large degree of differentiation between the customs duties imposed in particular countries and with regard to particular groups of goods. Customs duties on agricultural products vary from zero to several hundred percent, having an average ranging from 50% to 91%, (for individual countries) with the highest rates imposed on agriculture, meat, dairy products, sugar, and confections. The so-called 'tariff escalation' process is also visible, whereby customs duties rise in proportion to the degree of processing of a given product;
- there is a lack of transparency in the rules and regulations applied and a lack of comparative parity in the customs duties imposed, mainly due to the move away from ad valorem rates and towards specific or mixed customs duties;
- the continued maintenance of high customs rates has all led to an increase in the use of tariff quotas (TRQs) within the framework of so-called minimum access commitments. More than 80% of all TRQs are concentrated in five product groups: fruits and vegetables, meat, cereals, dairy products, and oilseeds. Although TRQs cover only 6% of tariff lines, they are prevalent in the sensitive sectors of meat, dairy products, sugar and cereals. TRQs are not the equivalent of commitments to import; they only offer the opportunity to import at lower than prevailing tariff rates. In the period between 1995-2000 the countries of the OECD took advantage of less than two thirds of agreed upon TRQs, with the use indicator falling from 66% in 1995 to 59% in 2000.

The greatest progress has been achieved in the area of reducing export subsidies, where a number of policies with the potential to affect export competition were excluded from the discipline.

There has not, however, been any significant reduction in agricultural protection, and the level of national prices within the OECD countries continues to remain above world price levels (by about 40% during the period 1995-2000).

What is more, despite the changes in the types of mechanisms used to support agriculture, market-price supports and output-related payments continue to dominate, which has the effect of isolating farmers from world price levels and significantly affecting both the volume of production and the direction of international trade in agricultural products.

The modest effects achieved to date by the liberalization of trade in agricultural products, together with the specific nature of rural area peripheries, combine to create a low level of globalization in the SMEs located in rural areas.

SMEs considered to be global are those which demonstrate (OECD, 1995):

- the ability to move flexibly and to identify and take advantage of opportunities anywhere in the world;
- the ability to source inputs, distribute products/services and move capital across borders;
- the ability to market products/services successfully in different nations (although the products/services may be adapted to specific markets);
- a lack of a home or national base (in the sense of not being committed to maintaining headquarters or a presence in a specific 'home' country).

Other characteristics of global companies include having a presence (usually as establishments, alliances, or parts of networks) in a number of different countries as well as a company management able to think and act 'globally'. The 'globalization' referred to above may be measured on a ten point scale,⁴¹ taking into consideration three criteria:

- the proportion of the SME's outputs and inputs (including capital) that are traded across national boundaries, either directly or indirectly;
- the number of establishments or affiliations in different regions or countries;
- the number and range of regions which management perceives as market opportunities and/or competitive threats.

Even though the percentage of SMEs engaged in some form in the process of globalization is estimated at around 60% (from the point of view of their future growth), only a very small percentage transact business on a truly global scale in the sense of carrying out activities (or possessing the capability to carry out activities) in many countries and/or on many continents. Research indicates that in the case of manufacturing the percentage of SMEs engaged in global activities is no more than 1%.⁴² Another 5% to 10% of companies have a high degree of internationalization, with more than 40% of their turnover coming from international markets. The next 10% to 20% of companies achieve 10% to 40% turnover levels in international trade in at least three foreign countries (OECD, 1995).

⁴¹ For more on the topic of global industries and measuring industry globalisation, see: Sleuwaegen *et al.*, 2001.

⁴² It should be noted that firms employing up to 500 persons are included in the category of SMEs used in this instance (OECD, 1995).

Based on our research the percentages given above are even lower in the case of SMEs located in rural peripheries. It should be noted at the outset that our research is based on the fragmentary globalization index given below (Table 4.1).

Table 4.1 SME index of globalization

Index	Description	Traded inputs and outputs	Establishments and affiliations	Market opportunities and competition					
1	No globalization 'Domestic'	All inputs sourced from local area, all outputs sold in local area	Single establishment, no establishments or affiliations outside local area	No market outside local area, no potential competition from outside local area					
2				Barriers to entry to outside markets and to local market (for competitors) are significant and amount to more than 50% of cost					
3	Limited globalization 'Mainly domestic'	<10% of inputs sourced across borders, and <10% revenue from across borders, usually within a limited range of nations	At least one establishment or affiliate outside local area or outside national area	Barriers to entry are noticeable, make up to 10% of cost disadvantage, but can be overcome fairly easily					
4									
5	Major globalization 'Internationalized'	>10% but <40% of inputs sourced internationally, and >10% but <40% revenue from across borders, usually across two major international regions	Establishments or close affiliates in at least four different nations and in two major international regions (e.g. Europe, North America, Asia)	Barriers to entry to international markets are not a significant impediment for firm or competitors, make up less than 5% of cost disadvantage					
6									
7	Extensive 'Globalized'	>40% of inputs sourced internationally, >40% of revenue from outputs traded across borders, across all major international regions	Establishments or close affiliates in at least one country in all three major international regions	Markets in all major international regions, competition likely to be present or come from any international region					
8									
9	Complete 'Fully globalized'	Majority of inputs of any establishment sourced across borders, large majority of outputs traded across borders	Multiple establishments or affiliates in many countries and in all major international regions						
10									
Globalization scale									
1	2	3	4	5	6	7	8	9	10
Not Globalized Domestic		Limited Mainly Domestic		Major Internationalized		Extensive Globalized		Complete Fully Globalized	

Nevertheless our research indicates that only slightly more than 30% of rural SMEs are engaged in some fashion in globalization. The largest percentage of such SMEs (slightly more than 34%) carry out less intensive or more intensive and systematic export activities, while the smallest percentage (11.5%) possess their own establishment or affiliates beyond the domestic headquarters of the company (Figure 4.1).

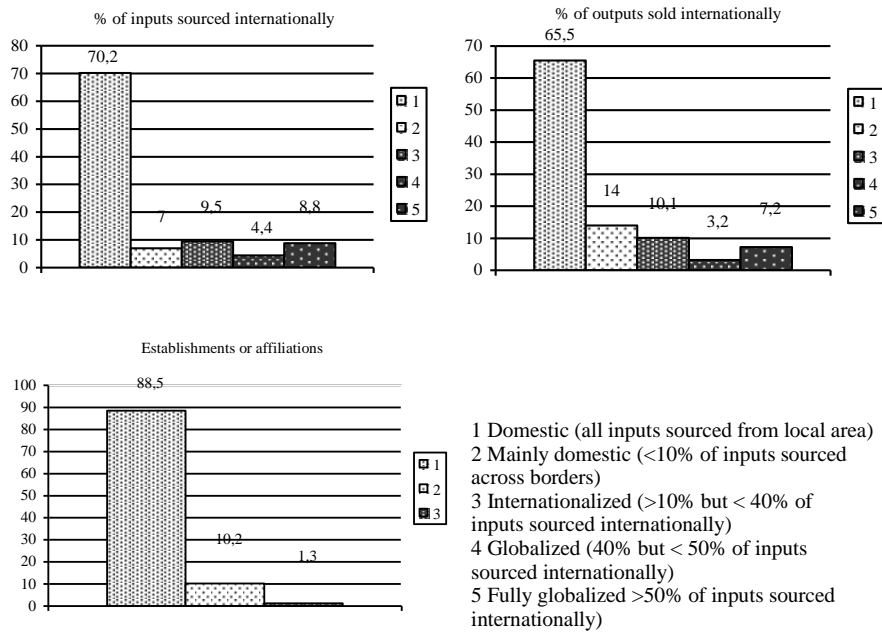


Figure 4.1 Proportion of rural SMEs in the globalization processes

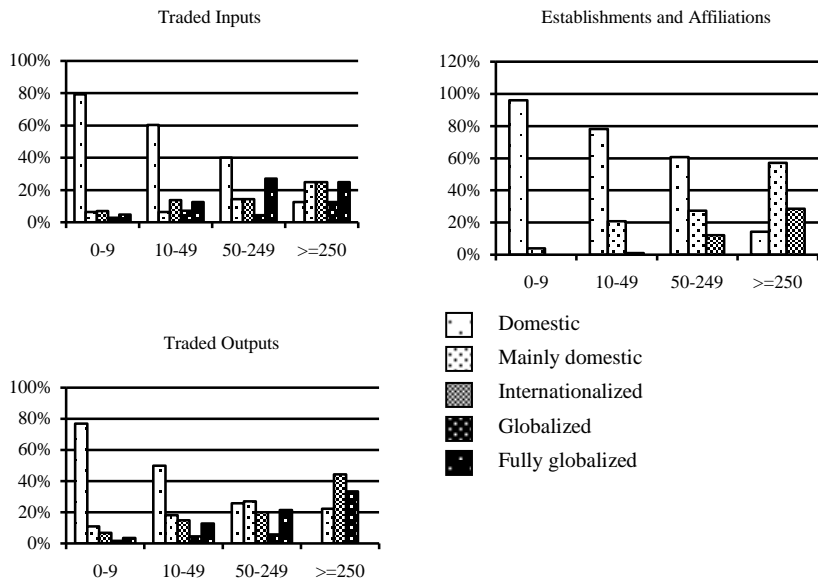


Figure 4.2 Level of globalization by firm size

It should be noted that only a marginal percentage of enterprises, up to only 0.4%, carry out activities on an extensive globalized scale as defined in Table 4.1.

The level of globalization of rural SMEs is conditioned by the size of the enterprise, its age, as well as the intensity of cooperation contacts. As regards the size of the enterprise,⁴³ medium-sized and large enterprises have decidedly the highest levels of globalization (Figure 4.2).

For small firms entry into the international arena is not easy and requires a strengthening of resources. In addition there is the chance that they will encounter a whole series of problems, in particular: lack of equal rights among partners, inability to organize a cost-effective system of management, inability to attain a fair share of the advantages arising from international cooperation, and a disproportion between the scale of activities engaged in and the costs required to comply with the legal regulations applicable in various branches of industry (see also: Reck, 1994; Belussi, 1999).

Insofar as the length of time an enterprise has been operating (age) is concerned, it seems that 5 years constitutes a threshold. (Figure 4.3).

This would seem to confirm the view that the internationalization of SMEs (which can take various forms) takes place in phases or stages and reflects an endogenous process of learning. In the first phase an SME demonstrates a lack of engagement in international activities. The second phase is marked by occasional exports, usually based on a specific order from abroad. The next phase is characterized by directed export resulting from a conscious business reaction to a perceived opportunity, most frequently carried out on an irregular and sporadic basis. Only in the following phase does an enterprise become actively engaged in the international division of labour and begin to systematically and continuously develop its exports and become involved in other forms of internationalization. In an ideal situation in the concluding phase an enterprise should establish its own firm abroad (RWI, 2000).

The increasing degree of globalization encourages the establishment of cooperation schemes between enterprises from various countries. The intensity of such cooperation is, however, limited by a series of difficulties which may be encountered in areas such as the labour market, construction and housing, social services, environment and planning, tax policies, education and research, infrastructure and logistics, culture and shared identities, and industrial politics (EC, 2002b).

The above characteristics define the globalization potential of most SMEs. What was singularly characteristic of the enterprises taking part in our research, however, was their location in rural peripheral areas with a relatively low level of competitiveness. While it is generally accepted that every enterprise is responsible for its own competitiveness,⁴⁴ the role of public authorities is to create conditions in which competitive firms can thrive.⁴⁵

⁴³ The contingency factor for characteristics such as size of firm and exports is 0.3848, for size of firm and imports 0.3177, and size of firm and creation of foreign affiliates 0.4288.

⁴⁴ They maintain their competitiveness through effectiveness and flexibility in meeting the needs of the market, capability of adjusting to structural changes, dynamics of creating new markets and meeting

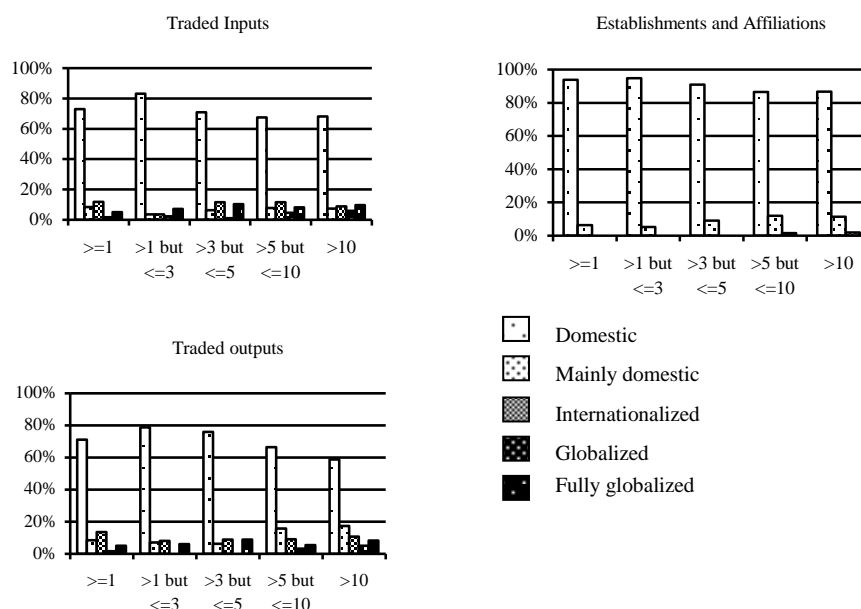


Figure 4.3 Level of globalization by firm age

The relatively low level of competitiveness prevailing in rural peripheral areas was confirmed in our research, whereby we collected the opinions of firms located in such areas on the following topics:

- access to basic services,
- the main barriers and the extent to which the barriers identified are related to the rural environment.

As regards basic services, the enterprises surveyed were asked to assess their accessibility based on a five-point scale, with 1 indicating very poor accessibility and 5 excellent accessibility.

The only service considered to be readily accessible was telecommunications, with 86% of firms assessing access to telecommunications networks as good, very good, or excellent, and only 14% as poor or very poor. Access to educational services and accessibility to road networks were much more negatively assessed, with nearly 32% of firms characterizing the former as poor or very poor, and more

new needs. Skills necessary to fulfil these tasks are the result of the quality of management in control of the firm.

⁴⁵ Adequate framework conditions are described in the concept of a competitiveness pyramid, first of all pointing out the general macroeconomic situation, R&D and technological potential, education and human resources, legal and political environment, labour market regulations, labour costs and industrial costs, tax regulations, and telecommunication infrastructure. For more information on a competitiveness pyramid, see: EC, 1996b.

than 33% of firms characterizing the latter as poor or very poor. The worst results concerned access to public transport (51% assessing it as poor or very poor) and the availability of skilled labour (which was assessed as poor or very poor by 60% of respondent firms).

The general assessments given above varied from country to country and in particular CSAs, sometimes demonstrating more and sometimes less advantageous structural conditions to aid the process of globalization of rural SME's (for example access to educational services was assessed the lowest by Greek firms and the availability of skilled labour was assessed the lowest by Portuguese firms).

Taking into account the differences between the negative assessments observed for each country and in each CSA and comparing them with overall results it seems that, according to the respondents, the least advantageous conditions for the development of SMEs exist in German Waldsüt, Greek Lesvos, and Portugal's Baxio Alentejo. These assessments may not be a true reflection of the actual differences in basic infrastructural conditions. This is demonstrated by the difference between the high assessments regarding access to services given by the Polish respondent firms (nearly 80% regarded educational provisions, availability of skilled labour, accessibility to the road networks, public transport and access to telecommunication networks as good, very good or excellent) and the lower than European average level of saturation in Polish CSAs of infrastructural improvements (with the exception of education, which underwent a dynamic growth period in the 1990s).

Rather the assessments reflect basic differences in regional expectations with regard to the level of infrastructure desired in a particular area. Of significance is the fact that firms more actively involved in various forms of globalization are characterized by higher levels of expectation (i.e. the lowest assessments were noted in those CSAs most actively involved in globalization). It may thus be concluded that areas with increasing levels of globalization are characterized by:

- an increased consciousness on the part of firms in the area of the relation between their environment and their ability to compete in broader markets;
- more concrete expectations with regard to specific parameters (such as levels of infrastructure and business services);
- an increased role by local authorities in formulating effective packages of aid and auxiliary services.

This was also affirmed by the respondents' awareness of the connection between barriers in innovative production and service techniques, the development of new markets, access to information, and the location of firms in rural environments. Regarding the two first, the majority of respondents (80% and 76% respectively) indicated the existence of barriers, while half of them associated the barriers with their rural location. On the other hand, access to information and to applied methods of promotion and distribution appears to meet significantly fewer impediments (only 20% of respondents identified a relationship between barriers and their rural location), which can, to a large extent, be attributed to the rather widespread use of ICTs, particularly in the more 'globalized' regions.

The results of the research described above clearly indicate the relatively low potential for making use of mobile production factors in rural peripheral areas. In effect the importance of these factors has a tendency to cause firms to drift to areas which offer better a location, most often into central regions. This in turn limits the globalization potential otherwise residing in rural SMEs.

Consequences of EU enlargement for SMEs in accession countries⁴⁶

As has already been indicated, globalization more indirectly than directly impacts on the future of European rural peripheral areas. The eastward expansion of the EU, on the other hand, exercises a direct influence on the future development of rural peripheral areas. In particular it increases the mobility of production factors by enlarging the internal market in which they operate.

A significant role here will be played by the effective allocation of resources which, together with ongoing economic development and the development of a knowledge-based society, should contribute to breaking down the marginalization of rural peripheral areas. Theoretically effective allocation should lead to these areas making full use of their comparative advantages. This should be especially true as agricultural activities *senso stricto* lose their role as the driving influence in the development of rural areas and agriculture itself undergoes internal transformation. This should lead to the differentiation of rural areas, with both agricultural and industrial activities being carried out within the confines of a single territory, leading in turn to increased elasticity in the use of resources in varying types of activities. For the agricultural sector this will mean evolutionary changes in the structure of farms, breaking down the particular individual characteristics of the sector though technical changes in the production of goods and products and taking advantage of particular resource characteristics from a market viewpoint. With regard to non-agricultural activities opportunities should arise to freeze resources in place in rural areas and take advantage of them in a 'differentiated economy' (Cecchi, 2000). In theory traditional agricultural regions should increasingly become regions demonstrating post-industrial characteristics. In practice however mobile production factors (especially capital) will flow into regions which offer the best conditions in terms of location; capital usually flows into areas offering high productivity and a high level of technology, while labour in turn flows into regions offering valuable jobs. As a rule the most advantageous regions are central regions (McDonald, 1994; Weise *et al.*, 2001).

Rural peripheral regions are handicapped by their relatively low potential in attracting mobile production factors. This in turn tends to become the basis of an inequality in terms of income and living standards that can become permanent and sometimes even increase. It is currently envisioned that unless current trends are reversed, by the year 2015 the EU space will be characterized by unevenly concentrated development around metropolitan areas and surrounding regions

⁴⁶ Note of the Editor: This section, as regards the consequences on the accession countries is based primarily on the analysis of the Polish experience which is due, on the one hand, to the fact that this is the case that has been analysed extensively, and on the other hand, it is due to the composition of the authors of the chapter.

(Foucher, 1997; Treuner & Foucher, 1997; EC, 2001a). While it has also been noted that deepening integration, in connection with the comparative advantages offered by poorer regions, may stimulate convergence, this trend no longer applies in times of recession⁴⁷ (EC, 1999b). In addition the processes of specialization and concentration which accompany deepening integration have a tendency to generate significant inequalities to the disadvantage of peripheral regions where industries most susceptible to damage as a result of industrial change are located.⁴⁸

At the same time the wide variety of factors determining the attractiveness of any location make market factors alone insufficient to ensure balanced economic development. While obviously much depends on the transitional situation and the ability of peripheral areas to adapt,⁴⁹ some kind of mechanism created by a series of EU policies is necessary to counteract the negative developmental factors. While it is true that in most cases the policies themselves are not of a regional character, nevertheless the mechanisms they create and apply and the direct influence they exercise on the behavior of particular participants in the market significantly affect particular regions. As regards such mechanisms, the following are worthy of particular mention:

- financial support, such as income support, regional and horizontal structural supports, and sectoral supports, including the financing of research programs, as well as general support stimulating human capital (skills) and know-how (technical progress). These affect the decisive factors according to the endogenous growth theory,⁵⁰ i.e. the quality of location and the effectiveness of making use of the mobile factors of production;
- legal regulation in areas such as competition law, liberalization of markets, environmental protection, market rules, etc;
- planning instruments, such as the European transport and energy networks, which directly affect the utilization of a given territory.

Although the influence of these mechanisms on the formation and structure of a given space are not amenable to direct and precise measurement, they undoubtedly modify and affect the structure and economic potential of particular regions, changing the model of utilization of agricultural areas and influencing their significance and competitive position in the European economic space (EC, 1999c and 2001b).

The last mechanism listed above is of particular significance in the context of SMEs and their role in developing peripheral rural areas, constituting a factor

⁴⁷ The continued existence of a disparity in the economic development of particular regions is considered to be a factor limiting the overall welfare of the EC. For more on the topic of the negative correlation between significant income differentials and economic growth, see: Aghion & Williamson 1998.

⁴⁸ For more on this topic, especially in the context of the common market, see: Buigues *et al.* 1990, Economic and Social Research Institute 1996; EC, 2001b.

⁴⁹ Defined by the intensity of implementation of necessary structural changes, (the development of industries more intensively employing new technologies, and the transfer of technology to peripheral regions), which plays a significant role, along with the level of capital and availability of a qualified workforce, in the dynamics of economic growth (Doyle & O'Leary, 1999).

⁵⁰ For an overview of the endogenous growth theory see: EC 2001c.

allowing for the creation of additional workplaces and stimulating the process of regional convergence.

The expansion of the EU changes essential parameters in the functioning of SMEs, creating opportunities and threats for both current EU firms and those located in the candidate countries.

The opportunities are primarily based on the new possibilities opened up by the ability to function within the EU internal market. These include access to foreign markets, equalization of conditions for carrying out business activities, freedom of establishment and the freedom of services, development of cooperation arrangements, increased access to skilled labour, opportunities to obtain public service contracts, decreased operational costs (elimination of physical and technical barriers), and improvements in the macroeconomic situation (economic growth, rise in GDP, reduced inflation, reduced credit costs, and balanced public finances).

Threats on the other hand arise from the costs associated with adapting to the requirements of the EU market, increased competition, advantages of scale, and the difficulties associated with restructuring specific enterprises and indeed, the entire economy.

An analysis of the threats and opportunities reveals several areas generating inequalities disadvantaging SMEs operating in candidate countries. Besides the obvious difference in the length of time SMEs in the EU and SMEs in the candidate countries will have operated in the market⁵¹ and the length and breadth of their experience therein,⁵² one can list:

- costs of adaptation in both the short and long term;
- differences in export/import structures in particular countries (intrasectoral exports and imports, intersectoral exports and imports, and exports and imports of goods of varying quality and price);
- differing basic conditions⁵³ which affect the competitiveness of SMEs.

Costs of adaptation encompass a wide range of tasks undertaken by SMEs independent of whether they operate on the international, regional, or local market. These costs occur in both the short and long term and are incurred by SMEs both directly and indirectly, in the latter instance appearing in the form of economic restructuring costs.

⁵¹ In the decided majority of candidate countries SMEs only began to develop significantly at the start of the 1990s. Earlier, in the era of centrally planned economies, such firms, if they existed, constituted only a marginal sector. The exceptions are Poland and Hungary. In Poland the non-agricultural private sector survived the post-war period, even though its growth was very slow, while in Hungary the private sector began to develop in the 1970s. There is also a certain tradition of entrepreneurship in Bulgaria, with a private sector dating back to 1984.

⁵² Experience is important both with regard to the advantages gained from the learning curve as well as the capability to plan strategically for new challenges. It signifies a higher reliance (in comparison to the SMEs in the candidate countries) on quality, new technologies, and client-oriented services (since such firms usually experience a significant growth in turnover as an effect of operating in the single market) rather than a reliance on minimizing costs.

⁵³ Including the macroeconomic situation, technological and research and development potential, education and human resources, the legal and political environment, labour regulations, work costs and industry costs, tax regulations, infrastructure, the existence of support policies for SMEs etc.

Among the short term costs special attention must be paid to the costs of adapting to the standards of the internal market. These include both essential investment outlays as well as organizational costs, personnel costs, and technical costs, which are characteristic of all types of changes associated with adaptation to new regulations. In the case of certain domestic producers these costs (can prejudice) (signify a worsening of) their economic position (EC, 1993; Cumbers *et al.*, 1995; Syrett, 1996). Within the context of EU enlargement it should be noted that these costs will be borne exclusively by SMEs from the candidate countries. Incurred primarily in the five years following expansion, they will worsen (in some cases significantly) the competitive positions of some SMEs.

As an illustration of the problems these costs and threats pose for Polish SMEs it is useful to examine the susceptibility of the food products industry. This industry is characterized by a relatively low (as regards SMEs) level of internationalization and limited extent of implementation of European standards. Since all Polish SMEs will need to comply with EU standards regarding production and processing norms, packaging and distribution, etc., regardless of whether they are exporters or sell exclusively on the domestic market, all will be forced to incur significant investment outlays, while, like all Polish firms, being subjected to intensified competition from large and medium sized firms in existing EU countries (Chechelski & Morkis, 1999; Urban, 2000).

Currently the industry is subject to increasing pressures from the expansion of Western super- and hypermarkets and the increasing extent to which they are shaping the market for agricultural food products. In order to survive in this market, Polish agro-food producers must comply with EU quality standards requiring both compliance with technical norms and obtaining appropriate quality certification. Failure to do this may mean being forced out of the domestic market by foreign suppliers (as occurred in Portugal in the early 1990s). SMEs have to increase capital investment outlay in plant and equipment as well as covering the costs of quality certification. The latter will require changes in management and working practices regarding quality certification, the lack of which will have an immediate impact upon EU integration.

The domestic haulage sector of the automobile and transportation industry is an example of a service sector where adaptation to EU standards in the areas of environmental protection, social benefits, and workplace hygiene will be felt acutely. In complying with the requirements connected with driving time limits it will incur additional costs including the purchase and installation of tachographs and instruments designed to read them, hiring extra alternate drivers (Urząd Komitetu Integracji Europejskiej, 2001). Compliance with EU norms also involves the modification of haulage vehicles to meet technical, ecological, insurance, tax, and safety standards. This will translate into additional costs per vehicle in the form of road taxes, adaptation to emission standards, technical safety standards, and social standards (including those involving maximum driving time and required rest time mentioned above), and the requirement to have goods insurance that is three times the current requirement in Poland. It is estimated that one third of existing hauling firms will find these costs too high to bear possibly leading to consolidations among smaller firms.

The situation will be different for Poland's established international haulage companies already complying with EU norms and standards. They may constitute exceptional competition to their EU foreign counterparts, in particular owing to their lower costs of operation (primarily arising from lower drivers' salaries).

An example of a sector which may not be particularly vulnerable to the consequences of integration is the clothing industry. Here the additional requirements associated with integration are primarily of a general nature (health and safety, for example) and are not specific to the industry. In addition the clothing industry is already highly internationalized, having been engaged for some time in a highly competitive domestic market where it has had to compete with imports from countries with lower operating costs. In addition clothing industry SMEs are already relatively highly engaged in subcontracting and outward processing, as a result of which they have already been forced to update their production technology, design, etc. The fact that they are already engaged in cooperation schemes with EU firms may also aid them in obtaining EU structural funds. It may be assumed that if they manage to keep their current degree of competitiveness they should not encounter negative effects from EU integration.

In the long term the costs of restructuring associated with a different scenario – the adaptation of particular economies to the requirements of the single market – will take on ever greater significance. This adaptation process will take place primarily in the framework of inner-sector specialization, whereby particular countries specialize in the production of particular goods of varying quality and prices. Within the context of the single market this brings an overall advantage in terms of a wider selection of products (both as to quality and price) and an increase in efficiency arising from a natural process of specialization according to comparative advantages existing within sectors (based on innovation, design, distribution, etc) (EC, 1996c). It carries with it however the danger that the richest EU countries will specialize in the production of high quality, high-priced goods, and the poorer countries in low quality, low-priced goods. This has been confirmed in an analysis of the inner-EU export/import stream (Aiginger, 2000).

For SMEs located in these latter countries (such as the candidate countries) there is the risk that they will intensify their specialization in labour intensive sectors (such as parts of the food products sector, textiles and clothing, and furniture) where they still enjoy a comparative advantage. These sectors have a relatively low growth potential in terms of increased demand and are threatened by increasing competition from cheap producers outside the EU.

The danger described above is wonderfully illustrated by the example of the Polish SMEs who have been struggling since 1998 to deal with the decline in their competitive position brought about by the Russian financial crisis. The problem has been particularly acute in light industry (textiles-clothing, leather goods), the furniture industry, and the production of electric light fittings and small appliances. It has revealed the following weaknesses in Polish firms (Piasecki & Rogut, 1998):

- their reliance on temporary competitive advantages, in particular low product prices. These firms are characterized by a limited capacity to adapt and a high vulnerability to outside changes, such as in exchange rates, tariff rates and customs duties, VAT, etc., which may destroy their competitive advantage and

place in the market. Attempts to re-enter the market are costly and require the support of national and local governmental agencies and economic organizations;

- weak management, in particular with regard to sales and marketing, financial management, and planning. A number of mistakes are repeated, such as high concentrations in terms of suppliers and customers, lack of financial liquidity, poor choice of location, failure to offer a wide variety of products, lack of cooperation with other firms, etc., resulting in crises in times of recession or other unforeseen circumstances. In addition there is a crucial lack of expertise regarding exit strategies and crisis management ability;
- a poor assortment of banking services is available to SMEs. Given their relatively weak financial situation this lack compounds their difficulties in adaptation;
- only a poor assortment of insurance options allowing SMEs to reduce their exposure to risk, especially with regard to export activities, is available to them.

The above-listed difficulties are exacerbated by a consulting, training, and educational infrastructure which is weaker than that which exists in the current EU countries.

It should not be assumed that the above difficulties will wholly determine the strategic reactions of Polish SMEs to the opportunities arising from the opening of the internal market. Nevertheless, while a significant proportion of such firms are aware of the changes which entry into the single market will bring about, most of them regard the changes more as threats than opportunities (Polish Agency for Enterprise Development, 2002; Rogut, 2002). The fears of Polish SMEs are reflected in Table 4.2, which lists their strengths and weaknesses.

It may be assumed to be highly likely that the same weaknesses listed above are characteristic of SMEs in other candidate countries, which increases the likelihood that the advantages for SMEs associated with the upcoming integration (at least in the short term) will work primarily to the advantage of existing EU SMEs (RWI, 2000).

Enlargement may also have consequences at the regional level, especially in border regions. Here the liquidation of barriers (liberalization of the free flow of capital, labour, and services, the increasing compatibility of educational systems, etc) may impede cross border regional co-operation, creating additional opportunities for active local SMEs and trades. It may also, however, lead to the loss of jobs in institutions previously specializing in servicing cross-border trade, and increase competition among regional SMEs.

The prevailing opinion in Poland is that the advantages from integration will accrue to the western region of the country while the potential disadvantages are more likely to affect the east. It is envisioned that the pro-developmental factors of the 1990s will become restricted when Poland joins the EU and the local cross-border advantages will shift across Poland's eastern border. Cities such as Białystok will lose their function as a centre of growth on the periphery and cities just across the border such as Grodno in Belarus will take over the same function. The same phenomenon will occur along the Ukrainian border, with Królewiec i Lwów taking over the role

of Olsztyn i Przemysł. In effect thus integration with the EU will signal the decline of Poland's border regions (Rykiel, 1997).

Table 4.2 Strengths and weaknesses of Polish SMEs

Strengths	Weaknesses
<ul style="list-style-type: none"> • Growth potential • Moderate growth in the average size of firms • High developmental priorities • Relatively well developed forms of cooperation based on vertical integration (cooperative chains linking producers, subcontractors, suppliers, and sales outlets) 	<ul style="list-style-type: none"> • Relatively low profitability • Low financial liquidity • A low and declining tempo in capital investment outlays (especially in small firms) • Low inclination to take risks • Weak financial liquidity • Low level of investment activities • Low level of innovation • Obsolete plant and equipment and old technology • Low level of horizontal cooperation (based on cooperation with firms within the same branch, R&D Institutes, training institutions, and business chambers and organizations) • Low level of export in comparison to the countries of the EU, more of a sporadic than regular nature, low level of cooperative contacts with foreign firms, (with the exception of outward processing, such as in the clothing industry) • Relatively high degree of dependency on narrow local markets • Weak management (excessive reliance on price competition, low level of awareness of the importance of technology in creating permanent competitive advantages. Low level of awareness of the need to cooperate) • Low emphasis on developing human capital

Source: based on Piasecki 1997; Piasecki & Rogut 1999; Piasecki *et al.*, 2000; Polish Agency for Enterprise Development 2002.

This scenario is confirmed by analyzing models of regional effects,⁵⁴ which indicate that the economic acceleration caused by modernization and industrial restructuring when Poland attains membership of the EU will have an asymmetrical effect in terms of job losses, to the detriment of the eastern regions of the country. It is estimated that in the first 10-15 years of Poland's EU membership the job losses in the region may reach 5% of labour demand, increasing unemployment and/or migration out of the region. The north-western provinces of Poland will be in a better situation and should not suffer job losses as a result of restructuring. This asymmetrical effect in terms of job losses will be mirrored by a similar effect in terms of job creation, with relatively few new jobs being created in the eastern regions of Poland (where job losses from restructuring will be the greatest) while all the western regions will benefit from most new jobs being created (Orłowski, 2000).

Similar phenomena may be observed in a number of other border regions in the candidate countries as well as in current EU member states. These regions may be characterized by significantly differentiated economic frameworks bringing about changes in location of firms and domestic households (Weise *et al.*, 2001).

Final comments

Traditional agricultural regions are more and more frequently becoming regions displaying post-industrial features in which a reduced agricultural sector co-exists with other sectors in the same space. Rural SMEs are becoming more pro-active in pursuit of distant, often overseas, markets with, however, a scarcity of firms operating on a truly global scale. The main reason for this is the low competitiveness of rural peripheries, understood as both:

- the lack of appropriate conditions for SMEs operating there allowing them to gain competitive advantages through factors beyond their control; and
- the unavailability of other benefits to SMEs operating there (e.g. access to financial resources, attracting external investors and maintaining capital in the region).

Although it is generally accepted that these individual firms (or groups of firms) are responsible for their own competitiveness,⁵⁵ the role of public authorities (at various levels) is, according to the concept of the competitiveness pyramid, to support firms' competitiveness through establishing framework conditions within which enterprises may thrive.⁵⁶

⁵⁴ This model arrays the effects of increases or decreases in demand for production in particular branches against the territorial location of such production in a given country, allowing the evaluation of the affects on the labour market in particular provinces.

⁵⁵ They maintain their competitiveness through effectiveness and flexibility in meeting the needs of the market, capability of adjusting to structural changes, dynamics of creating new markets and meeting new needs. Skills necessary to fulfil these tasks are the result of the quality of management at a firm level.

⁵⁶ Among these conditions the following are most frequently mentioned: a general macroeconomic situation, R&D and technological potential, education and human resources, legal and political

The low competitiveness of rural peripheral areas is also one of the major factors limiting the globalization potential of rural SMEs and keeping it at a lower level than that of counterpart SMEs located in non-rural areas.

The path leading to an effective increase in the globalization level of rural SMEs must include more effective and widespread use of support mechanisms directed toward such firms, in particular activities aimed at raising the level of qualifications in the local job markets. Conditions favoring global competition do not exist in rural peripheral areas largely because of the relatively low level of qualifications of workers and potential entrepreneurs. Access to appropriate human capital obviously works to the advantage of any firm, but SMEs are particularly vulnerable to any lack in this area since require an adaptable and versatile workforce capable of responding to the demands of the rapidly changing sectors in which SMEs expand quickest. This is of particular importance with the increasing frequency of situations where the demand for new competencies (especially in emerging sectors, including service sectors) outstrips the supply of qualified workers.

Thus systems of education and professional (re)training must be developed to ensure that the competitiveness of a particular region will not be undermined by a lack of qualified workers. The level and quality of education offered must also be designed to improve the level and scale of development of SMEs by, among other things, building up the entrepreneurship potential of a region and helping define the quality and opportunities for development of newly established firms.⁵⁷ It must also build up the pool of potential entrepreneurs, especially in the advanced technology sectors, influence the developmental potential and competitiveness of SMEs, and determine the required level of intensity and the limits to the development of a regional business infrastructure, particularly with regard to the transfer of new technologies and innovations.

Bearing all this in mind, the following steps are indicated:

Successive and incremental increases in the scale of investment in education to increase the number of persons with secondary, and especially, higher education. Significant expansion and improvement of the business infrastructure aimed at creating favorable conditions for the training which would enable SMEs to increase their competitiveness in all markets – local, national, and foreign. Priority areas of focus should include marketing, preparing business plans, financial management, quality management, and innovation. Although it is often assumed that these tasks are primarily the responsibility of the private sector, public authorities can play a catalyzing role by offering stimulative and supporting services, for example by subsidizing the costs of training, helping properly equip training institutes, etc.

environment, labour market regulations, labour costs and industrial costs, tax regulations, telecommunication infrastructure (Zielińska-Głębocka, 2000). For more information on a competitiveness pyramid, see: EC (1996b).

⁵⁷ It should be noted that the relationship between education, entrepreneurship, and the development of SMEs is neither direct nor obvious, particularly as achievements in education do not provide a firm with a guarantee of success. The significance of entrepreneurial education as a growth factor will be different in different sectors; larger in those sectors based on advanced technologies and know how, and less significant in sectors based largely on trades or crafts. The significance of education may also grow as a firm grows in size (Storey, 1994).

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Chapter 5

Technology, Peripherality and Rurality

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Introduction

This chapter is central to our understanding of entrepreneurship in rural areas in the sense that, on the one hand *innovation is increasingly becoming a crucial parameter in the development process, knowledge is a key asset for competing firms and learning a key process*, for nations, regions, and individual enterprises. On the other hand, it is apparent that there are enormous disparities in the spatial diffusion of innovation between and within countries with rural areas being, generally speaking, the least favoured.

The first part of this chapter attempts an *overview of the main theoretical approaches dealing with technical change, technology and knowledge*. Most of the existing work does not deal directly with peripherality and rurality, but with the role of technology and knowledge in fostering innovation and growth. Nevertheless, the way in which our understanding of the role of technology has improved over the last 20 years has important implications for issues of spatial concern at national, regional and local level. In presenting a theoretical overview of technology, we attempt to highlight the points of particular concern to rural areas and draw some preliminary conclusions stemming from current theoretical understanding and in particular, from the systems of innovation approach.

In the second part of this chapter we try to explore how firms in rural European areas behave with regard to innovation by using both secondary material and extensive fieldwork in five countries.

We argue that there are huge differences between the five countries under investigation in the level of ICT Infrastructure: Germany and to a lesser extent the UK have highly advanced ICT infrastructures while Portugal, Greece and Poland have much less developed ones. This 'technology gap' is not only a quantitative problem besetting development in rural locales in the latter group of countries but is related to structural factors too. As economic action is also inevitably social action, the existence of social capital is often cited as a crucial factor in both technological advancement and performance. In Southern European countries the combination of centralized state structures and a weak civil society creates conditions favourable for hierarchical clientistic networks inhibiting rather than encouraging long-term social capital-building. The institutional context of society plays a major role in fostering the contradictory traits towards cooperation or self-interest that all individuals possess. 'Northern' countries generally have more sophisticated and better adapted support schemes for the promotion of innovation *than less developed ones*.

Review of the theoretical literature

From the neoclassical approach to the systems of innovation

The extensive literature review reveals that during the past 20 years the theoretical approaches regarding the way knowledge and technology affect economic growth have developed considerably. Until the emergence of new growth theories, neoclassical approaches treated technology as something *exogenous to the economic system and at the same time freely and instantly available to all*. In addition, *neoclassical theory treats knowledge as synonymous with information* (Lundvall, 1997), completely ignoring the tacit character of a considerable part of it, which is embedded in people, firms and regions. Tacit knowledge has a number of features differentiating it from information, which make it very significant in the analysis of regional and local development: a) it is significantly less mobile, b) it is a necessary condition for someone to be able to use codified knowledge (or 'information')⁵⁸ and c) a major part of it is not tradable.

The *new growth theories*, developed in the 1980s expanded in many ways the neoclassical understanding of knowledge, incorporating it in the economic system and acknowledging the significance of investment in R&D and the role of trained human capital (OECD, 1992; Rojo de la Viesca, 1997). Nevertheless they retain a number of restrictive assumptions (i.e. homogeneous economic agents, perfectly informed and optimizing units), not reflected in reality and presenting great difficulties in explaining the behaviour of firms and nations. As Lundvall (1997) points out, if neoclassical assumptions hold, countries will have no motive to invest in the production of new knowledge and technology. Of course this is not what happens in the real world. Practically all governments invest in knowledge production, probably recognizing the importance of tacit knowledge and its significant lack of mobility.

During the 1980s, two new approaches about the impact of technology on economic growth were developed influenced by the Schumpeterian approach which views economic development as a disequilibrium process. The first approach, the '*technology gap*' theory, puts emphasis on the ability of economies to produce new and diffuse existing knowledge, challenging one of the most powerful implications of neo-classical growth models regarding the long-run convergence of economies. According to the '*technology gap*' theory, economic development is a disequilibrium process characterized by two conflicting forces: a) innovation, which tends to increase technological (and economic) differences between countries, and b) diffusion or imitation of technology which tends to reduce them (Fagerberg, 1988). As a consequence, the ability of less developed countries to converge is not automatic, but depends on their ability to imitate the technologies used by the leading countries as well as both their own innovative performance and the innovative performance of the frontier countries. The theory of the '*technology gap*' has contributed significantly to the understanding of the role of technology in economic growth. Nevertheless, it remains to a great extent

⁵⁸ Dosi mentions a very illustrative example: a document containing the latest Fermat theorem is only useful to very few mathematicians who can actually understand it. For someone who does not possess the necessary knowledge, even this extremely codified piece of information is completely useless.

focused on purely economic factors, ignoring other, equally significant elements, such as the historical dimension of technological development and the role of the wider institutional setting.

The second theoretical strand developed during the same period based on Schumpeter's ideas is the *evolutionary theories of development*, highly influenced by biological theories of evolution. In contrast to the Newtonian 'mechanistic' logic of mainstream economic thought, these theories are based on a fundamentally 'organic' approach, according to which a system is much more complex than the summation of its elements. Additionally, by moving away from the restrictive neoclassical assumptions, evolutionary theories managed to include in their analytical framework significant factors such as: the heterogeneity of economic agents and the consequent *uncertainty* of the outcome of choices, as well as the path dependency of the developmental course of economies. Overall, the evolutionary theories greatly enriched our understanding about the role of technology in economic growth, providing a much more realistic context than the 'conventional' economic approaches. Finally, their 'organic' view of the economy paved the way for a more *systemic view* of technical and economic change.

This systemic approach has culminated in the 'Systems of innovation' approaches developed during the latter part of the 1980s and throughout the 1990s.⁵⁹ The various outcomes of these approaches (national, regional, technological and sectoral systems) form the most comprehensive analytical framework about knowledge, technology and innovation in the economic process to date. The central theme of the various contributions to the 'systems of innovation' approach is that: a) *knowledge and innovation are crucial factors in shaping the competitiveness and growth potential* of modern economies and b) *that innovation is a very complex process*; it involves the production and diffusion of new knowledge and the transformation of (at least) parts of it into new products and processes of production. This process depends on continuous and complex interactions between firms and an environment which includes several important actors: other firms, universities, R&D organizations, institutional factors (e.g. the educational system and market regulation), government policies, etc.

The main contribution of the holistic, systemic approach of the 'systems of innovation' is that it demonstrates the complexity of the innovation process and the interdependence of several factors, economic, technical, institutional, social and political. Knowledge and technology are not only developed within the economic system, but are also inextricably linked with economic, social and even cultural processes. Concepts and variables such as tacit knowledge, interactive learning and co-operation, human networks, localized communication patterns, the wider institutional setting and the availability of knowledge infrastructure and human resources, play a central role in the capacity of a system to innovate and develop.

⁵⁹ The first contributors to these approaches were Freeman (1987), Nelson (1988) and Lundvall (1992). Since then, a growing number of scientists have been working in the systems of innovation conceptual framework. Most work remains at a national level talking of 'national systems of innovation' (Archibugi & Michie, 1997; Edquist, 1997; McKelvey, 1997, etc.), some has paid more emphasis to sectoral approaches and technological systems (Carlsson & Stankiewicz, 1995; Breschi & Malerba, 1997), while others have adopted a regional approach to innovation, preferring the term '*regional innovation systems*', arguing that regions are gaining importance as economic actors in a globalizing environment (Cooke, 1996; Howells, 1999; Landabaso, 2001).

In the context of this chapter, the *regional systems of innovation* are of significant interest. Howells (1999: 72) identifies three elements that differentiate regions and strengthen the need for analysis at regional level: a) The regional governance structure, both in relation to its administrative set-up and in terms of legal, constitutional and institutional arrangements; b) The long-term evolution and development of regional industrial specialization and c) Additional core/periphery differences in industrial structure and innovative performance.

A crucial element in this respect refers to the non-tradable/non-codifiable consequences of knowledge creation – the embedded tacit knowledge – the product of hands on activity. The more tacit the knowledge involved, the more important the spatial proximity. The *proximity argument* is related: a) to the fact that, everything else being equal, *interactive collaboration will be cheaper and smoother the closer the participants are* and b) to *proximity of a social and cultural kind*. Communication of tacit knowledge requires a high degree of mutual trust and understanding related both to language and shared values and culture.

Systems of Innovation can also be a very useful analytical tool at territorial analysis below the level of a region. The issue that arises however is that the smaller a system gets, the more ‘open’ it becomes with respect to the outside world. In very small systems therefore, the interactions of their constituent parts with the outside world may actually become more frequent and more important than the interactions within the system which in turn questions – by definition – the existence of a system.

Howells (1999) provides a very interesting contribution to this discussion by identifying a number of processes that should exist for the identification of a local innovation system:

Localized communication patterns relating to the innovation process, both at an individual and a firm (or group of firms) level. Patterns of communication relate negatively to geographical distance. This is shown by a number of studies (Allen, 1970 and 1977 in Howells, 1999: 82). Lundvall’s references to informal contacts also reinforce this. Despite the enormous progress in ICT, face-to-face contacts and co-operation in joint projects remain crucial as vehicles for tacit knowledge transfer and the creation of networks based on mutual trust.

Localized search procedures. Firms, especially small ones operating in local markets, have a bounded knowledge of where and what resources exist. As a result, the existence in their vicinity of sophisticated, technology-intensive firms or organizations improve opportunities for innovating and becoming part of networks facilitating knowledge transfer and interactive learning.

Localized invention and learning patterns. The central role attributed to producer-user relationships in the innovation process is in accordance with the observation that inventive activities follow highly localized patterns (Howells, 1999). Data based on the European Community Innovation Survey show that only a small proportion of firms engage in innovation activities on their own, and that most innovations occur in innovation networks. The local dimension of such networks is crucial and consequently spatial proximity becomes a factor of increasing importance (Lundvall, 1997).

Localized knowledge sharing. The key issue here is the existence of locally available tacit knowledge disseminated through interactions involving networks of

firms and knowledge centres. Transfer of knowledge within these networks is facilitated by trust and common culture, usually developed through geographical proximity (Lundvall, 1997).

Localized patterns of innovation performance. The existence, locally, of firms that can act as 'early users' of potential innovations and engage in active user-producer interactions facilitates the rapid improvement (or early rejection) of technological innovations and increases the innovative performance of an area.

Obviously, the processes identified by Howells do not characterize every local area. Rural areas, in particular, may very well be characterized by opposing factors: low-level, low-tech economic activities, lack of knowledge infrastructure and skilled workers, and weak interactions with knowledge-intensive regions or urban centres. This observation though, should not lead to the conclusion that there are no local innovation systems in rural areas.

Interest in the role of 'region' (defined as a 'sub-national' geographical entity) was revived in the 1980s. At a time when the forces of globalization (e.g. in transport, telematics and organizational techniques) appear to have reduced the world to a 'placeless mass', regions are seen as entities that could provide the basis for economic and social life favouring increased specialization and flexible, knowledge-based production systems (Storper, 1998). Interest in the literature in industrial agglomerations, as Hassink (1997) argues, has increasingly shifted from 'economic' reasons for growth (e.g. product specialization, and vertical disintegration of the division of labour) to 'social' and 'cultural' reasons (e.g. social consensus, institutional support for local business, innovation, skill formation and circulation of ideas) (Amin & Thrift, 1994; Asheim, 1996).

Inspired by the institutional structures found in successful, modern industrial districts (e.g. Third Italy and Baden-Württemberg) scholars, as Hassink (1997) argues, have been writing about the institutional aspects of regional economic development. Terms that have been used include: 'institutional thickness' (Amin & Thrift, 1994), 'intelligent regions and collective entrepreneurship' (Cooke & Morgan, 1994), 'regional innovation systems' (Braczyk *et al.*, 1997),⁶⁰ 'organizational learning and un-learning' (Maskell & Malmberg, 1999) and 'tacit knowledge and untraded interdependencies' (Storper, 1995) and 'the learning region' Asheim (1996). All these approaches, as Hassink (1997) argues, have at least three characteristics in common: a) they consider that proximity still matters because learning is still primarily a localized process, b) they offer policy solutions to the threat of job decline caused by globalization, c) they see innovation as an outcome of wider economic and social processes.

The last point appears to be common in most contemporary theoretical approaches. The 'technology gap' is not only a quantitative problem besetting development, which is also related to *structural factors*. Economic action inevitably involves social consequences and its success depends on a supportive social context. The 'embeddedness' of all institutions suggests that the content of a successful economic reform package, as well as the nature of the obstacles likely to be faced, is likely to be society-specific. *The institutional context of society plays a*

⁶⁰ Braczyk H.L. *et al.* (eds) (1997) *Regional innovation systems*. London: UCL Press, as mentioned in Hassink (1997).

big role in fostering either the cooperative or self-interested traits inherent in all individuals.

The notion of *social capital* is often used to interpret good economic performance; its lack is seen as explaining poor economic records. Social capital includes norms such as that of generalized reciprocity, which can 'restrain opportunism and resolve problems of collective action' (Putnam, 1993: 172). Social capital is defined in terms of the features of social organization, such as trust, norms and networks that can improve the efficiency of society by facilitating cooperation. Like other forms of capital, social capital is productive in the sense that it makes possible the achievement of certain ends unattainable in its absence. As with conventional capital, those who have social capital tend to accumulate more while most forms, such as trust, are what A. Hirschman has called 'moral resources' –i.e. resources whose supply increases rather than decreases through use and dwindles if unused (Putnam, 1993: 167, 169). Social capital exists in and is nurtured by, communities, associations, networks, families, and clans.

'Civil society' functions as the arbitrator of both the market and non-market rules of conduct, or as the unofficial normative intermediary between the self-seeking individual and society as a whole. Putnam (1993) (whose views on social capital stem from his work on Italy) has been particularly influential in stressing the importance of 'civic community', as evidenced in cases where horizontally ordered groups such as cooperatives and mutual aid societies exist. His argument is that it is horizontal networks of civil engagement that are important in solving the dilemmas of collective action.

Such horizontal networks are prevalent in the North, whereas vertical networks and ties of kinship dominate the South (Putnam, 1993: 174-175). Vertical networks such as patron-client relations common in clientistic politics 'no matter how dense and no matter how important to their participants, cannot sustain social trust and cooperation', not least because 'in the vertical patron-client relationship, characterized by dependence instead of mutuality, opportunism is more likely on the part of both patron (exploitation) and client (shirking)'. Kinship ties on the other hand, while horizontal, are also inimical to fostering wider ties and merely sustain cooperation within the (extended) family but not between groups. In the 'uncivic regions' public life is organized hierarchically, the 'very concept of citizen is stunted' as political 'participation is triggered by personal dependency or private greed, not collective purpose', 'laws are made to be broken' while 'corruption is widely regarded as the norm' (Putnam, 1993: 115).

Existing evidence from countries of Southern Europe (Putnam, 1993; Paraskevopoulos, 1998 and 2001; Lyberaki & Paraskevopoulos, 2002) suggests that the combination of centralized state structures and weak civil society creates conditions favourable for hierarchical clientistic networks that inhibit rather than encourage the long-term process of social capital-building.⁶¹ The weak nature of

⁶¹ Greece, in particular, is widely considered a country poor in social capital and consequently with a weak civil society, characterised primarily by a state structure simultaneously centralised and weak⁶¹. The nature of the Greek economy has not depended on trust and long-term relationships, which largely explains the continuing prevalence of very small-scale firms since in a low trust environment kinship ties may offer some defence against opportunistic behaviour (Humphrey & Schmitz, 1996; Lyberaki, 1998). However this type of 'ascribed' trust (based on family, ethnic or other attributes)

civil society in southern European countries is one factor hindering development in the sense that the countries of southern Europe lack adequate support schemes for the promotion of innovation while their entrepreneurs seem to lack trust and even to be sometimes inherently suspicious towards others (this is even more acute in post-communist societies that, as Humphrey and Schmitz (1996: 2) argue, are trapped in a deep syndrome of mistrust). This leads to: a non-cooperative attitude towards other companies; Non-participation in Trade Associations etc; Lack of 'investment' in their employees; A generalized lack of trust/ acceptance of the social context; a generalized lack of professionalism; an undervaluing of the importance of knowledge in making their company more competitive.

Technological developments and innovation in European rural areas⁶²

Technological potential as an important source of competitive advantage

As shown in the previous section, it is becoming increasingly evident that innovation constitutes one of the most important factors determining the ability of a firm to compete effectively in international markets. Firms innovate to improve the quality of their products/ services, open up new markets, increase their market share, and reduce their labour costs. Accordingly, at the EU Summit in Lisbon (2000), the Union set itself the goal of becoming the most competitive and dynamic knowledge-based economy in the world within a decade.

Most of the debate on technology and rural areas focuses on two rather specific fields of interest: a) technological developments in agriculture and b) the impact of ICTs in rural areas. The second point will be dealt with in some detail in the last section of this chapter. This section very briefly outlines the debate on technology and agriculture, stressing however that rural areas should not be solely identified with agriculture. Indeed, recent policies for rural development both at national and European level, aim specifically at creating alternative employment opportunities.

Technological development has been a major concern in agriculture for over a century. Developments in engineering and the chemical industry (fertilizers, pesticides, etc) have been absolutely crucial in shaping today's agricultural production patterns and performance. However the current debate seems to be qualitatively different, being dominated by two main factors: a) the technological breakthroughs in biotechnology and the subsequent heated debates on the opportunities and threats linked to the use of GMO's; and b) with the increased pressures on the environment resulting from intensive methods of agricultural production and the growing environmental awareness of consumers – at least in the developed countries.

Sustainability has become a key-issue in farming and technological development has become centred on reconciling economic objectives (such as efficiency, quantity and productivity) with concerns about health and

may be highly vulnerable and prone to destabilization by growth itself, economic differentiation and the increasingly significant role played by outsiders

⁶²We would like to mention here the contribution of Dr. Sofia Skordili, Lecturer in the Harokopian University of Athens, to an earlier draft of this section.

environmental and social sustainability. The term 'sustainable farming systems' refers to the capacity of agriculture over time to contribute to overall welfare by providing sufficient food and other goods and services in ways that are economically efficient and profitable, socially responsible, while also improving environmental quality (OECD, 2000).

While sustainability itself can be a geographically delimited concept, the technologies required for sustainable farming systems are increasingly being developed at a global level. Both conventional and emerging technologies related, for example, to biotechnology, information technologies, precision farming techniques, biological pest control and organic farming systems, are being developed by large organizations operating on a global scale. Nevertheless, their application takes place at farm level, and, through regulatory mechanisms, can have a significant impact at the level of (one or more) rural areas (OECD, 2000). The shift in future demand patterns may open new opportunities for relatively under-exploited rural areas to develop environmentally and socially sustainable agricultural activity.

Technology is not only an important factor in the production of agricultural and other craft products, but also in their processing, distribution and marketing. Herdzina *et al.* (1996), analyzed craft enterprises in rural areas in Germany and concluded that successful enterprises had a stronger propensity to take risks, more innovative competencies, a higher willingness to learn, more frequently checked their methods of solving problems and engaged to a greater extent in knowledge exchange activities, than less successful ones. Similar studies in Portugal showed a developing interest in the adoption of innovative technologies in rural peripheral areas, with a view to creating new niche markets for high quality traditional local products, such as cheese, wine, olive oil and cork-based goods.

Technology in a rural peripheral context can therefore provide opportunities for the competitive repositioning of agricultural and other types of production, while achieving objectives related to environmental concerns, or for rationalizing existing production processes by introducing new methods. Regarding rationalization, Smallbone *et al.* (1997) found that during the 1980s remote rural firms in the UK were encouraged to adopt more labour intensive forms of expansion than their urban-based counterparts. Smallbone *et al.* (1999) found little evidence that rural SMEs had used technology as a means of rationalization; instead replacement investments seemed to be the norm.

An example of new technologies leading to diversification and innovation is provided by the cooperative of asparagus producers in Evros, a poor agricultural region on the Greek-Turkish border. With EU support, they have not only succeeded in using technology to grow a new type of asparagus but also managed to enter the competitive market by mobilizing the Greek immigrant community. Packed in recyclable containers, their products sell in the high quality segment of the German fresh vegetable market. It is not an exclusively local initiative, since the Greek Ministry of Agriculture, the Prefecture of Evros, as well as private Dutch companies, are also participants in the cooperative. The keys to success have been the energetic local mobilization of growers, willingness to apply technological solutions and the ability to manage networks providing access to information.

New technologies can also have adverse effects on the relative position of rural areas, if not addressed in a pro-active way. Herdzina and Nolte (1995) studied how the economic competitiveness of regions in Europe is affected by fundamental changes in the worldwide division of labour, changes in demand patterns and technological and organizational innovation. They argue that one of the main structural weaknesses of rural areas in the regional adjustment processes lies in SMEs inability to innovate. Technology can also be a source of stress within companies, as Herdzina and Blessin (1996) and Blessin (1997) point out. Combining organizational efficiency with internal stability and the ability to respond quickly to external changes posing new threats or presenting new opportunities, is important and firms located in rural areas and less likely to possess this kind of skill, can therefore be more exposed to such pressures.

The importance of existing (formal and informal) relationships between the heterogeneous actors, including policy makers and entrepreneurs, involved in technology issues in this context, as well as of relationships extending beyond the rural boundaries, also needs emphasizing.

The importance of ICTs and inequalities in their infrastructure

Undoubtedly, the rapid developments at the intersection of information and telecommunications technology (ICTs) have played a major role in facilitating and accelerating the process of knowledge codification and transmission over long distances. The widespread application of *ICTs is the most important contributory factor in overcoming the 'friction' of time and space*. They constitute the 'enabling technologies', a fundamental prerequisite for the evolution of international production (Dicken, 1998).

ICTs, by providing a fast and reliable quality service at reasonable cost regardless of geographical location, could reduce regional disparities in economic activity and employment. Hence, they are very important for rural areas that are characterized by geographical isolation and problems of access to urban areas (EC, 1994). Additionally, it is argued that the benefits of *ICTs are of particular importance to rural firms, enabling them to overcome the friction of distance and the scattered and fractured nature of their local markets*. They appear to provide the possibility of transcending the geographical marginality of rural areas and regions in the delivery of services and the location of economic activity.

Nevertheless, some researchers have expressed caution, considering theorizing about the potential impact of ICTs in reducing the distance and inaccessibility of rural areas to be overly optimistic. They support the view that *the income gap between urban and rural areas will widen further, coupled with a 'digital divide'*.⁶³ Although providing new options and tools for rural development these technological changes also *pose a threat*. Rural markets can be more easily penetrated and served from a distance. Without public support it is likely that, in an increasingly deregulated and privatized market, rural areas will be at the back of

⁶³ The term 'digital divide' refers to the gap between individuals, households, businesses and geographic areas at different socio-economic levels with regard both to their opportunities to access ICTs and to their use of the Internet for a wide variety of activities. The digital divide reflects various differences among and within countries (OECD, 2001: 5).

the queue for the necessary investment in infrastructure and training (Marsden, 1999: 513).

The creation of ICT infrastructure networks in less developed areas has been among the main priorities of the EU since the introduction of the Community Support Frameworks (CSF) in the 1990s. Access to such networks could potentially overcome a number of physical and geographical obstacles and reduce spatial disparities. Despite the considerable progress that has been made over the past 10 years in reducing existing disparities in telecommunication infrastructure across the EU, such disparities still exist.⁶⁴

It is evident that the emergence of a global economy based on telecommunication systems has led to new rounds of uneven development and spatial inequality. Evidence from several European countries suggests such investment is concentrated in large urban areas, particularly in sectors, which are major users of new technologies such as software and telemarketing. One of the main constraints of advanced telecommunication networks is the need for commercial viability. Network providers prioritize densely populated areas where returns are higher i.e. a 'virtuous cycle' in which strong demand for advanced telecommunications produces innovation and high level of service, which in turn increases the level of demand (Grimes, 2000). Not all places around the globe benefit from technological innovations in transport and telecommunications. *While the world's leading national economies and the world's major cities are pulled closer together, other, less industrialized countries or smaller towns and rural areas are, in effect, being left behind* (Dicken, 1998).

The Internet has grown at rapid rates, roughly doubling in networks and users every year. However, equal access to everyone still remains largely a myth, since it is highly concentrated in the most economically developed parts of the world, most notably the USA, Europe and Japan. The case of the USA highlights the huge inequalities, since this nation alone creates almost 90% of the global Internet traffic, while most of Africa and Asia (with the exception of India, Thailand and Malaysia) have little or no access. In 2000 there were 168.7 Internet hosts per 1000 inhabitants for North America, 59.2 Oceania, 20.2 Europe, 2.5 central and South America, 1.9 Asia and 0.3 Africa (OECD, 2001: 13). Hence, as Warf (1999) argues, the geography of the Internet reflects and consolidates previous rounds of capital accumulations.

Domestic access to the Internet in Europe is highest in the Netherlands and in Scandinavia, followed by the UK, while the lowest rates are in the Mediterranean countries. The low use rate for France could also be due to the widespread diffusion of Minitel in France, which provides some of the same services.

The tendency is for Internet access prices to continue to fall across OECD countries, making communication costs increasingly insensitive to distance (The

⁶⁴ In EU countries there are between 40 and 69 main lines per 100 inhabitants. The leader being Sweden with 69 lines per 100 inhabitants while the cohesion countries have much lower (i.e. Portugal and Spain 40, Ireland 41 and Greece 52 lines). Digital systems account for practically all lines in the cases of Luxembourg, France, Netherlands, Sweden Finland, and the UK while they represent over 70% of the lines in the other countries of the EU. Greece seems to be the only country lagging significant behind with a digitalization rate of 43%, although since then considerable progress has been made. Estimates for 1998 show that this percentage has been raised to 70% (The World Competitiveness Yearbook 1998 and EITO 98).

Economist, 23/09/00). However, there is a strong correlation between the penetration of Internet hosts and the average price for Internet access (OECD, 10/2000b).

Internet access among households in urban areas is greater than in rural areas all over the world (i.e. Canada 32.6% in urban and 23.7% in rural; Japan 17.7% and 13.6%; Netherlands 28.7% and 22.7%; US 42.3% and 38.9% data of 1997-2000). Members of households in urban areas are more likely to have occupations where computers and the Internet are part of their work environment. *Costs tend to be higher and quality of access lower in rural areas*, despite some efforts to ensure standardized pricing and quality.

The discrepancies observed during our study in Greek regions are illustrative in this respect. Internet speed of a typical dial-up connection can be up to 10 times faster in urban areas than in remote rural ones. Furthermore, new technologies that could allow stable and faster connections (e.g. ADSL) are technically difficult to implement in rural areas and usually more expensive. On the other hand, incomes tend to be lower in rural areas and ICT costs are relatively higher for low – income groups (OECD, 2001: 24). In developed countries however, differences between urban and rural areas in Internet access are diminishing. For example in the US over the period 1998 to 2001, growth in Internet use among people living in rural households has been at an average annual rate of 24%, and the share of Internet users in rural areas (53%) is now almost equal to the national average (54% – US Dept of Commerce 2002).

Moreover, apart from the distribution of physical infrastructure there are other things related to intangible infrastructure that matter too. For example, the rural population does not seem to have benefited sufficiently from such services. Investment in education is crucial to ensure that local people are properly equipped to exploit and benefit from such technology. There is little point in connecting villages to the Internet if most people are not familiar with such technology. Certain researchers suggest that user-resistance arises to some extent from technophobia (Clark *et al.* , 1995). Although the continuous out-migration of young population from rural areas deprives them of potential users to a small extent, this lack of dynamism can be alleviated by in-migration of professionally skilled outsiders having established contacts with core regions (Grimes, 2000).

Empirical findings

This section presents the main empirical findings of the fieldwork conducted in the rural areas of the five countries, complemented by data from other, similar, studies. The section is divided in three parts: findings regarding innovation by rural firms; the impacts of the wider social environment; and the use of ICTs by the firms in these regions.

Innovation in rural Europe

Firms in the entrepreneurs' sample were selected on the basis of being innovative. In all CSAs, more than 60% of firms had three or more innovative products, while

in the two Greek regions over 10% of firms claimed to have more than 10 innovative products/services. The rather vague characteristic of 'better quality' was in most cases the factor that made products or services innovative, accounting for 45.5% of responses to the question regarding the most significant characteristic.

Nevertheless, there were significant regional variations, creating quite a unique pattern, with two very distinct groupings of CSAs. More specifically, the Greek and Polish regions form one cluster, mainly affected by the characteristics 'better quality' and to a lesser extent 'lower price', while the remaining regions (with the notable exception of Devon & Cornwall) form the second cluster, mainly affected by the characteristic 'more sophisticated'. Since 'better quality' is much more generic than 'more sophisticated' we could hypothesize that firms from the first group (i.e. Greek and Polish firms) are significantly more vague about the sources of innovation than firms from the other three countries.

Some of the innovative products were introduced to the market 30 or 40 years ago, justified by the very broad definition, including uniqueness in a regional context, given to the term innovation. However, assuming that the broad definition applied equally to all regions, the year of introduction of the innovative product/service in the market is another indication of the specificity (both regional and national) of innovation. In this context, approximately 40% of the innovative products of English firms were introduced in the market more than a decade ago, while for the German and Polish firms, the respective proportion is zero, except Waldshut, where it stands at 3%. The remaining regions are split between these two extremes, with Kilkis resembling the two English CSAs.

In the majority of cases the time required for the development of the innovative product was approximately two years (a mean of 2.07 years for the total sample).

Our empirical findings seem to confirm that innovation is also a social process, significantly affected by the social environments in which it is embedded. Participation of other people (apart from the entrepreneur) in the inception of the innovative product/service varies quite considerably between the regions examined. In this context, in the southern European regions (except Oeste) and the German regions, more than half the innovations were developed in cooperation with others.

Further differences appear once 'others' is disaggregated. Hence, the importance of company employees is much more significant in Bialystock, the two German regions and Kilkis, the four regions with the largest firms in the sample. The importance of family and friends is clearly reduced in all these regions except Kilkis, where family and friends appear to be a dominant influence in smaller firms. Thus, *while the importance of such informal social networks is clearly negatively related to the size of the firms, it appears to be more important in southern Europe.*

The results show similarities in sources of information, the market, the production processes and sources of finance for the innovative product. In all cases, the importance of information from family and friends is much more important in the southern regions (except Kilkis, for the reasons mentioned above), and to a lesser extent the Polish regions.

Even when it comes to the sources of finance for the innovation there are significant differences. While few Polish firms have used external finance for their innovative product, the most impressive finding is the very high dependence of Greek and Portuguese firms on public sector grants.

There are significant differences between CSAs in the share of entrepreneurs who feel that they have to face barriers to the innovation of their products / services. This ranges from 96.8 for Lesvos to 61.8 for Oeste.

Lack of finance is by far the most important barrier to innovation of products / services in all CSAs, ranging from 31.5% in Lesvos to as high as 60% in Devon & Cornwall. Four barriers (i.e. lack of finance, inability to find skilled staff, lack of time and lack of knowledge about the market) constitute well over 50% of the impediments to innovation. It is interesting that in almost all countries (i.e. Greece, Germany, and Poland) enterprises in the two CSAs rate the main barriers to innovation in the same order. In the other two countries (i.e. Portugal and the UK) enterprises in the two CSAs concur about two out of their three most important barriers.

The highest proportions of enterprises believing the problems of innovation for their products/ processes have no relation to operating in a rural environment, are either in transition economies with much more important problems (e.g. Bialystok and Zary) or in very developed countries where such barriers have, in a sense, been overcome (through the provision of adequate infrastructure etc).

It is interesting to note that *the smaller the settlement the firm operates in, the less it considers the rural environment as a barrier to the innovation of its products/ services* (i.e. 61.5% for small settlements decreasing to 52.1% for medium and 47.1% for large settlements).

Rural environment hampers innovation mainly through: 'small local market', 'poor business environment' and 'poor technical infrastructure'. These three factors constitute 56.8% of the reasons mentioned. It is also noteworthy that in each country there is a specific pre-eminent factor apart from the three already mentioned. In the case of Portugal it is the 'Absence of Public Sector Business Support Organizations', in Poland the 'Low demand, low income, unemployment', in UK the 'Planning restrictions' while in Greece, both 'Absence of Public Sector Business Support Organizations' and 'remoteness' are cited.

It is quite revealing that reservations of enterprises located in more accessible areas and in larger settlements about the barriers they faced were more severe than those of their counterparts in less accessible or smaller settlements. Generally, the more developed an enterprise, the more obstacles it sees. In particular entrepreneurs in semi-urban areas thought that they faced more problems with regard to small local market, poor technical infrastructure and absence of Public Sector Business Support Organizations, etc. While enterprises located in large settlements tended to think the barriers they faced as being more severe than did their counterparts in smaller settlements (e.g. small local market, Poor business environment, absence of Public Sector Business Support Organizations and Lack of qualified personnel).

The importance of family relations in the 'south', formal relations outside the family in the 'north'

It seems that enterprises in the 'south' (i.e. based in Greece and Portugal) tend to be family based while their counterparts in the 'north' (i.e. the German and English firms) appear to be more heavily influenced by the wider business environment outside the family. There appears to be some sort of 'north-south divide' while

countries in transition (such as Poland) appear to behave in a distinctively different manner.

In other words, in most of the cases where the influence of the wider environment can be assessed, systematic differences appear between the three broad groups of CSAs as defined above. A rather straightforward example has to do with the share of firms employing unpaid labour (usually family members – Table 5.1). With the exception of Oeste, there is a marked split between the Southern and the Northern regions

Table 5.1 Share of firms employing unpaid labour

CSA	%	CSA	%
Kilkis	33.3	Waldshut	13.0
Lesvos	30.8	Nordwestmecklenburg	11.0
Zary	33.0	Cumbria	14.0
Bialystok	23.2	Devon & Cornwall	11.0
Baixo Alentejo	18.0	Total	19.4
Oeste	6.1		

Nevertheless, this does not imply that regional, or even national, differences do not exist.⁶⁵ In fact, differences do exist even at the regional level but they are not big enough to undermine the general picture and most can be explained. In order to disaggregate and give a fuller image of the actual situation, an analysis at three levels was performed, as outlined in Table 5.2.

In the upper section of the table, the 10 CSAs (except Devon & Cornwall) have been combined into three broad groups, namely ‘South’ (the Portuguese and Greek CSAs), ‘North’ (the German and English CSAs) and Poland. There is a quite clear and systematic distinction (and in most cases statistically significant) between the South and North groups, with the former being affected more by friends and family than the latter, while the situation is reversed in relation to the wider business environment.

In the section of the table that follows the groups are replaced by countries. In general, the divide between South and North remains, however, it is no longer systematic, especially regarding the information about the finance section. In other words, the national characteristics appear to be quite significant in determining how the environment affects the innovation process.

At an even lower level it becomes apparent that regional characteristics are also important. For example, it appears that Kilkis and Oeste (which are the two more developed regions in Greece and Portugal respectively) appear to be among the regions in our sample that are least susceptible to environmental influences, while Lesvos has one of the highest proportions of innovative firms influenced by the wider business environment.

⁶⁵ In any case, our sample of firms is not representative, even at the regional level, and making inferences about groups of countries would simply be unscientific. However, seen tentatively, the results appear to conform to the theoretical expectations and can be quite useful in the creation of a wider view, without at the same time losing the detail.

Table 5.2 The impact of the environment on innovation

	Market		Production processes		Finance	
	Friends and family	Wider business environment	Friends and family	Wider business environment	Friends and family	Wider business environment
South	23.7	38.7	17.7	50.7	11.0	8.7
North	11.3	49.1	12.7	64.6	7.1	9.4
Poland	20.3	51.6	15.6	73.4	26.6	3.1
Total	18.8	43.9	15.7	58.3	11.3	8.3
Greece	19.6	39.5	14.1	53.0	7.6	7.6
Portugal	30.4	37.4	23.5	47.0	16.5	10.4
Germany	10.4	44.8	12.8	62.4	6.4	8.8
Poland	20.3	51.6	15.6	73.4	26.6	3.1
England	12.6	55.2	12.6	67.8	8.0	10.3
Total	18.8	43.9	15.7	58.3	11.3	8.3
Lesvos	27.3	52.0	19.2	65.0	11.1	9.1
Kilkis	10.6	24.7	8.2	38.8	3.5	5.9
Oeste	28.6	31.0	11.9	38.1	4.8	2.4
Baixo Alentejo	31.5	41.1	30.1	52.1	23.3	15.1
Nordwestmecklenburg	7.0	45.6	14.0	56.1	5.3	14.0
Waldshut	13.2	44.1	11.8	67.6	7.4	4.4
Bialystok	23.5	52.9	11.8	76.5	38.2	2.9
Zary	16.7	50.0	20.0	70.0	13.3	3.3
Cumbria	12.6	55.2	12.6	67.8	8.0	10.3
Total	18.8	43.9	15.7	58.3	11.3	8.3

The figures are proportions of innovative firms influenced.

Nevertheless, what is quite apparent is that regional or national peculiarities do not completely refute the overall picture. In order to further clarify the situation, the same tests were performed on two further subgroups of firms. The first was composed of firms with less than 17 employees, while the second contained the larger firms. Not surprisingly, the results of the two groups were quite different. In the large firms group the findings agreed with the general direction of the previous findings, however, no relationship was statistically significant. In the smaller firms group, on the other hand, the results bore more similarity to the overall findings. *In other words, the North – South divide, appears to be conditioned by a significant number of variables many of which are predominantly local in nature. When it comes to innovation, the historical conditions that shaped each region's social structure and norms apparently create a more variable landscape with, however, some signs of convergence, particularly when it comes to larger, less locally embedded structures.*

The adoption of ICTs by Rural SMEs

It is widely accepted that the adoption of telematic services by rural firms will improve their access to national and international markets. However it must be kept in mind that telecommunications are a means of a two-way communications and while they can help isolated companies to increase sales in distant markets, they also integrate such enterprises into national and international competition

(Grimes, 2000). Telematics could expose the weaknesses of rural business and make them more vulnerable to outside competition (Clark *et al.*, 1995), since the Internet allows consumers and firms to seek the lowest price.

In this context, ICTs have the potential to radically alter economic activity and social environments in rural areas. E-commerce⁶⁶ is changing the way business is conducted, by linking small businesses and households with global markets. It reduces the importance of geographical proximity and of time by speeding up production cycles, allowing firms all over the world to operate in close coordination and enabling consumers to conduct transactions around the clock. It already affects large sectors such as communications, finance and retail trade and it holds promise in areas such as education, health and government (OECD, 2000b). It is likely that the largest impact of the business-to-business segment of e-commerce, which currently contributes 80% of total e-commerce activity, will be on SMEs and micro firms since many large firms already have EDI systems in place (OECD, 2000b).

The evidence from our survey is quite mixed. When it comes to EDI, firm size is significant, however, its adoption appears also be conditioned by other factors, the most significant of which must be the respective national levels of ICT spread. In this context, the German regions are on their own when it comes to the adoption of ICTs, while the firms from Kilis (which were also quite big) were far behind.

Regarding e-commerce and b-commerce, although the firms surveyed were the most innovative in the ten CSAs, the figures are extremely low, since in no region had more than 5% of the firms adopted them. Again, the situation is slightly better in the two German regions. Another finding is that, unlike what the literature suggests, EDI and e-commerce do not appear to be substitutes.

SMEs have an essential role in rural areas since they comprise the bulk of local entrepreneurial activity. The adoption of ICTs by SMEs is, in general, lower compared to large firms for a number of reasons the most important being that large firms have the needed liquidity to finance investments in ICTs. Also certain business functions, such as accounting, personnel, management and marketing are more highly differentiated in large firms so there is increased scope for the use of specialized ICT services (Clark *et al.* 1995; Mitchell & Clark, 1999). Furthermore the fact that ICTs equipment quickly becomes obsolete renders SMEs reluctant to invest in this technology (Clark *et al.*, 1995).

The relationship of firm size and adoption of ICTs turned out to be significant in our survey. The average size of the firms using some ICTs is significantly higher than those that are not. More specifically, the average size in total employment of the former is 27.2 compared to 11.3, while the difference between the two groups is statistically significant. Furthermore, this relationship was true for all regions except Devon & Cornwall. The firms most dependent on telecommunications are mainly large multi-branch service enterprises. For example, in Northern Ireland 80 of the firms and organizations with more than 500 employees make use of the British Telecom 'Kilostream' network, while only 8 of SMEs do so. According to a Survey conducted of more than 500 large enterprises in Europe, 59 considered

⁶⁶ At present e-commerce in USA is accounting for about 80% of the global total (The Economist 23/09/00).

the availability of advanced telecommunications infrastructure as an important determinant for their potential location (EC, 1996).

Regardless, of the, often considerable, regional disparities among the CSAs surveyed, the firms that expect to improve their business performance through the use of ICTs are generally larger than the ones who feel that ICTs will not improve their business performance. Furthermore, this difference is statistically significant in all ICT applications cited, except three: e-mail, website and any other uses of ICT. In other words, it appears that when it comes to the relatively basic, and perhaps more in vogue, applications, firm size does not affect the firms' perceptions regarding their impacts.

Several surveys of SMEs in rural areas all over the EU found considerable under-use of equipment and telematic services. In the UK context, research conducted in the South Midlands, showed that almost two-thirds of rural businesses had at least one computer. However they were used mostly for word-processing, book-keeping, accounting and management information purposes and only 10 for telematic services (Mitchell & Clark, 1995). In the Greek and Portuguese context the respective use of telematic services is even less. The low percentage is ascribed to the late developments of telecommunications that has hindered the development of telematics (Skayannis, 1998). Although from a slightly different point of view, our findings would tend to corroborate the above. More specifically, a number of the firms in our sample had initiated some changes in processes during the previous two years which involved the use of computers or advanced technology. When these firms were asked to identify the applications, the computerization of the accounting department turned out as the most significant item. Interestingly, this was not the case in the CSAs with the largest firms (i.e. the German CSAs, Kilkis and Bialystok).

The levels of adoption and use of ICTs by SMEs vary according to a series of other interrelated factors. Firms with non-local dependencies have more ICT equipment and make greater use of telematic services than those with a strong local orientation. *Many firms adopt ICTs principally to conform the requirements of their major customers and suppliers.* This trend is evident in rural food processing firms supplying major supermarket chains. These firms have been obliged to invest heavily in ICT, mainly in EDI systems, in order to retain contracts with their retailers. Also, several rural subcontracting firms, active in automobile, clothing, or footwear industries, are obliged to be connected on-line with the procurement network of their contractor (Mitchell & Clark, 1999). In contrast, firms exclusively servicing local customers fall short in adoption and usage of ICTs (Grimes, 2000).

The findings of our survey were quite similar. More specifically, use of ICTs and outward orientation appear to be positively correlated in most aspects. The firms with local orientation and links (input origin) are clearly worse off than the firms that were more extrovert. It appears that the more firms broaden their reach (from the region, to the national market, to international markets), the more intensive their use of ICTs becomes.

Firms with strong supply or market links to traditional rural activities, such as farming and forestry, are lower adopters and users than those active in non-rural sectors (Mitchell & Clark, 1999).

The primary sector and trade firms are the ones more clearly characterized by no ICT use, while construction and business services are the ones found to be using more ICTs. However, what is most interesting is the position of the regions in the diagram. The location of the northern regions at the right hand side of the diagram indicates a greater propensity to the use of ICTs, with the possible exception of Cumbria which lies somewhere in the middle. The southern regions along with the Polish regions are on the left side of the diagram, even though the latter are clearly more disadvantaged. Furthermore, the fact that the southern regions are not tightly clustered indicates that the use of ICTs in Southern Europe, and more so in Poland, is highly influenced by the sector of firms, as opposed to the northern regions.

The inadequacy of qualified labour is another obstacle. Many computer users in SMEs are self-taught or receive inadequate guidance from colleagues. A research-study about regional obstacles during the start-up and early development phases of an enterprise, conducted in rural areas in Germany, points out that a serious obstacle in choosing the location of a new enterprise is lack of qualified labour and the lack of a start-up and business foundation climate (Wimmer, 1996).

There is a *strong correlation between entrepreneurship and propensity to adopt ICTs*. The adoption of ICTs is linked to management ability. Managers who are most receptive to ICTs tend to possess one or more of the following characteristics: young, educated to degree level or beyond, have experience of technology, and are risk takers (Mitchell & Clark, 1999). Another study conducted in the area of Reutlingen in Baden –Wuerttemberg showed that the attitude of managers to risk was one of the crucial factors leading to entrepreneurial success (Herdzina *et al.*, 1996). Quite surprisingly, not all of the above were verified in our survey.⁶⁷ More specifically, age does not seem to be a satisfactory explanatory variable in the adoption of ICTs, while younger certainly does not mean more technologically oriented, even though the opposite appears to be true (i.e. older means less technologically oriented). On the other hand, both education and previous managerial experience significantly affect the choice to adopt ICTs.

Rural environment as such constitutes a major hindrance to the introduction of ICTs. The unwillingness of managers to undertake risks, their deep-rooted skepticism and resistance, is directly associated with the traditional character of rural societies. Traditional businesspeople prefer to deal with ‘real’ money and cheques instead of EDI. There is an increasing need to focus on the social and institutional dimensions. Such conventional attitudes and obstacles to the adoption of ICTs from local SMEs are to be expected in a rural peripheral environment. The prominent example of the industrial districts of Third Italy, where the effective networking and cooperation among local SMEs as well as the collective marketing system has been based in the extensive use of ICTs, is an exception rather than the rule. The success of Third Italy is due to the industrial atmosphere and the rich institutional network that benefits from the urban and semi-urban environment (Piore & Sabel, 1984).

Apparently, the entrepreneurs of our sample were not very optimistic regarding the impact of ICTs in helping them overcome the constraints of being located in a rural region. Overall, only 42.6% of all respondents were optimistic regarding the

⁶⁷ It has to be noted, that surveys are not directly comparable.

potential impacts of ICTs, while 19.7% were very optimistic. The remaining 57.4% were either skeptical, or refused to answer. The differences between, as well as within the countries were significant, with the Polish respondents being the most skeptical. On the other hand, the German respondents and those from Devon & Cornwall were those with the stronger opinions, since no more than 6% in each region failed to answer the question, while at the same time they were the most optimistic ones.

During efforts to clarify the underlying factors age, once again, turned out to be unimportant, while education could explain some of the variation. However, it appears that the national level of ICT development is the main factor on which the significant variations should be attributed to.

In fact technologically oriented start-ups tend to prefer proximity to large urban areas. A study concerning the location of technologically oriented start-ups in Germany, found that they tend to locate near big agglomeration centres (particularly in Munich, Stuttgart, Karlsruhe and Düsseldorf) while they are underrepresented in regions close to the former border with East Germany as well as in rural areas of Bavaria, Rheinland-Pfalz, Schleswig-Holstein and Saarland (Lessat, 1999).

There are very significant differences between the five countries under investigation as to the level of their firms' ICT Infrastructure. The use of ICTs ranges from 93 to as low as 41 and this is directly almost unmistakably related to the level of development of the country (i.e. Germany 93, UK 64-87, Greece 49.5 – 63.9, Portugal 49-52.2 and Poland 41-50).

As far as each particular ICT application is concerned once again it is obvious that there is a positive relationship between the level of development of the country and the percentage of firms that use each application. In fact, in all cases Germany has the highest scores and Portugal or Poland have the lowest. With regards to CAM where the English firms (Devon in particular) have the lowest shares, this must be attributed to the structure of the region's sample (i.e. very small percentage of manufacturing firms). On the other hand, and for the exactly opposite reason (i.e. very high shares of manufacturing firms) Kilis clearly stands out, regarding the usage of both CAD and CAM. The most popular applications in a descending order are: e-mail, website, on-line databases, EDI, MIS, CAD and video conferencing.

Concluding remarks: can rural areas become innovative?

One of the main contributions of the systems of innovation approach is that it emphasized the complexity of the innovation process, the importance of several factors and – perhaps more importantly – of the interactions between them. Firms, institutions, organizations, human skills, public policies and infrastructures all play a significant role in producing, diffusing and absorbing new, economically useful knowledge in a certain area. As the relevant literature has shown (e.g. Edquist, Howells, Oughton, Landabaso and others) the systems of innovation approach can be applied in a useful way at several geographical layers (countries, regions and even local areas). Regardless of the level of analysis, what the systems of

innovation approaches seem to argue (albeit in an implicit way) is that the existence of at least some of the above factors is a prerequisite for an area to become innovative. This in turn, raises a critical question in the context of the present work. What is the development potential of rural areas in such a framework?

Undoubtedly, most rural areas lack many – if not all – of the elements that the systems of innovation theorists regard as crucial. Most of the empirical findings of our study seem to confirm this hypothesis. Firms (that are in the core of the innovation process) are usually fewer, smaller, and with relatively limited management capabilities with respect to their urban counterparts. Moreover, as shown also by the wide definition used for ‘innovation’ by most firms of our samples, they usually operate in traditional sectors and aim at local markets which are narrow and, arguably, less ‘innovation-demanding. Knowledge infrastructure is also limited in most rural areas. Universities, Schools of Technology and R&D departments tend to be located in – or around – urban centres. The same applies to knowledge-related infrastructure, in particular IT networks that develop primarily in urban areas where demand is higher. Human potential is a further restrictive factor since on the whole highly skilled and highly educated people tend to reside in urban areas. Finally, the local institutional capacity in rural areas (firms, local authorities, professional associations, etc), is often less effective in implementing and exploiting specific public policy measures. This situation will probably have important repercussions on the mechanisms that influence the innovation process: local tacit knowledge will tend to accumulate around traditional sectors and activities and will therefore strengthen the path dependence of rural areas. Localized search activities will also be hampered by the absence of knowledge-intensive firms and/or organizations and as a result, interactive learning may be weak and insufficient for the development of an innovative environment.

However, the picture may not be as ‘dark’ as it looks at first sight. Not all rural areas face the same conditions. There are significant differences between the different countries regarding their ability to innovate, which are related to their level of economic development, tangible and intangible infrastructure and most of all to the way that society is formed (e.g. developed civil society or not). These differences are reflected in wide disparities between rural areas in different countries. However, even within the same country some rural areas are closer to urban centres than others and this may have important consequences for knowledge transfer, networking and interactive learning with firms and organizations based in their vicinity. Similarly, the existence of larger markets in their geographical proximity may act as an incentive for innovative firms to settle in rural areas. The observed trends in certain cases (as in the U.K. for example) seem to confirm such hypotheses. In other areas, firms may be in a better position due to the existence of a ‘knowledge infrastructure’ (university, R&D centre, etc) to carry out search activities or to get access to qualified manpower. Public policies may also play a significant role in attracting new firms and highly qualified people, and in improving the institutional capacity of rural areas. Finally, the attitude of people themselves may prove crucial: trust and cooperation seem to be deciding factors in establishing viable networks through which knowledge accumulates and new knowledge is produced and shared.

Rural areas face several difficulties in achieving an innovation-based development. However, their fate is far from being pre-determined. The complexity of the innovation process and the interactions between many different factors allow for several possible outcomes depending on: the specific characteristics of each separate case, the design of public policies, the capacities of local institutions and the overall attitude of people and needless to say the specificities of the country itself.

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Chapter 6

Policies to Foster Enterprise in Rural Peripheral Areas

David North and David Smallbone

Introduction

The purpose of this chapter is to review the evidence from the ten CSAs relating to policies which, directly or indirectly, are concerned with the encouragement and support of rural enterprise and forms of entrepreneurship. The aim is to identify some lessons which can be learned from the experience of enterprise policies in these various peripheral rural areas and to consider the extent to which existing policies are addressing the needs of those areas, as well as the needs of the enterprises within them. This will involve identifying various deficiencies in existing approaches, as well as identifying some 'good practice' examples which may be transferable to other rural contexts. The chapter will conclude by making a number of recommendations concerning the areas that policy needs to focus upon in order to try to build-up the entrepreneurial capacity of remote rural areas. Whilst recognising that there are some similarities in the needs of remote rural areas in different European countries, the importance of producing policy solutions which are appropriate to specific local circumstances will be a key theme running through the discussion.

Policies for rural enterprise

There is a diverse range and complex structure of policies which, in some way or another, are concerned with stimulating and supporting various kinds of rural enterprise, some of which are focused on peripheral or lagging rural areas whereas others apply to rural enterprise more generally. This is largely a product of the differing origins of enterprise policies in the various countries, reflecting specific cultural and ideological histories relating to the role of private enterprise in the economy and the role of state policy in relation to enterprise. It is also associated with differences in government structures and the degree to which regional and local tiers of government have been involved in economic development.

Table 6.1 represents a schematic attempt to categorise the various policies which are concerned with the development of rural enterprises. On one dimension, it distinguishes between different levels of policy which accord with various levels of governance, ranging from the various EU programmes through national government level policies to policies formulated by regional and local level

institutions. There is of course an increasing interdependence between these various levels of policy as the EU becomes a key source of funding for national and local policy initiatives and national level policies have to satisfy the Commission's various competition rules.

Table 6.1 Typology of Policies for Rural Enterprise (showing examples of types of programmes at different levels)

Policy Types	Policy Levels			
	EU	National	Regional	Local
Territorial / area based	Structural Funds (obj 1 & 2 areas + previous 5b)	England's Rural Development Programme	England's Regional Development Agencies (incl. rural regeneration)	
	LEADER programme	Greece's Regional Incentives Law		
	INTERREG programme	Germany's Joint Initiative for the improvement of Regional Economic Structures		
	PHARE programme	Poland's Agricultural Strategy		
Sectoral		Portugal's Programme to support Agricultural and Forestry Modernisation		
Community Development	LEADER Programme		<i>German Lander Development Plans</i>	
Economic Development			England's Regional Economic Development Strategies	
Business Support	<i>Community Initiative in support of SMEs</i>	<i>England's Small Business Service (Business Links)</i>		<i>England's Local Enterprise Agencies</i>
Employment / Labour Market	<i>European Social Fund</i>	Portugal's Incentives to Micro-Enterprises		
	ADAPT programme			

The other dimension is indicative of the various types of policies which relate to rural enterprise development. Most of these are not solely focused on rural enterprise, but are also concerned with other aspects of economic and social development as well. Thus territorial (or area based) policies generally adopt a fairly holistic approach to the economic development of designated areas, such as lagging rural areas, including investments in both the hard and soft infrastructure of these areas, but frequently include priorities and measures concerned with new enterprise creation and small business development. Sector-based policies can be an important stimulus to enterprise activity in rural areas when they are concerned with the restructuring and modernisation of traditional land-based sectors or the growth of new sectors. Another key type of policy to consider are those programmes which are concerned with the development of rural communities (notably the EU's LEADER programme primarily focused on Objective 1 and 2 regions) and which include support for various community based forms of entrepreneurial action, such as social enterprises. In addition to the enterprise strands within these broad programmes, some countries have dedicated national level policies for stimulating enterprise activities and providing support for small businesses. These sometimes provide generic support to all kinds of businesses, but more often consist of policy measures which target particular types of entrepreneur (e.g. women entrepreneurs) and types of business (e.g. new start-up businesses).

The picture of policy support for rural enterprises in any one country is likely to be a complex one, consisting of a range of funding programmes, a plethora of policy tools, and numerous delivery agencies. There is inevitably a danger of overlap and duplication in the provision of services, as well as a risk of confusion in the minds of potential recipients of policies. There is also a risk that the enterprises most in need of assistance do not receive it because they are unaware of what is available. This underlines the need to simplify the interface between support providers and enterprises in order to ensure that assistance is accessible to the enterprises that most need it.

What lessons can be drawn from existing policies for rural enterprise?

The approach used in assessing policies

The purpose of this section is to review some of the existing policies concerned with encouraging and supporting entrepreneurial activity in the different CSAs. It should be emphasised that it has not been an aim of this project to carry out an evaluation of the effectiveness and impact of the various kinds of policy interventions, which directly or indirectly affect entrepreneurial activities in rural areas. However, it has been possible to make some assessment of selected policies, including a consideration of the extent to which they are addressing the needs of enterprises as well as the needs of these rural areas. This enables us to identify policies that appear to be working well and elements of good practice, as well as ways in which existing policy is deficient and not working as intended. This provides a basis for identifying lessons which can inform future policy development.

Information and opinions about relevant policies have been obtained from various sources:

- existing documentary sources, including literature relating to a particular policy or project and any evaluative material that has been made available to us;
- interviews were carried out with a number of key actors in each CSA, these being people who were involved in the formulation and delivery of policy programmes aimed at encouraging and supporting various forms of entrepreneurship. These interviews provided information on the rationale for the policy, the delivery mechanisms including the identification and selection of clients, views on the strengths and weaknesses of the programme and how the effectiveness of the programme might be improved;
- examples of innovative schemes or projects from the CSAs which, on the basis of the evidence available, appear to be reasonably successful. In some cases we have interviewed beneficiaries of the scheme as well as those responsible for its delivery.

Clearly the identification of good practice policy related to rural enterprise is predicated on some understanding of what constitutes 'good' practice and the criteria that might be used in identifying it. This is not easy, since judgements about what is good practice are likely to depend on who is doing the assessment and their reasons for doing it. It is also likely to depend upon various contextual factors, including the particular historical and cultural features of the countries and regions in which the policy has been used. Moreover, what is appropriate and works well in one context may not work so well in another, with the implication that the transfer of a given policy from one context where it is proving successful to another context is, not by itself, an automatic guarantee of success. This indicates the need to adapt policies to the local circumstances in which they are applied.

The identification and assessment of 'good practice' policies in the various CSAs have tried to address a number of issues relating to each policy, including its rationale, its appropriateness to local needs, various delivery issues, evidence of impact and effectiveness, and the relationship with other policies. This review of existing policies is organised around a number of key 'principles', identifying issues which are common across remote rural areas as well as those which seem to apply to specific rural contexts. Examples of particular projects will be inserted at appropriate places in the text.

The appropriateness of policies to local circumstances

In the case of both European and national level policies, a key question that arises is the degree to which the policy tools are appropriate to particular local circumstances. Although this study has identified a number of factors of unity with respect to the surveyed enterprises in the various CSAs, it is also clear that there are some important factors of diversity, especially between enterprises in the northern CSAs (Germany and England) on the one hand, and the southern CSAs

(Greece and Portugal) on the other. Thus rural enterprise policies suited to the needs of the former regions are unlikely to be transferable to the latter regions, at least not without substantial modifications.

There is some evidence from the Greek CSAs to indicate that 'top-down' programmes formulated at the European level can be insensitive to local circumstances, being based on assumptions about the nature and motivations of SME owners, which can be out of step with the reality in particular rural contexts. The broad characteristics of SMEs operating in Greek rural areas can be summarized as being their small size, traditional specializations, adoption of labour-intensive techniques and low profitability. These features contribute to their low economic development potential. However, two highly neglected interrelated factors, the conservative management style of rural entrepreneurs, as well as the lack of cooperation among rural firms, seem to be crucial in understanding the behaviour of rural SMEs.

The combination of small size enterprises with a remote location might lead logically to an expectation that entrepreneurs would welcome initiatives such as the common procurement of raw materials, common marketing of finished products, or common access to information. However, the success of State Programmes targeted at the formation of associations and partnerships among SMEs has been very poor, because of the lack of any tradition or interest in co-operative arrangements.

The failure of such initiatives can be ascribed to the strong feeling of self-sufficiency and reliance shown by local entrepreneurs. Whilst there are close ties and relations of support within the members of the same family, this is not the case between people who are not connected by family ties where suspicion and lack of trust are more likely to be found than collaboration and support. These kinds of attitude are deeply entrenched and difficult to change. Thus those policies which aim to assist the formation of networks of firms and promote common actions between local firms are unlikely to be successful in Greek rural areas because they fail to take account of the local social and cultural context affecting entrepreneurial behaviour.

Available evidence tends to indicate that the European and national policies that work best are those which allow for considerable local autonomy with regards to project formulation and implementation. One EU programme that is more adaptable to local circumstances is the LEADER programme, where the broad overall programme objectives are established centrally (after consultation between the EU institutions, national governments and other interested parties) but local appraisals, plans and projects are devised, implemented and delivered locally through Local Action Groups. LEADER II (1994-99) and LEADER + (2000-2006) programmes are concerned with encouraging rural development in local communities via local action groups, providing funding for a wide range of projects which involve community based forms of entrepreneurial action. More specifically, the programme contributes to the diversification of rural economies, helps to add value to rural products, and facilitates local capacity building. There is also an emphasis on innovation and the transfer of knowledge and good practice between areas.

As various evaluations have found, LEADER programmes have been tailored specifically to each region or locality, with a high degree of local ownership (Midmore, 1998). Most evaluations agree that LEADER has succeeded in defining new approaches to rural development programmes, some of which are likely to be transferable to other programmes and to other local contexts.

The extent to which the LEADER II programme has given rise to innovative projects which address the needs of different areas can be illustrated with reference to the two German CSAs. The emphasis of the LEADER programme has been on extending the markets and improving the distribution channels for agricultural products of local farmers, and encouraging ecologically compatible forms of tourism. Examples of the kinds of projects to support enterprise activities in Waldshut and Nordwestmecklenburg include: investment grants enabling the expansion of small enterprises in the food processing and timber industries; support for the development of farmers' markets; and the establishment of a communal forum aimed at promoting a municipality externally as well as achieving closer social integration.

Encouraging the diversification of the farming and land based sectors

Farmers are an important element of the small business population of remote rural areas, even though they may not have traditionally been thought of as owning and managing an SME. In remote rural areas in more developed economies, such as Devon & Cornwall, agricultural businesses still account for about one quarter of all businesses. Increasingly, farmers are having to become more entrepreneurial by diversifying into other agricultural activities, (e.g. unconventional livestock production, woodland and organic farming), becoming involved in the formation of non-farm enterprises (e.g. farm-based tourism, adding value through direct marketing or food processing, and craft/light industries), and renting out farmland and buildings to non-farm businesses (Ilbery, 1991; Carter, 1998). Moreover, reductions in agricultural support, combined with changing market trends, have increased the pressures on farmers to diversify their activities in recent years in order to survive and make a living.

Research on farm diversification in the UK shows that the 'adopters' of farm diversification schemes tend to share certain characteristics which distinguish them from 'non-adopters' (Ilbery & Bowler, 1993; Carter, 1998). They tend to have larger farms, higher incomes and a greater willingness to borrow capital. They also tend to be younger in age and to have continued in full-time education after school, and more likely to have received formal agricultural training. Significantly, a greater proportion of the 'adopters' have children wishing to continue the farm business, acting as a stimulus to diversification.

Further research by Ilbery *et al.* (1998), specifically on farm-based tourism in upland areas of Northern England, showed that tourism was invariably a strategy for farms which were short of family labour, but where the female partner could run the tourism accommodation side of the operation. In Germany, farm diversification, especially in the fields of farm-based tourism and direct marketing, has traditionally been cited to create jobs for the female rural population. However, women living in the countryside are becoming more critical of such projects (see

Bahl, 1997: 165). Seibert *et al.* (1997) report on an innovative project, which was realised under the Objective 5b programme in Bavaria. This involved collaboration between the Social Ministry and the Ministry of Labour in building a kindergarten on a farm, thereby bringing a redundant building back into use and creating local jobs.

In recent years the necessity for farm diversification in countries like the UK has become more urgent, especially in the aftermath of the BSE and foot and mouth crises. There has also been a recognised need to encourage more innovative forms of diversification as illustrated by the following farm diversification programme in Devon & Cornwall using Objective 5b funding.

The Objective 5b programme was concentrated in areas of below average economic development, employment dominated by the agricultural sector or facing other problems associated with peripherality. Over the 1994-99 period, the programme covered all of Cornwall and two thirds of Devon. A central element of the Objective 5b programme has been to promote the diversification of agricultural enterprises, as part of its broader aim of assisting diversification within declining sectors of rural economies.

The assistance to farmers has come in the form of pre-investment support of up to 50% of the costs of feasibility studies and business plans; capital grants of between 30% and 50% of the total cost of the project; and post investment support to help businesses to survive and grow. Business Link (the national business support agency) was given the contract to deliver the pre and post investment advisory support. The beneficiaries for the diversification support had to be farmers with a turnover of at least £15,000 and a demonstrated need. There were no restrictions on the sectors that farms were diversifying into and a sample of 23 final year Business Link supported projects showed that there were three in retail, four in property development, eleven in various forms of manufacturing including food processing, and five in other services.

The main demand for Objective 5b assistance has come from farmers looking for secondary or tertiary income streams, and reducing their dependence on a single market. The interviews with the advisors and some of the beneficiaries of the scheme have helped to identify a number of good practice elements of the Objective 5b agricultural diversification programme. These include:

- the use of experienced consultants and business advisors to support bid writing and the generation of ideas;
- funding to help applicants with proposal writing. Farmers may not have the liquid cash to pay for consultants, although they have other assets that can be developed into successful businesses;
- the paperwork was kept relatively straightforward as the programme only had to work with one government department;
- the most successful projects, which are sustainable without further support, are those concerning the conversion of farm property for tourism and office space.

Finally, one of the main advantages of the Objective 5b farm diversification programme has been that, being a territorial rather than sector based programme, it

was possible to link the support given to farmers with other policy initiatives as part of an integrated programme of rural economic development.

Whilst the experience of farm diversification policies has been mainly in the more developed economies, the need for farm diversification is now becoming more apparent in the underdeveloped regions as well. In Greece for example, farmers have been shielded and subsidised by the State and the EU, but the removal of trade restrictions by the WTO, CAP reform, and EU enlargement will reduce the number of farms that are viable and increase the need for diversification into non-farm activities.

Overcoming barriers to the adoption of new technologies

At its most basic level, a commonly encountered argument has been that the economic transformation of remote rural areas lies in grasping the opportunities provided by advances in information and communications technology (ICT) since this has the potential for rural enterprises to overcome the disadvantages of their location with respect to markets and access to business services. However, a more critical perspective on the contribution of ICT to economic development within remote rural areas of Europe is provided by Grimes (2000 & 2003). He criticises the technological deterministic assumptions which have underpinned many projects, i.e. that the provision of the computer equipment and telecommunications infrastructure will automatically lead to economic development and considers that this technical 'quick fix' approach has been encouraged by publicly funded projects which provide subsidised equipment.

Various studies in England have shown that SMEs in remote rural locations have been lagging behind their counterparts in more accessible rural locations in terms of their use of the Internet (North *et al.*, 1997; Talbot, 1997). Thus whilst there is a universal business support need for help with investing in and making effective use of ICT, available evidence suggests that this need is most acute in peripheral rural locations. Yet, at the same time, these are the areas which are being discriminated against by investments in the telecommunications infrastructure because of the relatively low and dispersed nature of the demand.

As shown by Ilbery *et al.* (1995) in an EU programme of research on the use of telematics by rural small businesses in four countries, there are many barriers to the adoption of telematics services, not least user-resistance because of 'technophobia' and lack of training. Similarly an evaluation of European telematics projects highlights the need for enhancing the human dimension in ICT policies, not least the provision of appropriate training and skills development in rural areas; 'technology cannot substitute for entrepreneurship, nor for well thought out strategies for development' (Grimes, 2000). It also demonstrates the need to develop applications which are better adapted to the needs of rural small businesses, as well as the characteristics and competencies of those running them (Ilbery *et al.*, 1995). Freshwater (2000) has suggested that many of the changes in the new information based economy are not likely to benefit rural areas in practice because the labour force lacks many of the basic skills necessary to take advantage of them.

As we would expect, the difficulties of achieving technological advancement are most acute in the most peripheral rural regions, as the following example from the Greek island of Lesbos illustrates. During the 1980s and the beginning of the 1990s a number of technology-intensive firms established themselves on the island. All of them had been realised under the heavy grant-aid of the Incentives Law as the technological advancement of existing firms and the establishment of new technology-intensive firms were among the prime targets of the State Industrial and Regional Development Policy at that period.

Currently, however, there is little evidence of technology intensive firms locating on Lesbos. There are a number of interrelated factors which result in the low incidence of technology-based enterprises and the trend towards more labour-intensive activities. These include the massive inflow of economic immigrants during the 1990s from ex-Socialist countries, willing to work in low paid jobs. Immigrants are now the main workforce in many primary sector enterprises (such as olive-fruit collection, livestock milking and feeding, weeding out of land, spraying with pesticides). This has resulted in a lack of investment in more automated methods in these sectors, which could threaten the long-term competitiveness of these agricultural enterprises.

Another factor is the lack of workers skilled in the use of ICT equipment. On the other hand, this is not solely a supply problem since there are numerous young domestic graduates willing to stay on the island and to work for local enterprises, but unable to find suitable employment. However, the majority of local firms do not have sufficient capacity to employ full-time graduates.

Finally, the remote location of the island, combined with the poor transport infrastructure, is also a major obstacle to the technological modernisation of firms resulting from the problems of gathering information on new machinery and processes as well as the difficulties of maintaining and repairing sophisticated machinery. In addition, it is not always easy for an entrepreneur located in a remote rural area to take part in these presentations of new products to potential customers, which tend to be based in Athens or Thessaloniki.

The experience of Lesbos illustrates the dilemmas facing policies aimed at increasing the adoption of new technologies in remote rural areas. Despite the alleged distance shrinking advantages of new technology, it shows that one effect of the adoption of ICT technologies in remote rural areas is to increase the area's dependence on enterprises and skilled labour located in urban conurbations. The example also serves to emphasise once again the importance of human capital investments if the potential advantages of new technology are to be realised.

Ensuring the delivery of policies is 'enterprise friendly'

From the perspective of the owners and managers of rural enterprises, the main deficiencies of existing policies often relate to the way in which they are delivered and to the relationships with the agencies involved, rather than concerns about the appropriateness of policies to their expressed needs. The following evidence from the Portuguese CSAs illustrates some of the problems. It is based on an assessment of EU and national programmes by business managers themselves. It provides a

valuable business perspective on various aspects concerning the delivery of policy instruments.

Territorially-based programmes (generally Community initiatives such as LEADER I and II or INTERREG) have performed a significant role in the municipalities of the Baxio Alentejo of the River Guadiana, but have been less often used in the Oeste Region. Differences between the two areas are also apparent in the use of sector-based programmes, with greater use being made of employment, training and social development programmes in the Baxio Alentejo region, compared with a greater demand for research and innovation support programmes (such as the PRAXIS and EUREKA programmes) in the Oeste region.

The demand for the different types of programmes is consistent with the analysis derived from the results of the population and enterprise survey carried out in the two research areas. The greater fragility of the social and economic fabric of the Baxio Alentejo municipalities explains the preference for programmes designed for smaller, but socially significant, business initiatives; the greater market orientation in the Oeste region municipalities has enabled businesses to apply successfully for more competitive and innovation orientated programmes. Overall, it appears that the territorially-based programmes, almost all corresponding to Community Initiative Programmes, produced the higher degrees of satisfaction.

Business managers' assessment of the programmes confirms, in general terms, the results of the several ex-ante, intermediate and ex-post assessments carried out for the Portuguese government or for the Community authorities in the last few years. These focus primarily on various criticisms of the way in which the programmes are delivered, particularly the fact that the process of applying for assistance is perceived by businesses as being complex and too bureaucratic. Typical criticisms include :

- excessive restrictions in the definition of eligible investments;
- excessive delay in the processes of assessment and selection of applications;
- insufficient justification for, or credibility of, some of the decisions taken in the assessment and selection of applications;
- excessive centralism in the management of the programmes but, at the same time, excessive subjection of decentralised decisions to local and personal recommendations and relations;
- conflicts between different bodies responsible, resulting from overlapping powers and functions;
- delay in payments to approved projects, causing additional costs of indebtedness to banks, diversion of funds from primary investments and, in extreme situations, bankruptcy;
- excessive weight of administrative tasks related to regular control and inspection procedures, to the detriment of management and operational tasks.

These criticisms have a number of implications for the impact of these support programmes and their contributions to regional development. The first is that it leads to unfairness in access to existing programmes. Factors like the weight of bureaucracy, the slowness of the decision processes or the delay in payments

particularly affect the smaller and more vulnerable businesses. For many of them they are a disincentive or barrier which prevents them from becoming genuine beneficiaries of these programmes.

A second implication refers to the inadequacy of the assessment and selection criteria. For example, the co-partnership amount required, or the minimum number of technicians needed, may be difficult to reconcile with the size of the organisation or the diversity of activities to be developed. This situation may lead to applications being rejected based on criteria that have nothing to do with the merit of the project, but rather with the financial and technical capabilities of the applicant. In addition the fact that sector-based national programmes apply uniform eligibility criteria for the whole country means that, in the assessment of the application, the strategic importance of the project to the area where it is located is not taken into account. Only the territorially-based programmes permit the assessment of applications in the light of the project's relevance to an integrated local development strategy.

A further implication refers to the lack of technical support during the project's implementation phase. The present periodical inspection procedures, by operating after the event, do not encourage the learning and error correction processes that technical assistance and on-site support actions could provide; these actions are considered particularly important in areas with a weak entrepreneurial tradition and for projects headed up by young people.

The need to improve the internal and external coherence of policies

Problems have arisen in several of the CSAs as a result of either the lack of internal coherence within a programme, or the lack of external coherence resulting from tensions between different policies. These can be illustrated by reference to the LEADER programme in both Greece and Germany.

In the case of the Greek island of Lesbos, there has been a lack of internal coherence in the way the LEADER II programme has been implemented. The existence of any kind of linkages between the different projects tends to be the exception rather than the rule. Although several agro-tourist resorts, as well as a number of traditional food processing firms have been financed under the programme, there has been little attempt to integrate them in anyway. For example, although food processing firms face a serious problem of market access, they have not reached any kind of agreement with agro-tourist cooperatives to place their products in agro-tourist resorts and/or retail outlets.

There has also been a lack of external coherence in the sense that the LEADER II programme has not been well integrated with other support programmes. Confusion has existed between the roles of several quite similar agencies operating in the area. The overlap of activities has led to a state of competition and rivalry between the local economic development agency responsible for implementing LEADER funded projects and the Ministry of the Aegean. The level of cooperation and flow of information between these agencies has been extremely limited.

Also with respect to the LEADER programme, the German CSAs illustrate problems that have been encountered in matching LEADER's funding criteria

with those of possible matched funding programmes. In the case of the Waldshut area in Baden-Württemberg, particular difficulties have been experienced in the implementation of the LEADER II programme relating to incompatibility between its funding criteria and with those of other funding sources which are used to provide the necessary matched funding element.

All projects and initiatives that are supported by the LEADER programme have to be supported by national or regional support programmes with the same amount of money. In Baden-Württemberg, the Federal States programme for the development of rural regions is a favoured co-financing programme. However, this has given rise to the following problems:

- projects that would fulfil the conditions requested by the LEADER programme (the projects have to show innovative features) often do not suit the rules and regulations of the national and regional support programmes (most of which are rather conservatively oriented). Since the LEADER programme has to be co-financed, some highly innovative projects or initiatives do not qualify for support from national or regional programmes;
- due to the complex co-financing guidelines, it is very difficult for the LEADER co-ordinators to explain the functionality of the LEADER programme regarding the procedure of approval and financing to particular groups of applicants;
- when municipalities want to take part in inter-municipal initiatives or projects of their own and they apply for LEADER support, there are special problems for those municipalities which are weakly endowed with financial resources. Consequently, they cannot provide the full amount of match funding required and thus are not able to realise the projects totally, even though they have significant innovative elements.

The need for an integrated business support system

Another common problem from a business perspective is becoming aware of the different types of support that are available and which agencies to approach. The different levels of support, ranging from European programmes to local initiatives, together with the plethora of delivery agencies, can often result in entrepreneurs becoming confused. This can result in the owner managers of those businesses that are most in need of support not bothering to avail themselves of the assistance that is available.

The UK CSAs illustrate steps that have been taken to move towards a more integrated and coordinated system of providing a range of support to new start-ups as well as to existing SMEs. In both Devon & Cornwall and in Cumbria the policy support is a local version of the national approach, under the umbrella of the Government's Small Business Service (SBS). The establishment of the SBS and the restructuring of Business Links in April 2001 were associated with a shift from a focus on growth orientated established SMEs to a wider remit for BLs to offer assistance to all types of small enterprise in all locations. As far as rural areas are concerned, important elements of this wider remit are the inclusion of start-ups and micro enterprises as part of the target group. In

addition, responsibility for delivering support to farmers has also been brought under the SBS umbrella, with the establishment of the new Farm Business Advisory Service. This represents an important landmark in treating farms like other rural enterprises.

In the case of Devon & Cornwall, the restructuring of the Business Link network in 2001 led to the creation of a new Business Link which provides information and an advisory service for all businesses in the two counties, accessed through a single telephone helpline. This is supported by a network of specialist advisers and linked to a range of other support organisations. Current services offered include help in: starting a business; training and business development; exporting; accessing business information; IT and Ecommerce; technology, design and innovation; and specialist assistance to farmers. Significant in this latter regard is the South West Agriculture and Rural Development (SWARD) Project, which supports networked groups of businesses in the land-based sectors that are seeking to adapt to become more competitive and sustainable.

In line with the national picture, not all the business support is delivered in-house by Business Link, which currently operates through a brokerage model, with key partners ('gateway partners'). This represents a deliberate attempt to reduce the fragmentation and associated confusion in the minds of potential clients. An example of the operation of the brokerage principle in practice is start-up support, which is delivered through a network of ten local enterprise agencies, most of whom were providing similar support previously. Although it is too early to assess the impact that this new system of providing business support is having in rural areas, it does represent a clear shift towards a more coherent and integrated model, linking national level support programmes to local delivery agencies. It emphasises the importance of effective networking and referral between support agencies, as well as the need for a high profile and accessible hub organisation which is likely to be the first port of call for many businesses.

What kinds of policies are needed to develop the entrepreneurial capacity of peripheral rural regions?

Having now identified a number of issues relating to existing policies which are concerned with stimulating and supporting entrepreneurial activities in the CSAs, we now consider a number of ways in which policy interventions can contribute to building-up the entrepreneurial capacity of remote rural regions. Given the wide range of rural areas throughout Europe, as evidenced by our CSAs, it is clear that policies need to be tuned to particular local circumstances. In other words, there are distinctive issues, found in particular rural contexts, which require policy tools which are sensitive and appropriate to those particular circumstances. At the same time, there are other issues which are shared between different rural contexts and can be tackled by more generic policies. In what follows, we shall endeavour to identify these common issues, as well as those which are more specific to particular rural contexts.

Potential sources of entrepreneurship

Young people There is a clear need in most remote rural areas to find ways of developing entrepreneurial awareness and ambitions amongst young people if endogenous business development is to occur. This is most likely to happen in those areas where there is a tradition of self-employment and small business ownership, especially in areas where farmers have owned and managed their own agricultural holdings such as the Waldshut study area in Germany or the Devon & Cornwall study area in England. It has been shown that young people whose parents have been entrepreneurs have a higher propensity to become entrepreneurs themselves than where there is no family tradition of entrepreneurship and business management. The children of existing entrepreneurs are therefore likely to be an important source of future entrepreneurs in a rural area, but they need to be encouraged to remain within these rural communities, or return to them once they have completed their education. In the past, there has been a tendency for the better educated and more skilled young people, including those more willing to take risks and to display initiative, to move away to urban areas, yet rural areas cannot afford to lose such people.

Obviously, encouraging young people to become entrepreneurs is going to be most difficult in those rural areas where there is no tradition of becoming self-employed or setting up businesses. The west Cumbria area illustrates this, since the incidence of entrepreneurship in the population is very low, especially amongst men, largely as a result of the historic dependence of the population upon working for large industrial employers. Despite the decline in this type of employment, it is proving difficult to break away from this 'employee culture', even in the thinking of young people. The lack of an entrepreneurial tradition is also evident in the Baxio Alentejo region of Portugal, stemming from the historical predominance of the large farm, which turned most of the labour force into wage-earners. Here, the social inequalities associated with the large farm property contributed to perpetuating the idea that the employer is synonymous with social exploitation, resulting in words like 'boss' and 'businessman' having negative connotations. Changing these perceptions and encouraging a positive social image of the entrepreneur is fundamental to stimulating local entrepreneurship in these areas. This is likely to require campaigns aimed at promoting the social status of the entrepreneur, involving local councils, schools and business associations. The attribution and wide publicity of awards to local cases of entrepreneurship may help to raise the profile of entrepreneurs and act as a source of encouragement to others. Steps are already being taken via the EU's EQUAL programme to give school children the opportunity to be in close contact with business reality with a view to encouraging a disposition towards entrepreneurship.

An example of an innovative attempt to develop entrepreneurial awareness amongst school age children can be found in the Waldshut CSA. The idea was to create an enterprise within the School for Commercial Education in Waldshut. Members are exclusively recruited from the students of the school. This junior enterprise acts as an incorporated enterprise, with marketable products and services, on real markets. The School for Commercial Education Waldshut

implemented the junior enterprise in 2001. Students are able to sell their products to their schoolmates and to the teachers during the school breaks.

The students are meant to experience economic processes under real conditions. They learn to think entrepreneurially and how to come to a managerial decision. Many different entrepreneurial situations are played through so that there are real economic and financial consequences for the students. The project of the junior enterprise can be considered as a good practice example for anchoring entrepreneurial thinking and acting in the educational process. The students are treated as potential entrepreneurs and they are sensitised for entrepreneurial concerns and opportunities.

Role of in-migrants The population survey has shown that in-migrants are an important source of entrepreneurs in some remote rural areas, particularly those areas that are perceived as being environmentally attractive such as the Devon & Cornwall and east Cumbria (i.e. the Lake District) study areas in the UK and Nordwestmecklenburg in Germany. A high proportion of the more innovative enterprises in these areas have been set-up by people moving in from other regions, and in some instances relocating an existing business in the process. Other people have set up more 'lifestyle' types of businesses with the motive of earning a reasonable living rather than developing a growing business. In addition, in-migrants of retirement age (and especially those that have taken early retirement) often bring with them entrepreneurial and management experience which can be of value to younger people setting up businesses. These examples from the more advanced European economies show the contribution that in-migrants can make to developing the entrepreneurial capacity of remote rural areas. Moreover, initiatives to encourage the in-migration of people with entrepreneurial experience and skills could make an important contribution to the development of those rural areas lacking endogenous sources of entrepreneurship.

An example from Devon & Cornwall illustrates the contribution that in-migrants have been making to the organic development of a new cluster of ICT businesses, which has been assisted by various sources of public funding. A trend noted by several interviewed business support managers was the in-migration of people wanting to set up small, internet based businesses in the rural areas of Devon & Cornwall. It was thought that the main motives were the prospect of a better quality of life, the decision of some to leave the corporate world with all its pressures and to go into self-employment, and the opportunity to capitalise on the high house prices in London and the South East.

A small concentration of entrepreneurs running ICT businesses has developed in the most peripheral part of Cornwall (the Penwith district). Largely as a result of an initiative taken by one individual in 1999, a few self-employed people and owners of micro businesses in the ICT field (including several in-migrants) started meeting to see how they could help each other's businesses, the aim being 'to see if digital professionals and knowledge workers in SMEs in Cornwall could offer one another help, support and advice'. A key aspect has been to promote the activities of its members which cover a wide range of ICT sectors including business services, communications and networks, film and television, graphics and multimedia, publishing, and web design.

By 2002, the membership of what became known as the Digital Peninsula Network (DNP) had grown to 185 members, many of whom were self-employed individuals working from their own homes. These businesses typically work on a project basis, building up 'alliances' to serve a particular market and to work on a particular project. The digital and creative industries sector is particularly conducive to the formation of networks and the transfer of knowledge between businesses.

Although a privately-led initiative, the DPN has received public sector support from a number of national and European sources, including some Objective 1 funding. However, one founder member raised concerns about the sustainability of the network given its overdependence upon public sources of funds and its lack of an income stream.

The role of animators The findings of the population and enterprise surveys have drawn attention to the leading role played by a small number of key entrepreneurs who are invariably involved in several different business ventures. This was particularly evident in the study areas of some of the more developed economies. Thus in Devon & Cornwall, the enterprise survey highlighted the importance of a small minority of portfolio or serial entrepreneurs who were typically the owners of the more successful and dynamic enterprises.

One of the main problems in developing the entrepreneurial capacity of the more underdeveloped rural regions is the absence of such people. In the study areas of Greece, for example, local entrepreneurs are typically very conservative and risk averse. Moreover, they are often not well educated, usually older than the average population, and have life experiences limited by their rural environment. It is unlikely in these situations, therefore, that the required animators will emerge from within the indigenous population.

This is where the establishment of Local Action Groups by the LEADER initiative can play an important role in promoting the development of rural areas with weak social and entrepreneurial structures. Such a role might also be played by ex-villagers who 'weekend' in the village and bring with them their urban experiences, by senior employees of incoming large firms, or by in-migrants.

Developing the infrastructure to support entrepreneurship

Policy has a clear role to play in developing those regional infrastructures which are needed to underpin and support entrepreneurial activities in remote rural areas.

Education and Training First and foremost, especially in the case of the least developed of the rural areas, is the need to invest in the education and training system. This is most obvious in the study areas of Poland where the limitations of the current education system are proving to be one of the main barriers to entrepreneurship development. The relatively low skill levels of the rural workforce and potential entrepreneurs have an adverse effect on the form and scale of SME development, the supply of entrepreneurs, especially in high technology sectors, and on influencing the development potential and competitiveness of existing SMEs. This requires education investments aimed at increasing the

number of people receiving both secondary and tertiary level education, and investments in the training provision for business owners to raise marketing skills, the ability to prepare business plans, financial management and the quality of innovation management. Although much of this training could be provided by private sector organisations, public intervention has an important catalytic role in stimulating and supporting the services provided (e.g. through subsidising the costs of training).

The creation of an appropriate training infrastructure to help develop an entrepreneurship culture is also seen as a priority in Portugal. This needs to comprise the widespread introduction of modules of entrepreneurship in professional training courses; a greater supply of training specifically orientated towards entrepreneurship promotion in areas of low population density and weak entrepreneurial culture; greater flexibility in the eligibility criteria for training programmes orientated towards self employment; and the development of regional and sub-regional coordination mechanisms of training supply to prevent duplication on the one hand or gaps in provision on the other.

Physical and social infrastructure The development of the entrepreneurial capacity of remote rural areas is also unlikely to be successful unless improvements occur to the physical and social infrastructure. In the case of Greece, for example, one of the main reasons for the depopulation of the countryside is the poor physical and social infrastructure of rural settlements, with even parents advising their children to leave farming and seek employment in the main urban centres. Yet a precondition of the economic development of the countryside is the retention of the younger generation. It seems that securing them an income is necessary but not sufficient as they must have good living conditions along with employment prospects and social status. It follows that the creation of medium size urban centres with the necessary physical and social infrastructure (roads, schools, provision of health facilities, etc.) is likely to be a requirement of holding onto the kind of young people who are most likely to contribute to developing the entrepreneurial capacity of these peripheral rural regions, especially in the countries of Southern Europe.

Creation of business incubation centers The situation that exists in several of the study areas has led to the suggestion that the creation of a number of business incubation centres could prove a useful way of helping to stimulate the formation and growth of new rural enterprises. As well as providing physical space for new businesses, such centres would also provide a range of support services and training to help inexperienced entrepreneurs negotiate the various hurdles involved in starting a new business, including identifying product markets, producing business plans, and applying for financial support.

Business incubation centres are particularly appropriate to those rural regions where there is a lack of local support and consulting services available to entrepreneurs, such as the Baxio Alentejo region of Portugal. Here business consultancy firms are virtually non-existent and neither public bodies nor the educational institutions are in a position to provide significant levels of assistance to rural enterprises. Given this gap in the provision of services to entrepreneurs, it

is suggested that the creation of business incubation centres, possibly linked to universities and technical education institutions, could help consolidate and develop the various competencies which start-up businesses require. Assistance in accessing various types of financial support, including venture capital, would need to be one of the services provided in such centres.

Overcoming the barriers to entrepreneurship and innovation

The enterprise survey conducted in the CSAs has shown that rural enterprises face barriers to making innovations which their owner-managers frequently attribute to various characteristics of their rural business environment. For example, 46% of enterprises in Cumbria identified their rural location as a barrier to making product innovations, as did 37% of firms to the making of market innovations. Interestingly, this compares with only 12% which considered their rural location was a barrier to the adoption of technological changes. The limited size of the local market was identified as the main constraint on product and service innovation, while remoteness and transportation costs were stressed in the case of new market development. Skill deficiencies and the difficulties of accessing information were also identified as constraints on innovation. These results are similar to those found in other case study regions; for example, the smallness of local markets together with the poor business environment proved to be the main barriers to innovation in the case of enterprises in Nordwestmecklenburg.

Policies aimed at improving the innovativeness of rural enterprises therefore need to focus on finding ways of overcoming these constraints. Initiatives which help firms enter non-local markets are likely to be very important here, such as external assistance with market development, exporting, and the adoption of new marketing techniques. Ilbery and Kneafsey (1998) for example argue that lagging regions can benefit from various societal changes including increased demands for recreation and locally produced, niche products, particularly when they can be tied to a regional image or speciality. Thus in some areas initiatives have been taken to promote local products, such as a 'Made in Cumbria' initiative, started by the county's economic development officer over ten years ago, which aims to promote and sell local food and craft products made by small enterprises in the county. These kinds of initiative may be one of the few options available in the short-term in the case of some of the poorest rural areas such as in Greece where most enterprises are concerned with agricultural products of one kind or another.

Also needed are policy initiatives aimed at encouraging rural entrepreneurs to participate in information and knowledge networks as another key influence in encouraging entrepreneurship and innovation is the strength of contacts which entrepreneurs have 'with the outside world'. This was found to be particularly important in those rural areas, such as in Portugal, that did not have a strong entrepreneurial tradition and had a poorly qualified entrepreneurial culture. The analysis of the life narratives of the owners of the most innovative firms confirmed this and seemed to apply irrespective of the level of educational attainment. This finding therefore emphasises the importance of encouraging rural entrepreneurs to enter into non-local networks of entrepreneurs and organisations within their sector if they are going to benefit from the exchange of knowledge, ideas, new market

opportunities, and best practice. The creation of some form of 'knowledge exchange' organisation within rural areas may be one way of raising the awareness of local entrepreneurs as to appropriate external networks and sources of information.

Towards a more strategic approach towards developing the entrepreneurial capacity of remote rural areas.

Whilst this review of the kinds of policies which exist to encourage entrepreneurship and enterprise development in remote rural areas has shown that, in most areas, there are a lot of policies in place, the overall impression gained is one of a disjointed and fragmented pattern of provision. This results from the diverse range of programmes which incorporate an enterprise dimension, but where the primary focus is on other priorities. Another common characteristic of several of the study areas is the poor level of dissemination of information and knowledge occurring not only between enterprises, but also between the various institutions and agencies with an interest in rural enterprise development. This can prevent both the formation of a shared idea about the region and the creation of a strong collective voice capable of making a national and international impact. Moreover, the review has also shown that in some areas, particularly the less developed ones, policies relating to rural enterprise are 'missing their target' because they are based on a poor understanding of the local entrepreneurial culture and the factors which stand in the way of entrepreneurship and innovation in existing enterprises.

In our view, these inadequacies in the existing policy framework demonstrate the need for a more strategic and coordinated approach towards building the entrepreneurial capacity of remote rural areas, based on a clear vision of the role that enterprise can play in future rural development and agreement about the actions which are required to achieve it. Given the structural and global processes affecting these areas and the need to transform these rural economies, we would argue that the case for producing rural enterprise and innovation strategies at the level of these rural regions has become more urgent. Whilst this applies in varying degrees to all the national contexts covered in this project, it is obviously most urgent in the case of the more peripheral rural areas in southern and eastern Europe. Experience also suggests that an approach which actively involves rural communities, enterprises, and economic development agencies is most likely to work best, although regional level economic development organisations are probably in the best position to achieve the level of integration between different interests and agencies which will be required.

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PART II
ENTREPRENEURSHIP IN RURAL
AREAS IN EUROPE

Chapter 7

Sources of Entrepreneurial Supply and Embeddedness in Rural Cumbria

Christos Kalantaridis and Zografia Bika

Introduction

Since the 1950s the population of England's rural areas has grown at the expense of large agglomerations, as a result of a counter-urbanization trend rather than differences in the rate of natural increase of the population (Lewis, 1998). The net gain in the movement of people away from urban towards rural areas occurred due to a number of factors: including, the relocation of manufacturing employment to the countryside, retirement migration and increased commuting (DEFRA, 2002). Thus, between 1971 and 1996 the rate of population increase in rural England was four times that for England as a whole – 24% and 6% respectively (PIU, 1999). The new arrivals were relatively affluent individuals with different skills from those traditionally associated with rural areas. As a result, in-migrants were able to acquire easily land and housing pushing prices up. Partly due to the lack of affordable housing, and partly in pursuit of employment opportunities 'locally-born' people were forced to move out of their settlements of origin towards local towns or even further afield (Shucksmith, 2001).

Changing demographics were combined with the – further – demise of agriculture as the main economic driver of rural economies (Hodge, 1997; Ilbery, 1998). As a result, by the late 1990s the combined employment contribution of the agro-food complex in the English countryside stood at around 15% (MAFF, 2001; ONS, 2001a). This, combined with advances in information and communication technologies, and the growing integration of rural enterprises in national and even global networks of production and distribution challenged traditional conceptualization of rurality in terms of distinct economic activities. In fact scholars in the field often argued that distinct rural and urban economies did not exist at all in England. Instead, an alternative divide emerged within the rural: defined by the pervasive influence of counter-urbanization. It is argued that population movement, created a 'two tier' society, made up of old and new inhabitants (Philips, 1993; Shucksmith, 2001). This two-tier society impacted upon key economic variables, such as land and house prices, sectoral performance, as well as the sources of entrepreneurial supply.

Indeed, there has been a growing body of empirical evidence supporting the thesis that in-migrants accounted for a disproportionate contribution in the creation of new ventures in rural areas (Keeble *et al.*, 1992). This combined with their distinct attributes – in terms of educational qualifications, employment history, and

subsequently skills and networks of contacts – prompted considerable scholarly interest towards this new source of rural entrepreneurship. Within this context, this paper sets out to explore the influence of in-migration upon the incidence and characteristics of rural entrepreneurship. One specific issue that merits detailed consideration in this paper is, to what extent the origin of the entrepreneur influences his or her embeddedness to the local socio-economic setting and subsequently his or her ability to exploit local resources. In exploring these issues the paper draws upon the findings of extensive fieldwork investigation in rural Cumbria, a relatively distant (from the national and European core) locality in the Northwest of England (see Map 1.4).

The paper is organized as follows. A discussion of the key methodological issues is undertaken in the next Section followed by a review of the relevant national literature. Then the paper provides an outline of the locality. The paper goes on to explore the incidence and characteristics of rural entrepreneurship and enterprises, as well the issue of entrepreneurial embeddedness. Finally, some conclusions are offered.

Methodology

The study area defined

Defining rurality is more than usually problematic in the UK context as a result of the dramatic decline of agriculture. Demographic definitions provide the two most commonly used measures: i) size of settlement (below 10,000 inhabitants); ii) population density (below 150 inhabitants per square kilometre as used by the OECD). For the purposes of our enquiry the latter measure is adopted. This is because rural space comprises of a continuum of hamlets, villages and towns that interact closely with each other. Market towns are instrumental in the survival of very small settlements as they provide a host of services that are essential for maintaining meaningful economic activity. Moreover, large numbers of businesses that maintain their main activities in the countryside tend to have their main office in a market town simply for purposes of convenience.

Large towns however, are more difficult to accommodate. They constitute clusters of support through the provision of educational, financial and other business support facilities. Excluding them from any study of rural entrepreneurship may present a distorted picture with little or any enterprise support available, and fragment our understanding of the local production system. At the same time however, their inclusion may raise issues about the rigour of the adopted definition. Thus, whilst the population density criterion is used for the selection of the study area as a whole, the settlement structure is also taken into account when defining the geographical confines of the locales where primary research took place.

The settlement structure of Cumbria is defined by the predominance of two medium-sized towns, one the northernmost and the other in the southernmost of the country, with a population of some 70,000 inhabitants each. Barrow-in-Furness (in the south), that developed in isolation from the surrounding rural

space,⁶⁸ and Carlisle in the north. The latter is the main market town and administrative and educational centre, and boasts a cluster of agro-processing industries, making it inextricably linked to the surrounding rural space. The two other important elements in the settlement structure of Cumbria consist of small towns (three have a population around of 30,000 inhabitants each), and micro towns, four have a population just in excess of 10,000 people each. For the purposes of our investigation Barrow-in-Furness is excluded altogether from our investigation as it constitutes something of an 'anomaly'. Carlisle is included, alongside the rest of the county, in the contextualization of the study (namely secondary data analysis, and key informant interviews), in order to monitor the incidence and effectiveness of enterprise support and explore the production system in its entirety. The term *rural Cumbria* is used to denote this broader area that has a population of 420,000 inhabitants spread over 6,732 square kilometres (population density of just 62). However, Carlisle is excluded from the bulk of the primary research. This narrower area (Cumbria excluding Barrow and Carlisle), with a population of some 350,000 people in 6,600 square kilometres (population density of 53) is defined as the *study area*.

The research methods

The study of rural entrepreneurship deployed a multitude of research methodologies, such as desk-top research, key informant interviews, a survey of 500 rural inhabitants, and a survey of a stratified random sample of 100 innovative entrepreneurs. The desk-top research involved a comprehensive review of national and international literature as well as the collection and processing of Secondary data. Key-informant interviews were conducted in order to examine the extent to which the existing institutional and social environment encourages and facilitates entrepreneurship. Key informants were persons with considerable knowledge of the areas under investigation as well as suppliers of education, training and support. A semi-structured questionnaire was used in the conduct of the key-informant interviews. A total of fifteen key informant interviews were conducted in the summer of 2000. The population survey was used in order to explore their propensity to entrepreneurial activity. Based on the findings of desk-top research and key informant interviews a stratified random sample of the population was identified. The sample was representative of the population in terms of age and gender. For the purpose of the survey a structured questionnaire was devised. The questionnaire included Sections on the personal details of the respondent (age, gender, socio-economic strata), educational and work experience, general perceptions of entrepreneurship, and (specific to those who display an entrepreneurial propensity) causes, processes and obstacles in the realization of their enterprising potential. Some 500 questionnaires were completed in rural Cumbria between January and March 2001. A survey of 100 innovative entrepreneurs was conducted in order to gain an in-depth understanding of the processes at work in the countryside. In order to monitor the innovative propensity of the enterprise a number of screening questions were asked during a small

⁶⁸ Indeed, the town developed around the location of a major shipyard that provided employment for the bulk of the local population.

telephone interview. An additional stratification criterion used in the selection of the sample was sector. There were some minor discrepancies between the sectoral composition of employment in the regions and the composition of the sample but this is on account of the difficulty in identifying innovative enterprises in some of the sectors concerned (agriculture, hotels and restaurants and other services). However, the enterprises surveyed are broadly representative of the total population of businesses (in terms of sector) in the study area. Thus, the enterprises surveyed were innovative within their sectoral context. For the purposes of the survey a questionnaire that combined closed (mainly) and open-ended (to a lesser degree) questions was used. The questionnaire included sections on the enterprise, the start-up process, product/service innovation, market change, technological change, information, and the entrepreneur. The survey was conducted between February and September 2001.

The national context: an outline

Measuring the incidence of entrepreneurship is a more than usually problematic issue. This is particularly the case when comparisons are an important consideration. In England there are two commonly used statistical measures of entrepreneurship: the number of VAT registered businesses per 1000 inhabitants, and the rate of self-employment, provided by the Labour Force Survey. Both of those have weaknesses. More specifically, the former measure tends to reduce the incidence of entrepreneurship as it fails to register all those units that are below the VAT turnover threshold (currently set at £45,000). The latter measure tends to exaggerate the incidence of entrepreneurship as it includes large numbers of professionals (doctors, lawyers, etc) that are partners in independent entities but have nothing to do with actual decision-making. Self-employment data suggest that 13% of the economically active population in England were involved in entrepreneurial pursuits (ONS, 2001b).

Two alternative measures of the incidence of entrepreneurship in England emerged during the last five years or so. The first comprises of the results of UK research as part of the Global Entrepreneurship Monitor (GEM). The findings for 2001 suggest that 7.7% of those aged 16-64 is involved in starting a business or running a new firm (GEM, 2002). The second, and broader, recent measure of the incidence and characteristics of entrepreneurship is the Small Business Service (hereafter SBS) Household Survey. This measure perceives as entrepreneurs all those individuals who run ventures that provide wage or salaried employment, the self-employed, and those involved in the process of business enterprise as a sideline of their main employment status. Thus, it includes new and nascent (as is the case with GEM) as well as established entrepreneurs. The SBS Household Survey suggests that 18% of those aged between 16 and 64, in England, fell within the entrepreneur category (SBS, 2002). This study also provides us with some useful insights of the demographic characteristics of entrepreneurs. Indeed, entrepreneurship among males is twice more frequent than among females – 24% and 11% respectively (SBS, 2002). There is also a greater than average incidence of entrepreneurs among those aged between 35 and 54 years of age, as well a

among those individuals who possess higher education qualifications or above (SBS, 2002).

Although there has been little work that has focused explicitly on sources of entrepreneurship in rural areas, there have been a number of studies which explored small business formation and development in rural settings. These studies provide us with some insights into the origins of the individuals who create and lead entrepreneurial ventures. Research within this context suggests that the great majority of founder of new enterprises set-up their businesses in the locality in which they live (Mason, 1991). Whilst this is the case, there is also evidence supporting the thesis that a significant percentage of rural ventures were set-up by in-migrants. Indeed, Keeble *et al.* (1992), drawing upon the findings of a national study, argue that two thirds of rural entrepreneurs were not born locally but had usually moved to rural areas prior to setting-up the enterprise. Another study, focusing upon a narrower geographical setting, focused upon entrepreneurial motivations (Townroe & Mallalieu, 1993). This study suggests that in nearly one third of cases a new rural venture is a spin-out from previous employment, whilst one in five were enterprises formed in pursuit of a different way of living.

The socio-economic characteristics of the locality

Rural Cumbria occupies a position in the geographical periphery of England, in the Northwest government region. The distance between London and Carlisle, the main urban centre within the study area is some 440 kilometres. This is translated to a five hours train journey, or anything between four and eight hours by car. The nearest major urban conurbations are Newcastle to the East (some 88 kilometres away), and Manchester to the South (160 kilometres). The nearest major international airport is the one located in Manchester more than two hours drive away. Accessibility is defined by the state of the road and rail infrastructure. As far as the former is concerned, the M6 motorway constitutes the main north-south axis in the Easternmost part of the study area. This enables the fast and efficient transfer of goods and people along this corridor and beyond to the main population centres of the Northwest of England and West of Scotland. However, east-west road linkages are less well developed.⁶⁹ As far as rail links are concerned, the Eastern parts of rural Cumbria are well served by the Western mainline. However, rail links in the West of the study area are virtually non-existent. Differential access between the Eastern (hereafter accessible) and Western (hereafter remote) parts of rural Cumbria constitutes one aspect of a profound divide between the Eastern and Western parts of the study area, that will be discussed throughout this chapter.

Recent (1981-1998) demographic trends indicate a modest population increase of just 3.2% in Cumbria, a figure nearly a third below that reported in the UK as a whole (+4.7%). However, within Cumbria there are significant disparities in population change. Remote areas reported a modest decline of the total population, from 168.6 to 165.2 thousand (-2%), whilst accessible areas, reported a much more

⁶⁹ Within the study area the main axis in this direction is the A66, a combination of single and dual carriageway.

robust performance, from 239.1 to 255.8, an increase of nearly 7% (ONS, 1991-2001). The increase in the latter is mainly due to the inflow of individuals and families from elsewhere in the UK pursuing the 'rural idyll' rather than strong increase in the natural rate of population change. In fact, accessible areas have more pensioners per 100 inhabitants than remote ones, and the UK as a whole.

In the year 2000, agriculture employed 4.2% of the economically active population in rural Cumbria, a figure well above that for England as a whole (0.9%) (MAFF, 2001). The agricultural land was divided into 6,621 holdings, giving an average size of holding of 66.2 hectares. This was modestly above the average for England (61 hectares per holding). These figures, however, provide a misleading picture regarding the prevailing conditions in the agricultural sector. This is because, given the mountainous and semi-mountainous terrain of the locality the vast majority of agricultural land comprises of grasslands – some 65.4% of the total in comparison to only 38.4% in England. Thus, the average size of land under cultivation was only 3.7 hectares per holding, well below the 27.2 hectares per holding for England (MAFF, 2001). Thus, the prosperity of the agrarian holdings in rural Cumbria was believed to be well below that for England as a whole. This is underpinned by the size of the holdings, in terms of employment. Some 62.2% of the total employ a single person, whilst only 2.6% engage more than five individuals. The corresponding figures for England stood at 50.7% and 10.3%. Despite the relatively low returns in agriculture and the hostile conditions prevalent during the best part of the 1990s,⁷⁰ the total number of holdings increased from 6,220 to 6,621 between 1997 and 2000 – and increase of some 6%. This contrasts with England, where there was a decline of more than 15% in the number of holdings. At the same time, the total employment provided in the sector declined from 14,432 to 13,802 – a modest drop of some 9%. This was well below the decline reported in England – 22.6%. Though direct comparisons are not readily available because of the way that statistics are presented, this relatively robust performance of Cumbrian agriculture could be linked with an expansion in part-time farming.⁷¹

Outside agriculture the single largest employer in rural Cumbria was manufacturing, accounting for 21.9% of the workforce, as of 1998, a figure well above that for the UK as a whole (ONS, 2001a). Trading activities were responsible for 17.7% of the non-agricultural workforce, whilst health and social work employed some 11.8%. The contribution of tourism was supported by the significance of hotels and restaurants – employing one in ten of those working outside agriculture. There were considerable differences in the industrial structure of accessible and remote areas. The former demonstrated a greater dependence on trade and tourism related activities, whilst the latter depended more heavily on manufacturing – which employed nearly 30% of all those working outside agriculture. The significance of manufacturing in rural Cumbria was maintained despite a process of industrial demise throughout the 1990s. Indeed, the employment provided by the sector declined by nearly 10,000 between 1991 and 1998. Given the marginal increase in the non-agricultural workforce, the relative

⁷⁰ Rural Cumbria was influenced adversely by the BSE crisis and more recently by the 'foot and mouth' epidemic.

⁷¹ Statistical evidence provided by MAFF for the 1998-2000 period lends support to this argument.

importance of manufacturing pursuits fell by five percentage points in seven years. During the same period, the predominance of manufacturing was not replaced by that of another sector. Jobs were created in smaller numbers in health and social work, trade, and hotels and restaurants. However, the vast majority of these new jobs in these growing and high impact sectors were realized in the accessible parts of the study area. In remote areas, new employment creation by trading activities was less than 700, in comparison to 2,000 in the East, whilst in hotels and restaurants there were some 200 job losses in the former as opposed to a gain of more than 2,000 in the latter. The industry where the reverse was the case was health and social work: more than 3,000 new jobs were created in the Western parts of the county. Interestingly, this is an industrial sector that is expanding because of the augmented problems of unemployment and deprivation in the coastal towns. A sector that generates jobs with a skill content that may not always be available locally.

Estimating unemployment in the UK context is somewhat problematic due to the diversity of measures adopted. Invariably ILO statistics (derived through survey) are perceived as a superior indicator to the number of people who claim unemployment benefit. This is because the latter tends to exclude all those seeking work but not claiming unemployment benefit, as well as those out of work but claiming other benefits (disability etc). However, ILO data are not available at the level of the local authority district so as to enable us to derive a better estimate of unemployment in rural Cumbria. Therefore, the measure used here is that of the claimant number as a percentage of all those economically active. In March 2001, this stood at 2.11% in rural Cumbria, a figure virtually identical to that for England as a whole (2.12%). At the same time however, there were considerable differences within rural Cumbria. Remote areas reported almost twice (3.03%) the rate of claimants than accessible ones (1.54%). More importantly however, within the former there were pockets of even greater incidence of registered unemployed: five wards report rates in excess of 10%.

As far as the incidence of poverty is concerned, this is rarely captured in official statistics, as the main indices in the UK are geared towards monitoring urban deprivation. One commonly used measure is the ranking of localities against all the local authority districts in England in terms of a composite index of deprivation. Remote areas are ranked higher (more deprived) than accessible ones. Moreover, a similar picture emerges using the standardized mortality ratio (which is adjusted to account for the disparity in the age composition of the population).

In the context of England as a whole, rural Cumbria constitutes the embodiment of the 'rural idyll', with more than half of the total landmass designated as a National Park or an Area of Outstanding Natural Beauty. Thus, it comes as no surprise that the area attracts large numbers of, invariably highly skilled and qualified, prosperous, in-migrants. Moreover, the appeal of the natural environment offers considerable opportunities for the development of tourism that emerged as a considerable source of employment and income generation for the economy as a whole, as well as the farming community. Indeed, the latter appear to grasp opportunities for diversification that enable them to survive in the face of a hostile environment in the agricultural sector nationally.

Thus, it seems safe to argue that rural Cumbria (as a whole) is not a marginal or even declining area. Within England it occupies a position around the middle of the table in terms of economic performance, whilst at the European context it appears to be more prosperous than many other rural areas. However, within the study area there are considerable pockets of economic decline and deprivation, especially in the larger settlements located in the remote coastal areas.

Rural entrepreneurship: incidence and characteristics

The propensity of the local population to entrepreneurship

Overall, some 68 respondents a total of 13.6% of the population aged 18 years of age or older could be defined as entrepreneurs (see Table 7.1). However, if we exclude from the population of respondents those above the retirement age, in order to make the data broadly comparable to the SBS Household Survey then the incidence of entrepreneurship increases to 15.1% of those 16-64 years old. Although the absence of directly comparable studies elsewhere nationally precludes accurate comparisons, this figure is modestly below to that reported for England as a whole in the SBS Household Survey.

Table 7.1 Entrepreneurs as a Percentage of those Aged 18+

	Non-entrepreneurs	Entrepreneurs
Remote larger settlements	93.1	6.9
Remote smaller settlements	85.1	14.9
Remote total	89.0	11.0
Accessible larger settlements	85.7	14.3
Accessible smaller settlements	83.3	16.7
Accessible total	84.1	15.9
Rural Cumbria Total	86.7	13.6

Source: Population Survey.

The incidence of entrepreneurs in the study area appears to be related to settlement size (a relationship statistically significant at $p < 0.01$). There are 40 entrepreneurs in smaller settlements (i.e. those with less than 10,000 inhabitants), some 16.3% of all respondents there. This compares with 28 entrepreneurs in larger settlements (i.e. those with a population of between 10,000-30,000), some 11%. The findings also lend support to the argument that there is a divide between accessible and remote areas in the propensity to entrepreneurship.⁷² There are 27 entrepreneurs in remote areas, some 11% of all respondents. The corresponding figure for accessible parts of the study area stands at 15.9%. The combined impact of these two spatial dimensions (rurality and remoteness) is

⁷² The number of responses from Western Cumbria were 204, just over 40% of the total, whilst the remaining 60% came from the East. This is very near the East-West divide of the population eligible for our survey (39%-61%).

shown in Table 7.1. Smaller accessible settlements demonstrate the greatest incidence of entrepreneurship (16.7%) followed by smaller remote settlements (14.9%). Larger remote settlements report some 6.9% of the population in entrepreneurial pursuits.

The characteristics of rural entrepreneurs

The analysis of the demographic characteristics of rural entrepreneurs, when compared to the rest of the population, provides some interesting findings. Not unexpectedly, there is a greater incidence of entrepreneurship among the male population, than the female one: 16.7% and 10.9% of all interviewees (significant at $p < 0.05$). However, the difference was relatively modest, especially in relation to the findings of earlier research in the field (for example the SBS Household Survey). More importantly however, there are profound gender differences in the incidence of entrepreneurship between disparate spatial categories. In accessible areas there is a much greater incidence of entrepreneurship among males than females (22.9% and 9.7%). The situation is significantly different in remote parts of the study area where some 11.5% of all women are involved in entrepreneurial pursuits, a figure marginally above that for males (10.5%). Overall, the percentage of females varies little throughout the area under investigation, in contrast to the male one which is greatly reduced in the remote West. This lends support to the thesis that the lower incidence of entrepreneurial pursuits in the latter could be explained in large part by the lower (than average) supply of male entrepreneurs, itself the outcome of the industrial heritage and area.

Another important demographic characteristic that distinguishes entrepreneurs from non-entrepreneurs is place of birth. Indeed, a very significant minority – some 42.6% – of all respondents in the study area is born elsewhere. However, this figure stands at 53% among entrepreneurs, in contrast to 41% in the case of non-entrepreneurs. In-migration is more profound in accessible areas, where 51.4% of the population is not born locally – 32.2% in the case of remote parts of the study area. Lower incidence of in-migration may also be responsible for some, probably a small percentage, of the disparity in the incidence of entrepreneurship in different spatial categories. This is because entrepreneurship among the new arrivals is more common (though to varying degrees) than the local populace. If in-migrants are excluded the difference in the incidence of entrepreneurship⁷³ between the two extremes, accessible and peripheral areas, increases from 1.4 to 2.0. This suggests that in-migrants in the latter spatial category – despite the fact that there are fewer and less prone to become involved in entrepreneurial pursuits – make a much greater impact locally than elsewhere.

Within the in-migrant group it is the recent arrivals that demonstrate the greatest propensity to entrepreneurship. Indeed, some 24% of those that have arrived during the five years prior to the conduct of the survey were entrepreneurs, in comparison to 13.6% among those that have arrived before 1987 (a figure identical with the average but still marginally above that for local inhabitants).

⁷³ This is estimated as $dE = (E1 - E2)/E2$, where E1 = entrepreneurs as percentage of population in accessible smaller settlements, and E2 = entrepreneurs as a percentage of population in peripheral larger settlements.

This indicates that the dynamism flowing into rural areas as a result of in-migration tends to 'wear off' as time goes by. The impact of 'new arrivals' is felt mainly in smaller settlements, where nearly 43% of those falling in this category are engaged in entrepreneurial pursuits. Interestingly, none of the 'new arrivals' who live in larger settlements are involved in starting or running a business. This indicates that those arriving in the study area during the period 1997-2001 are not a grouping with broadly homogenous characteristics. Indeed, those that move into larger settlements, and do not engage in entrepreneurial ventures, tend to be younger (only 18% are 50+), professionals (62.5%), and well-educated (45.5% have a University degree). In contrast those who settle in smaller settlements are older (46% are 50+), with a managerial background (33.3%), and having completed only secondary education (57%).

One area that there is also some disparity between entrepreneurs and the rest of the population is family background. Nearly 36% of the former have a parent involved in owning a business or other economic organization, such as social or not for profit enterprise. This compares with 19% for non-entrepreneurs – a relationship statistically significant at $p < 0.01$. This combined with the disparity in the incidence of entrepreneurship between accessible and remote as well as between smaller settlements and larger settlements would lead to the expectation that there would be geographical differences in family background. However, this disparity is marginal and not statistically significant, probably on account of the varying significance of in-migrants.

As far as the educational qualifications of rural entrepreneurs are concerned, they seem to concentrate at the two extremes of the spectrum. Indeed, nearly 28% of entrepreneurs do not possess any educational qualifications, a figure very similar to with that for those who have a University degree or post-graduate qualification (26.5%). The incidence of no education among entrepreneurs is virtually identical with that for non-entrepreneurs (28.4%). However, there is a much lower incidence of higher education among the rest of the population (16.1%).

Disparity between entrepreneurs and non-entrepreneurs is apparent regarding the respondent's previous involvement in starting and/or running a business. Some 42.6% of rural entrepreneurs claim that they have attempted to start a business or other economic organization in the past, in comparison to 14.6% among the rest of the population, a relationship significant at $p < 0.01$. Rather unexpectedly entrepreneurs in remote areas have modestly higher previous experience in business venturing some 46.2% as opposed to 37.5% in accessible ones. However, if this (experience) is an important influence for entrepreneurship this does not auger well for the alleviation of existing disparities within the study area. This is because remote areas possess a much smaller pool of persons with such experience. Only 11.9% of the rest of the population have some background in start-up, a figure below that in accessible areas (17%).

The majority of rural entrepreneurs were in employment before start-up: some 88.1%. This compares with 78.5% among non-entrepreneurs. Unemployment preceded enterprise venturing in only 3.0% of rural entrepreneurs, a figure marginally above that for non-entrepreneurs (2.1%). Lastly, formal education was reported as the main activity – prior to start-up in only 7.5% of cases.

Of those entrepreneurs in paid employment prior to start-up nearly one third (30.5%) were in professional occupations, whilst 27.1% were in clerical and administrative positions. Just over a quarter (25.4%) of rural entrepreneurs came from manual occupations, and only 16.9% had a managerial background. This breakdown differs somewhat from that of non-entrepreneurs in the study area, where manual occupations were reported by 41.3% of interviewees, and clerical and administrative by 24.8%.

Rural entrepreneurs had a variety of backgrounds in terms of the sector of activity that they were involved prior to start-up. Public administration and other services were reported by 33.9% of the total, followed by distribution and consumer services, identified by 22% – interestingly both of these sectors experienced growth (at least in terms of employment) in the study area during the 1990s. In both cases these figures are broadly similar to those reported by non-entrepreneurs. However, a background in agriculture was twice more commonly reported by entrepreneurs than non-entrepreneurs (5.1% and 2.7%) though admittedly the figures are small. The reverse was the case regarding manufacturing (10.2% and 20.2% respectively). However, a background in these two sectors (agriculture and manufacturing) was more or less exclusive to remote areas.

One interesting issue is to what extent the sectoral background influences the industry of entrepreneurial pursuit. Just under a third of rural entrepreneurs (31.3%) start a business venture in the same sector that they have some work experience, a figure rather lower than expected. However, the relationship between industrial experience and sector of start-up is statistically significant at $p < 0.01$.

There are also some, rather predictable, differences in the age composition of rural entrepreneurs when compared to non-entrepreneurs. With the exception of those aged between 18-29 where the incidence of entrepreneurship is very low (4.5%), there appeared to be a canonical distribution of entrepreneurial ventures between the remaining four age groups. This ranged from 22.4% among those aged 30-39 and sixty years old and above, to 26.9% among those 40-49. This differs somewhat from the age distribution of non-entrepreneurs who report a greater incidence of those aged sixty years and over (33%).

However, most entrepreneurs become involved in the process of business enterprise relatively earlier on in their life: some 27.1% when they were 18-29 years old, and 32.2% when they were 30-39. In contrast only 5.1% of rural entrepreneurs decided to start-up when they were 60 or over. As a result, the median age of engaging in the entrepreneurial process in the study area is 36 years of age.

One influence in the incidence of entrepreneurship, often highlighted in the literature, is 'volatility', i.e. a difficulty to settle in one particular job. As a result, the argument goes, entrepreneurs tend to change jobs frequently prior to the decision to start-up. However, this does not appear to be the case in rural Cumbria. Entrepreneurs have a mean of 3.5 previous full-time jobs, in comparison to 4.5 among non-entrepreneurs.

The managerial expertise of rural entrepreneurs

One issue that has been raised in the literature is to what extent a background in management facilitates the incidence of entrepreneurial behaviour. In the case of the study area just over half (54.5%) of the entrepreneurs report some prior experience in performing managerial tasks. However, only a minority of rural entrepreneurs (26.5%) receives some management related training, and even fewer (11.8%) possess formal qualifications in management. Overall, nearly two thirds of entrepreneurs (63.3%) have either experience or qualifications or some training in management.

The single most important influence in the incidence of management expertise is the origin of the entrepreneur. Indeed, very significant disparities exist between entrepreneurs born locally and those who come from elsewhere in the country in all three indicators of management expertise. Some 62% of in-comers have some management experience prior to start-up, in comparison to 45% among the local populace. A similar picture emerges regarding management training, 30% and 22.6% and management qualifications (13.5% and 9.7%). All these figures suggest that the in-migrants constitute a very significant resource to the local economy: providing entrepreneurial qualities that are in very short supply among the local population. Thus, the impact of new arrivals is not only quantitative but also qualitative. The significant disparity in the incidence of in-migrants between remote and accessible areas means that the incidence of managerial expertise also varies across space. Thus, a lower percentage of entrepreneurs in the former spatial category have experience (44.4%), qualifications (3.7%), and training (18.5%) in management than those in the later (61%-17%-31.7%).

Latent entrepreneurship

Exploring the incidence of latent entrepreneurship involves the examination of a multitude of variables, some of which can not be accurately measured (such as attitudes towards risk etc) and more importantly whose relevant importance is not known to the researcher. Previous work in the field tended to depend heavily or even exclusively upon questions such as employment preference (wage versus own business) or future intend. We try to combine the findings of a question regarding future intend, with other (both supply and demand side) variables that emerged from the analysis of actual entrepreneurs.

On the question 'would you like to start a business or other economic organization (either alone or with other) at some time in the future, 85% of those who were not at the time of the survey entrepreneurs gave a negative response. Another 8.3% responded maybe (the lowest value in the scale used), 2.8% probably, and 3.9% (just seventeen respondents) certainly (the highest value in the scale used).⁷⁴ As far as the potential supply for entrepreneurs is concerned, evidence regarding existing entrepreneurs indicates the significance of previous entrepreneurial experience, in-migration, parental entrepreneurship, and level of

⁷⁴ Though our intention, when designing the instrument, was to focus upon those expressing certainty about a future entrepreneurial venture the small numbers of positive responses meant that the bulk of the analysis of latent entrepreneurship includes all those providing a positive response.

educational attainment. Only 16.9% of the latent entrepreneurs, just eleven respondents, have some previous experience of starting or running a business – a figure marginally different (14.2%) from the rest of the population. Moreover, there were fewer latent entrepreneurs among migrants (13.8%) than the local population (15.9%). Parental entrepreneurship among those who reported a propensity to start their own business was modestly above the rest of the population, 27% and 20% respectively, but well below that for actual entrepreneurs. Lastly, the educational background of latent entrepreneurs differs significantly from those actually involved in the process of business enterprise. Whereas the latter are clustered at the two extremes (no education or degree and above), nearly three quarters (73.8%) of the former are concentrated in the middle possessing either a secondary or technical qualification.

As far as the demand for entrepreneurship is concerned, both empirical evidence and the accumulated literature emphasize the importance of involvement in growing industries, and a conducive local economic environment. The majority of latent entrepreneurs (65%) were employed at the time of the survey in growth industries (i.e. industries that achieved employment growth in the study area during the 1990s). The evidence regarding the local setting (using spatial categories as two proxies) is less conclusive. There are more latent entrepreneurs in larger settlements, where the incidence of actual entrepreneurs is below average. At the same time, however, there are more latent entrepreneurs in accessible areas as opposed to remote ones.

Overall, the evidence presented here suggests that the study area does not possess large numbers of suppressed entrepreneurs. Thus, any significant change in the incidence of entrepreneurship in the short to medium term is unlikely.

Enterprise characteristics

The entrepreneurs surveyed are predominantly involved in tertiary activities. Indeed, nearly 38% are engaged in wholesale and retail trade, followed by business services (17.6%). Some 12.5% are involved in agriculture, whilst manufacturing accounts for only 6.5%. These figures differ significantly from the employment contribution of each sector, as measured in official statistics. This could be on account of three factors:

- disparities in the average size of establishment between sectors, and thus, considerable diversity between employment contribution and share in the total number of units;
- the incidence of multi-entrepreneur, and non-entrepreneur enterprises. Partnerships are good example of the former, and banks of the latter;
- difference in the location of the enterprise and the location of residence of the entrepreneur. This is because the population survey was conducted using exclusively residential numbers.

In terms of employment, the considerable majority of local entrepreneurs maintain micro-scale establishments, nearly 65% of the total. Just over a quarter

(27%) of rural entrepreneurs run small-scale units, with the remaining divided between medium- and large-sized concerns (3% and 5% respectively). Lastly, respondents were asked to what extent did they consider their enterprise innovative in the regional context. Some 42.6% provided a positive response, a figure probably lower than would be the case in an urban context. However, this figure must be treated with caution. The incidence of innovation requires a much more systematic exploration that is not possible within the confines imposed by the instrument (highly structured) and the mode of delivery (telephone).

There are some interesting disparities in the characteristics of the enterprises founded by indigenous and in-migrant entrepreneurs. The former are over-represented in agricultural ventures, as well as the distribution and consumer services sector, whilst the latter are responsible for a greater than average percentage of business services and public administration and other services. Micro-scale establishments are by far the most commonly reported size of enterprise in both entrepreneurial groupings. However, large ventures are only reported by a minority (one in ten) of in-migrant entrepreneurs. The ventures created by in-migrants are nearly twice as likely to be innovative as those founded by indigenous inhabitants: 54% and 29% respectively. These findings lend support to the thesis, that the entrepreneurial ventures created by in-migrants demonstrate a greater degree of developmental potential than those of their indigenous counterparts.

Entrepreneurship and rurality

The incidence of large numbers of in-migrant entrepreneurs, alongside those who are born and brought-up locally raises the issue of their relative embeddedness. More specifically, does the extent to which entrepreneurs utilize local resources differ according to the degree of their integration to the socio-economic milieu? Are in-migrants capable of exploiting local resources or do they create enterprises which remain detached from their immediate environment? In addressing this question, a number of different dimensions of embeddedness will be explored, including, markets, and sources of information. The degree of the adjustment of the entrepreneurial venture to problems emanating from the rural character of the study area will also provide another dimension to our analysis.

The data used for these purposes are derived from the survey of 100 innovative entrepreneurs in the study area. Some 62 of these entrepreneurs were in-migrants, with the remaining 37 being born inside the CSA.⁷⁵ The greater incidence of in-migrants among the innovative entrepreneurs surveyed than the population as a whole can be explained on account of the differential propensity to innovation between recent arrivals and the indigenous population. Indeed, as shown on the basis of evidence from the population survey in the Section above, in-migrant entrepreneurs are more likely to engage in innovative activities than their locally-born counterparts. Thus, a greater number of the former, than the average for the study area, was anticipated in the entrepreneurs' survey, where the incidence of innovation was a criterion for selection.

⁷⁵ One entrepreneur declined to provide information regarding his origin.

Rurality as market

One distinct dimension in exploring the degree of embeddedness of entrepreneurs upon their immediate environment involves the exploitation of local markets. In operationalizing this dimension we have explored separately the markets for labour, material and outputs. As far as the former is concerned, rural entrepreneurs in Cumbria tend to recruit locally (as shown in Table 7.2). Some 73.6% of the total workforce, of those entrepreneurs surveyed, lives in the same settlement where the business is located, whilst 18.2% live in the regional centre. Only 6.9% live elsewhere in the county, and 1.3% elsewhere in the UK. Similarly, the region provides a significant, though lower than in the case of labour, percentage of all materials used by the entrepreneurs surveyed. Indeed, just under half of all materials used is derived regionally, with the rest of the UK responsible for 39% and international sources for the remaining 11.6% (see Table 7.2). At the same time, the regional market absorbs nearly half of the total sales of innovative enterprises in the study area, with national markets accounting for 39%. Just over one tenth of all output is destined to international markets (see Table 7.2). These figures indicate that overall, innovative entrepreneurs located in the rural area under investigation utilize extensively local – factor or product/service – markets. Not unexpectedly, this is particularly the case regarding labour, where there are profound constraints in the mobility of people.

Table 7.2 Entrepreneurial Origin and Rural Markets

Mean percentage of	All entrepreneurs	Indigenous entrepreneurs	In-migrant entrepreneurs
	Sources of labour		
The same settlement	73.6	75.5	72.5
The regional centre	18.2	17.0	18.9
Elsewhere in the region	6.8	6.4	7.1
Elsewhere in the country	1.3	0.8	1.5
Abroad	0.1	0.3	0.0
	Sources of inputs		
The region	49.4	67.5	38.7
Elsewhere in the country	38.9	29.1	44.8
Abroad	11.7	3.4	16.5
	Markets supplied		
Regional market	49.4	66.3	45.0
National market	39.6	30.3	39.0
International markets	11.0	3.4	16.0

Source: Entrepreneurs' survey.

The figures for the sample as a whole conceal significant differences in the use of rural markets according to the origin of the entrepreneur. More specifically, the mean percentage of material other than labour drawn regionally among indigenous entrepreneurs is nearly twice that reported by their in-migrant counterparts. Instead, the latter utilize national, and, more importantly, international, sources of material. Moreover, indigenous entrepreneurs sell nearly two thirds of the enterprise outputs regionally, in comparison to 45% among in-migrant entrepreneurs. Indeed,

those entrepreneurs born outside the study area are much more successful in penetrating international markets. However, there were precious few differences in the importance of local labour markets between newcomers and those entrepreneurs born locally.

Rurality as a source of information

An analysis of data regarding the sources of market information, technological opportunities and finance indicates that there is considerable disparity in the local (or not) origin in the sample as a whole. Not unexpectedly, more than three-quarters of all innovative rural entrepreneurs tend to utilize local sources of information regarding finance. This involves, invariably, frequent access with the entrepreneur's bank manager or accountant. Thus, geographical proximity offers considerable advantage for the entrepreneurial agent. This is not the case regarding information about markets, especially in instances where the entrepreneur pursues a strategy of expansion or technological opportunities. Thus, the relative use of regional sources of information in both of these instances is relatively modest – 49.4% and 37.2% respectively.

Table 7.3 Entrepreneurial Origin and Sources of Information

	All Entrepreneurs	Indigenous entrepreneurs	In-migrant entrepreneurs
	Information regarding market opportunities		
Within the region	49.4	71.9	35.3
Nationally	28.1	28.1	58.8
Internationally	3.6	0.0	5.9
	Information regarding technological opportunities		
Within the region	37.2	46.7	31.3
Nationally	57.7	53.3	60.4
Internationally	5.1	0	8.3
	Information regarding finance		
Within the region	76.8	74.2	78.4
Nationally	22.0	25.8	19.6
Internationally	1.2	0.0	2.0

Source: Entrepreneurs' survey.

There are also differences between indigenous and in-migrant entrepreneurs. Those individuals falling in the former category demonstrate a greater use of regional sources of information than the in-migrants. The difference is particularly profound in the case of information regarding markets, where locally born entrepreneurs use regional resources twice as frequently as newcomers (a relationship statistically significant at $p < 0.01$). There are also differences in the origin of information regarding technological opportunities, between indigenous and in-migrant entrepreneurs, though these are modest and not statistically significant. As far as information regarding finance is concerned, there are few disparities between entrepreneurs of different origin.

We went on to explore whether diversity in the source of information used influenced the nature of the relationship between the entrepreneur and the informant. In doing so, we have focused squarely upon information regarding

market opportunities, where the disparities are most profound. We have explored the duration of the relationship as well as the frequency of interaction, and the type of informant concerned. Indigenous entrepreneurs report (on average) longer lasting relationships with individuals or organizations providing information (mean of twenty one years) than in-migrants (mean 13.6 years) (a relationship statistically significant at $p < 0.01$). At the same time however, and despite the greater distances involved, in-migrants report a greater frequency of interaction, a mean of 70.3 times per annum in comparison to 54.6 in the case of indigenous entrepreneurs. In both types of entrepreneur, customers constitute the single most important source of market information. In the case of indigenous entrepreneurs other important sources of information include other businesses in the same industry and trade journals, whilst in-migrants rely heavily on market research (formal or informal) and trade fairs.

Rurality as an obstacle

In order to explore the influence of rurality as an obstacle we have asked interviewees a sequence of questions exploring different dimensions of the process of business venturing. More specifically, we have explored the influence of location upon product/service innovation, new market development, and technological change. There are some differences in the degree to which rurality is identified as an obstacle between these three dimension by the sample as a whole (see Table 7.4). The more profound negative influences are reported in the case of product/service innovation. Nearly half of the innovative entrepreneurs identify at least some adverse influences of the rural, with nearly one in four reporting strong negative effects. The corresponding figures for new market development are 36.9% and 19%. At the other end of the spectrum only a small minority – just over one in ten) of rural entrepreneurs report rurality as an obstacle to technological change. Interestingly, there are precious few differences in the perception of rurality as an obstacle between indigenous and in-migrant entrepreneurs.

Table 7.4 Entrepreneurial Origin and Rural Location as an Obstacle

	All Entrepreneurs	Indigenous entrepreneurs	In-migrant entrepreneurs
	Rural as an obstacle to product/service innovation		
Not at all	53.4	53.1	53.6
To some extent	23.9	25.0	23.2
To a considerable extent	22.7	21.9	23.2
	Rural as an obstacle to new market development		
Not at all	63.1	54.8	67.9
To some extent	17.9	25.8	13.2
To a considerable extent	19.0	19.4	18.9
	Rural as an obstacle to technological change		
Not at all	87.9	91.9	85.5
To some extent	5.1	0.0	8.1
To a considerable extent	7.1	8.1	6.5

Source: Entrepreneurs' survey.

Conclusions

The incidence of entrepreneurship – standing at 13.6% of the population of working age and 15.1% of those 16-64 – in the CSA is modestly below the average for England as a whole – as measured in the SBS Household Survey. However, entrepreneurs in rural Cumbria differ somewhat from their counterparts elsewhere in the country, especially in terms of gender and educational attainment. Despite the oft commended arguments regarding the more conservative orientation of rural areas, than the main agglomerations, the gender divide in our CSA is significantly narrower than in England. At the same time, the education attainment of local entrepreneurs is below that for England, though this may reflect differences in educational achievement for the population as a whole.

One area of concern regarding the development prospects of our Cumbrian CSA is the low, if any, latent entrepreneurship. This indicates that the scope for advancement on the basis of the local population is very limited. Moreover, those aspiring to perform entrepreneurial roles appear to possess different characteristics from practising entrepreneurs, raising concerns about their ability to realize their individual aspirations. The modest entrepreneurial potential of the local inhabitants is also evinced by the contribution that in-migrants, and more importantly recent in-migrants, make in the total population of rural entrepreneurs. This, rather unexpectedly, is particularly the case in remote parts of the study area, which actually attract only small numbers of new arrivals.

The incidence of entrepreneurship in remote areas emerges as another key consideration. Evidence regarding gender divides and the place of birth of entrepreneurs suggests that it is males that were born and brought-up locally who find it particularly hard to enter entrepreneurial pursuits. The unwillingness or inability of local males to engage in entrepreneurship is, at least partly, on account of their reliance upon the stable, skilled jobs provided in manufacturing for the best part of the nineteenth and twentieth century. The industrial decline of the past thirty years or so, instead of undermining the culture of the 'family wage' earned by males in one industry towns, led to despondency and inertia. The identification of a specific demographic group that demonstrates lower than average incidence of entrepreneurship lends support to the thesis that supply-side rather than demand-side (i.e. the opportunity structure) considerations may provide a large part of the explanation.

The comparisons between indigenous and in-migrant entrepreneurs lend support to the argument that the route to starting and or running a new venture may vary considerably, as individuals possess different experiences and cognitive frameworks as well as have access to different resources (both tangible and intangible). More importantly however, the diversity in the use of resources between indigenous and in-migrants challenge assumptions regarding the relative disembeddedness of the latter. Indeed, in-migrants rely less to the local setting for the supply of materials, and as a market for their product/services. Moreover, in-migrants also rely more upon national and international sources of information and advice than their indigenous counterparts. As a result, there is little doubt that their increasing importance influences adversely the breadth and depth of integration of economic activity in a localized network of production and distribution. At the

same time however, in-migrants appear to have close relationships with their main sources of information and advice – even though these sources are frequently located outside the region. Thus, in-migrants appear to be integrated in a context that is not manifested in territorial terms but functional ones. Thus, in-migrants may be relatively disembedded from the locale but they are embedded upon the industrial/market context within which they operate. This is of particular importance if the relatively small size of the rural markets is taken into account. In-migrant entrepreneurs appear to be embedded in contexts that enable them to break out of the confines of the local markets. In this respect, they constitute a key instrument in enhancing the breadth and depth of integration of rural economies in the national and global markets. The function of in-migrant entrepreneurs is diminishing localized integration but enhancing non-local integration.

Two main conclusions/policy recommendations emerging from the case of rural Cumbria. The first concerns with the enhancement of the supply of entrepreneurship. To date this was attained – to a considerable extent – through the inflow of in-migrants from elsewhere in the UK. However, a concerted set of policy initiatives is needed if the incidence of entrepreneurial pursuits among young indigenous males. The difficulty of the task is considerable, given the very low – if any – incidence of latent entrepreneurship among this group of individuals. The second revolves around the increased emphasis on the exploitation of opportunities emanating from national and global networks of production and distribution. One means of doing so is through the enhancement of the knowledge infrastructure of the local economy through the facilitation of linkages with HEI and other R & D providers. Another means of tapping into opportunities from outside Cumbria is through the facilitation of linkages with non-Cumbrian organizations. Especially in instances (sectoral, functional) where the local knowledge infrastructure is weak or missing altogether, business support providers can perform the function of identifying and facilitating linkages with organizations outside of Cumbria.

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Chapter 8

Entrepreneurship in Devon and Cornwall: Policy Perspectives

David Smallbone and David North

Introduction

Aims in context

This chapter is concerned with entrepreneurship and small business development in Devon & Cornwall,⁷⁶ focusing particularly on policy related issues. The specific aims of the chapter are firstly, to assess the nature and extent of entrepreneurship in rural areas in the sub-region; secondly, to consider how entrepreneurship is currently contributing to its rural development needs; thirdly, to identify the needs of entrepreneurs, and potential entrepreneurs, which policy might help to address; and finally to assess the adequacy of existing policy approaches. It is vital that policies to encourage and support enterprise development in remote rural areas are based upon an understanding of the various factors, which affect it, influencing the entrepreneurial capacity of these areas.

At the heart of the transformation of the UK's rural economies in recent years has been the decline of traditional resource based activity. Agriculture (mixed farming rather than cereal production) and its related activities (feedstock suppliers, transport, farm machinery suppliers, agricultural engineering, auctioneers) have typically been regarded as the mainstay of these 'remote rural' economies, although only a small proportion of the workforce has been directly employed in agriculture for several decades. These trends need to be seen in the context of the increasing effects of internationalization forces on rural economies, which are likely to intensify in the future. The EU is coming under increasing pressure from the World Trade Organisation (WTO) to reduce the level of subsidies paid to agricultural producers. Moreover, the proposed expansion of the EU to include Central and East European and additional Mediterranean countries will add to the existing pressure on the resources available for agricultural support. Similar resource pressures apply in the case of EU Structural Funds, which means that in the future 'remote' rural areas in countries such as the UK, are less likely to receive the level of assistance that they have in the past.

One of the distinctive aspects of the restructuring of rural economies has been the relatively strong performance of manufacturing, especially compared with urban areas, although there are some weaknesses which could threaten the contribution of

⁷⁶ Throughout the paper, Devon & Cornwall is referred to as the 'sub-region'.

manufacturing industries to rural economies in the longer term. First, a substantial proportion of manufacturing activity appears to be closely linked to the traditional rural economy, particularly agriculture. The second weakness concerns the relative absence of the more dynamic, high-technology manufacturing sectors. Whereas sectors such as electronics, scientific and medical instruments, and pharmaceuticals have been performing strongly in accessible rural areas, there has been a distinct under-representation of these activities in remote rural areas.

Starting in the 1970s, there appears to have been a reversal of the historic trend of rural depopulation in the UK. An inevitable consequence of the growth of population in remote rural areas has been an expansion of the economically active population, which means that the creation of new sources of employment has become a priority concern within these areas.

Businesses in rural areas make an important contribution to the English economy, accounting for almost 35% of all VAT registered businesses and 8% per head more than in urban areas. In economic terms, countryside recreation and tourism contribute £14bn per year to the national economy. However, the future of farming has tended to dominate rural economic discussion, partly because of the widespread impacts and implications of the foot and mouth crisis in 2001, but also because of the longer-term structural decline of agriculture. For example, in 2001, agriculture contributed just 0.7% of GVA, compared with 1.5% in 1991. Nevertheless, agricultural firms make up more than 15% of rural businesses, making them the third largest group behind wholesale/retail businesses and real estate. Apart from agriculture, the types of rural and urban economic activity in England are very similar, although the turnover of the business stock is lower in rural areas and the net increase in the number of businesses between 2000-1 slightly higher than in urban areas (+0.5% and +0.4% respectively). At the same time, these aggregate figures conceal varying growth rates in different sectors and also the geographical concentration of businesses in market towns. In practice, there is no single rural economy, but rather a variety of rural contexts with considerable regional variations, interacting both with urban and international economic activity.

In this context, the nature and extent of entrepreneurship has become a key issue for rural development, especially with respect to emerging sectors, emphasizing the relationship between different types of entrepreneurship and the characteristics of rural regions. From a policy perspective, this raises the question of the distinctive needs of entrepreneurs and enterprises in rural areas on the one hand, and the needs of rural regions on the other, as well as the types of policy response that are most appropriate to addressing these.

The national policy context

Remote rural areas within the UK are facing major challenges at the present time, particularly in terms of generating new forms of business activity and sources of employment. In response to the decline of agriculture and its associated activities, policy-makers have been putting increased emphasis on encouraging and supporting enterprise in rural areas. For example, a recent review of rural enterprise support initiatives for the Small Business Service (SBS) identified six

main types of initiatives, including farm diversification schemes; other rural sector initiatives such as those focusing on village shops, tourism and high technology initiatives; specific types of business support, typically involving ICT training and/or marketing assistance; and more strategic initiatives for rural regeneration which aim to stimulate new types of enterprise activity (Smallbone *et al.*, 2002).

Within the overall aim of encouraging and supporting the creation of productive, sustainable and inclusive rural economies, the government's stated policy objectives at a national level include facilitating the development of dynamic and competitive rural economies through, for example, tackling the market and government failures that hamper rural economies (Cabinet Office, 1999). In this context, the need for an enterprising countryside is recognized, together with sustainable agriculture, an enhanced environment and thriving and inclusive communities. To achieve this, a number of specific areas have been identified as requiring attention, including the burden of regulation on rural businesses; a planning system that is more supportive of the needs of rural businesses; an enriched skills base in rural economies; improved infrastructure; improved provision of business advice and support; and improved support for the tourism and recreation sectors. However, as this chapter indicates, the evidence base to support these priorities is rather patchy.

Focusing on the case for public policy intervention in rural economies, the Countryside Agency (2003) has recently published three main justifications:

- the contribution of businesses based in the countryside to national and regional Gross Value Added (GVA), which emphasizes the importance of ensuring that these businesses have access to appropriate advice, training, finance, ICT and other infrastructure, in order to remain competitive;
- as part of a need to tackle disadvantage and social exclusion, emphasizing the potential role of self-employment in contributing to household income, focusing particularly on women, young people and those who want to continue to work after retirement;
- the need to invest to sustain 'countryside capital', which is an important feature and an asset for some rural businesses, such as those involved in food processing and tourism.

Regional Development Agencies (RDAs) are key strategic drivers for economic development, regeneration and competitiveness in the English regions (HM Treasury, 2002). More specifically, RDAs have an interest in ensuring that business support services are in line with their Regional Development Strategies, working closely with the Small Business Service (SBS) and Business Links. It is important that the particular needs of businesses located in rural areas are recognized in these strategies, together with the distinctive issues concerned with addressing them effectively. The role of RDAs in relation to rural development was investigated in a recent report commissioned by the English RDAs (Ward *et al.*, 2001). Among its recommended priorities was a need to ensure that rural locations and rural businesses are integral to RDA strategies and actions on regional competitiveness, innovation, entrepreneurship, skills development and business growth.

The provision of business support for new and existing enterprises in rural areas is now under the umbrella of the Small Business Service, representing a shift to a generic mainstream approach, rather than one based on offering specialist support to rural firms delivered through specialist agencies. However, unlike the early and mid-1990s, the current approach is more inclusive with regards to start-ups and micro enterprises, which means that more rural firms qualify for support from mainstream agencies, namely Business Link. At the same time, a recent investigation of rural enterprise policy in practice in England concluded that significantly more Business Link respondents identified distinctive support needs of rural enterprises than reported specific policies towards them (Smallbone *et al.*, 2003). Their priorities for improving support provision for rural enterprises focused mainly on raising greater awareness among rural small firms of the support services offered and technology based initiatives designed to increase access to and the effective use of ICT by rural small firms.

The Study area

Profile

The CSA comprises selected rural districts in the counties of Devon & Cornwall, which is part of the larger Southwest region.⁷⁷ A key influence on the choice of Devon & Cornwall as one of the CSAs was the designation of Cornwall as an Objective One area for Structural Funds over the 2000-06 period and many parts of rural Devon as an Objective Two area. One of the most striking aspects of what has been occurring in remote rural areas of Devon & Cornwall in recent years is the decline in the number of businesses, at a time when their population has been increasing and the business stock nationally has increased (Table 8.1 and Table 8.2). As we might expect, the biggest absolute decline in the number of businesses occurred in agriculture and fishing, but most other sectors also experienced a decline.

Table 8.1 Changes in the Business Stock of the Selected Rural Districts in Devon and Cornwall, 1994 – 2001

District	No. of Businesses (2001)	% Change (1994 – 2001)
East Devon	4,085	- 6.8%
Mid Devon	3,280	- 4.9%
North Devon	3,535	- 6.5%
South Hams	3,420	- 8.6%
Devon County Total	31,270	- 9.2%
Carrick	2,910	- 6.9%
North Cornwall	3,565	- 8.0%
Penwith	1,880	-11.1%
Cornwall County Total	16,160	- 9.3%
South West Region	149,765	- 2.0%
United Kingdom	1,664,370	2.2%

Source: Business VAT Registration Data (NOMIS).

⁷⁷ The Southwest region comprises the counties of Devon, Gloucestershire, Somerset and Wiltshire, as well as Devon & Cornwall.

The decline in the business stock contrasts with a substantial increase in the population, which is mainly associated with in-migration. Moreover, compared to other rural districts within England, a higher proportion of migrants to rural areas within Devon & Cornwall is of pensionable age (Countryside Agency, 1999).

Table 8.2 Population Characteristics of the Selected Rural Districts in Devon and Cornwall

District	Persons per sq. km	Total Population Change (81-97)
East Devon	152	15.4
Mid Devon	73	13.2
North Devon	80	11.1
South Hams	90	19.9
Carrick	184	12.5
North Cornwall	67	23.0
Penwith	194	9.9

Source: Office of National Statistics, Regional Trends, 1999.

One of the consequences of these opposing trends is that there has been an increasing polarization of incomes within Devon & Cornwall between, on the one hand, the well-off in-migrants and, on the other, the relatively poor indigenous population, who have been tied to working in declining low wage sectors, such as agriculture or tourism.

Rural development needs of the sub-region

Policies for entrepreneurship should take into account the economic development needs of regions and sub-regions, as well as the needs of enterprises, entrepreneurs and potential entrepreneurs, because the use of public resources must consider the potential welfare gains for the economy as a whole. In this regard, based on a combination of secondary source material and key informant interviews, analysis has identified the following development priorities or needs of Devon & Cornwall, which have implications for entrepreneurship and its potential contribution to the sub-regional economy.

A need to continue to diversify the economic base With the second largest agricultural workforce in England and the second highest proportion of agricultural employment, structural changes in agriculture that are affecting the national economy, combined with the recent problems associated with the foot and mouth disease (FMD) and BSE, have particularly serious implications for the development needs of the rural parts of the region. This applies to the Southwest as a whole, but particularly to Devon & Cornwall, because of the east-west disparities in economic development within the region. At a county level, 8% of the workforce in Cornwall is employed in agriculture, with the highest concentration of people in agriculture in North Cornwall. Devon (4%) is less dependent on agricultural employment than Cornwall, although above the national average, with the highest concentrations in Mid- and West Devon.

A need to improve productivity Productivity is central to a region's competitiveness. Current economic policy in the UK emphasizes the important relationship between competitiveness and productivity, which in turn is dependent on enterprise, investment, innovation, skills and competition (HM Treasury/DTI; 2001). In this context, Devon & Cornwall are low productivity counties located in a low productivity region. More specifically, the level of productivity (GDP per head) in the SW region is 95% the national average, although Cornwall has the lowest GDP per head in England (71% of national average in 1996) and although Devon is higher at 84% the national average, it is still an underperforming county.

A need to improve infrastructure As part of one of the largest and most heterogeneous English regions (the Southwest) there are a variety of types of rural area within the region, with varying development needs. In this context, Cornwall is one of the most peripheral counties in England, affected by rural structural changes, which has been recognized by EU policy makers with its Objective One status. Improvements to infrastructure are a necessary priority, in order to contribute to reducing the barrier effects of distance facing enterprises in Cornwall particularly. Based on national criteria, no rural districts in Devon & Cornwall can be classified as 'accessible' rural districts, with the bulk of those in Cornwall and parts of Devon being classed as 'extreme remote' rural areas and the rest 'remote'. This is important because previous research on rural enterprise has distinguished between the innovation and growth performance of small firms in accessible and remote rural areas (Keeble *et al.*, 1992; Smallbone *et al.*, 1997; North & Smallbone 2000a; 2000b).

Rural entrepreneurship in the sub-region

Survey methodology and data

One of the key aims of the FERP project is to identify existing and potential sources of entrepreneurship in Europe's peripheral rural areas, together with the characteristics of rural entrepreneurs. Both were investigated in each of the study regions through a large-scale population survey. For the purpose of the population survey, the study area in this case comprised four rural districts in Devon & Cornwall: Penwith, North Cornwall, East Devon and North Devon. In all cases, settlements with 10,000 or more inhabitants were excluded from the survey, which means that the data refer to people living in the countryside. The survey results presented in this section were based on a telephone survey conducted in March 2001, representing 0.25% of the total rural population in the selected districts. Most of these interviews were conducted in the evenings, following a pilot survey, which showed attempted daytime contacts to be unproductive, because few people were at home, other than retired people.

A comparison of the structure of the sample with the total population of the four districts, based on the 1991 Census of Population, showed the sample to be broadly representative but with the following qualifications: firstly, a slight over-representation of females (58% compared with their 54% share in the Census); and

secondly, an under-representation of respondents in the 18-34 age group (9% compared with 25% in the Census) and an over-representation of those in the 50-64 age group. In order to compensate for these differences between the survey sample and the gender and age structure of the population, the data have been weighted on the basis of these two variables to make it representative. In addition, for certain parts of the analysis, retired respondents have been excluded, where it appears to make more sense to use the active population as the base. However, unless otherwise stated the figures included in this chapter are based on weighted data, including retired respondents.

The experience of entrepreneurship and entrepreneurial orientation of the population

Two composite indices were produced from the survey results in order to summarize, firstly the experience of entrepreneurship of the rural population, and secondly their entrepreneurial orientation towards it (see Table 8.3). The index of entrepreneurship experience was produced by combining the following indicators: firstly, current involvement in self-employment or owner-management of a business; secondly, current involvement in the management and decision making in a business or similar organisation; thirdly, current involvement in starting a new venture (either a business or similar organisation); and fourthly, previous business ownership. By adding those individuals who stated they certainly intended to start a business in the future and those that had supplied finance to another enterprise to the index of entrepreneurship experience, a summary index of the entrepreneurial orientation of the population was calculated (Table 8.3).

Table 8.3 Summarizing the Experience of and Propensity Towards Entrepreneurship

	Active Population (i.e. excl retired)	Total Population
1. Self-employed/business owners	23%	19%
2. Owner managers	22%	16%
3. Involved in management decision making in another organisation	18%	13%
4. Involved in setting up new venture	5%	3%
5. Previous experience of start-up	17%	15%
Index of entrepreneurship experience	35%	29%
6. Future desire to start up	12%	8%
7. Supply finance to other venture	2%	2%
Index of entrepreneurial orientation	42%	34%

Note: only includes those stating they would certainly start.

The entrepreneurial experience in the rural population revealed by the survey is wider than the number of people currently involved in business ownership or managing another enterprise. When previous experience in starting a venture is combined with those currently starting or running their own businesses, approximately one third of the surveyed population had some form of business experience. At the same time, few respondents had provided finance to other

enterprises in the sub-region, although we have no information concerning their level of interest in doing so in the future.

The results shows that, overall, men were significantly more likely to have had some form of entrepreneurial experience than women (0.001 level). However, since the gender gap in terms of current business ownership, and particularly future intentions to start, is less than the gap in terms of previous business ownership experience, there is a suggestion that the gap may be narrowing.

Educational qualifications are not a good predictor of individuals having some form of entrepreneurship experience overall, although current start-ups are typically educationally qualified, with a disproportionate number of new entrepreneurs educated to higher education level. This is also consistent with the relationship that is apparent between educational qualifications and the stated desire to start a new business in the future. In combination, there is a suggestion of some change in the profile of entrepreneurs over time, with more educationally qualified people increasing their propensity towards business ownership. Educational qualifications are also associated with the propensity of individuals to be involved in managing other enterprises or similar organizations.

There were significant differences between age groups in the propensity of respondents to be self employed or owner-managers (0.001 level): highest in the 35-49 (27%) and 50-64 groups (23%) but much lower in the 18-34 (11%) and over 64 groups (9%) (including retired). The low proportion in the 18-34 age group suggests that many young people have not had time to acquire the experience or sufficient resources to start their own business. Although most current entrepreneurs are between 35-64 years old, the profile of people starting a new venture is typically younger. In this regard, it is particularly significant that 41% of the 18-34 age group stated an intention to start their own business in the future. Whilst the 35-64 group were significantly more likely to have entrepreneurial experience than younger or older respondents, those 18% of respondents in the retired age group, who have some form of entrepreneurial experience are a potentially valuable resource for the sub-region, and part of its entrepreneurial capacity. Half of these are actually involved in business ownership directly, but all of them have experience that is potentially useful to younger and less experienced entrepreneurs and/or other organizations in the sub-region (such as, social enterprises), where business experience is often in short supply.

Since it has been suggested that in-migration is one of the potential sources of entrepreneurship for rural areas (e.g. Keeble *et al.*, 1992; Keeble & Tyler, 1995; Centre for Rural Economy, 2000a), in-migrants have been systematically compared with respondents born in Devon & Cornwall on each of the entrepreneurship indicators and also the summary indices (Table 8.4). However, since in-migrants represent a substantial proportion of all respondents, and since some moved into the sub-region many years ago, more recent in-migrants into Devon & Cornwall (i.e. those that have moved in within the last 10 years) have been distinguished from earlier in-migrants.

When retired respondents are excluded, in-migrants show a higher propensity to be involved in business ownership than the indigenous population. They also have a higher overall entrepreneurial orientation, although the differences are not statistically significant. However, more detailed analysis, based on separately

identifying those that have moved into Devon & Cornwall during the last 10 years shows the latter group to be much more likely to be currently involved in business ownership, more likely to be setting up a new venture and more likely to have had previous experience of start-up, than either more established in-migrants or people born in the two counties. Unfortunately, the statistical robustness of these findings is limited by the small absolute numbers involved.

At the same time, in-migrants were no more likely to express an intention to start a business in the future than the indigenous population and no more likely to be suppliers of finance to other ventures; in fact, recent migrants were less likely to be investors in these terms. Thus, although there is some evidence of recent in-migrants being disproportionately involved in entrepreneurship, their role is by no means a dominant one.

Table 8.4 Entrepreneurial Behaviour and Experience of Recent and more Established In-Migrants with the Indigenous Population (excl retired)

	Born in D & C	All in- migrants	In-migrants pre-1991	In-migrants post 1991
Self employed/business owners	20%	26%	24%	31%
Owner managers	19%	21%	20%	28%
Involved in management decision making in another organization	19%	17%	17%	18%
Setting up new venture	5%	8%	7%	11%
Previous experience of start-up	17%	14%	11%	24%
Index of entrepreneurial experience	37%	31%	29%	40%
Future desire to start up	13%	12%	11%	11%
Supply finance to other venture	2%	2%	2%	0
Index of entrepreneurial orientation	37%	39%	37%	42%
No. of respondents	183	177	133	42

Finally, in order to identify the distinctive characteristics of entrepreneurs, a comparison of the background and profile characteristics of self-employed people and those owning their own businesses was undertaken with those of non-entrepreneurs, using results from the large-scale population survey. The results show significant differences between entrepreneurs and non-entrepreneurs in terms of gender: 27% of male respondents were entrepreneurs compared with 16% of female (0.05 level) and also the propensity for entrepreneurs to have one or more parents that were/had been involved in business ownership, compared with non-entrepreneurs: 45% and 22% respectively (0.001 level). Other differences that were detectable, but not statistically significant at the 0.05 level or above, included the propensity of entrepreneurs to have been managers or previously self-employed than in manual or administrative/clerical employment.

Current business owners were more likely to have been in private sector employment previously than non-owners and less likely to have worked in the public sector, although the differences are less than might have been expected: 27% of those previously working in private companies became entrepreneurs

compared with 22% of those with a public sector background (if retired people are excluded). They were also less likely to have worked in the co-operative or voluntary sectors. Business owners were also more likely to have worked in agriculture in their previous employment than non-owners and less likely to have been involved with public administration or services. Not surprisingly, business owners were more likely to have worked in their previous jobs in small (particularly very small) rather than medium or large organizations.

Innovative rural enterprises and their support needs

Survey methodology

Insights into the support needs of existing entrepreneurs may be identified from the survey of 100 innovative enterprises, located in selected rural districts in the sub-region. Surveyed enterprises were drawn from seven rural districts in Devon & Cornwall, namely North Cornwall, Penwith, Carrick, East Devon, North Devon, Mid Devon and South Hams. All were located outside settlements containing 10,000 or more people. A local business support organization provided a database of businesses in the South West totaling more than 50,000 enterprises.⁷⁸ The database contained contact names, location and a description of the activities of each business including the SIC code. The boundaries of each district were matched to the national postcode districts, in order to identify potentially eligible businesses within the database, located in rural areas.

Since the aim was to identify innovative enterprises, certain firms were excluded on the basis of their descriptions in the database. A random selection of the rest were contacted and two key filter questions asked: do you consider your product/service to be innovative compared to other businesses in Devon & Cornwall?; do you consider any of your manufacturing processes to be innovative compared to other businesses in Devon & Cornwall?

Innovative profile

The survey revealed that innovative enterprises in the countryside are typically very small or micro-enterprises (87%), with a median total employment of 3.0 jobs and less than £0.25m annual sales. These small, innovative rural firms were concentrated in manufacturing, construction, computing/IT, and other business services. In terms of age, most surveyed firms were well established, except for those involved in IT and computing where 40% had been founded during the last 5 years

Following the initial filtering exercise, all surveyed firms were offering a product or service that they considered to be innovative in some way, compared with others on the market in the sub-region; more than half perceived them to be innovative by national standards and 49% by international standards. Although less common than product/service innovation, almost half the surveyed firms had

⁷⁸ This database did not only include clients of the business support agency.

been engaged in some form of process upgrading during the two years preceding the interviews; half of these (i.e. one quarter of all surveyed firms), claiming it was part of a planned process of improvement. In the vast majority of cases, the process changes reported, included some form of ICT or advanced technology. One third of all surveyed firms claimed to have engaged in some form of process innovation, in the sense of the upgrading enabling them to do something they had been unable to do previously. Approximately one in five firms judged their process changes to be innovative by the standards of other firms in the sub-region. Not surprisingly perhaps, the level of reported use of Email (85%) and Websites (65%) is significantly above that recorded in earlier rural enterprise surveys undertaken by the authors in 1997 (North *et al.*, 1997) and 1998 (Centre for Enterprise and Economic Development Research, 1998). At the same time, a significant minority of respondents perceived that more effective use of ICT in these respects could improve the performance of their businesses. The most common uses of the Internet were for obtaining information about markets, suppliers and for promotion; less than 10% of responding businesses were using the Internet for E-commerce.

There was considerable sectoral variation in terms of the market orientation of surveyed firms. On the one hand, a majority of firms in wholesaling, retailing, hotels, catering, transport and communications reported relying on the sub-regional market for at least half their total sales, whilst in the computing/IT, manufacturing and other business services sectors, at least half the firms generated a majority of their sales from markets outside the sub-region. A significant minority of firms (40%) were generating some foreign market sales in 2000, although typically less than one quarter of total annual sales. Although approximately half the surveyed firms had maintained a focus on their existing markets during the two years prior to the interviews, more than half had developed new market segments and/or new geographic markets during this period. Approximately one third of all surveyed firms had been active in developing new markets outside the sub-region during the previous two years. These were distributed across all sectors, indicating the potential contribution of innovative enterprises to the generation of external income for the sub-region.

The enterprise survey confirms the picture emerging from the population survey with respect to the role of in-migrants in contributing to the entrepreneurial capacity of the sub-region. Although more than half the surveyed businesses had main owners that were born outside the sub-region, the majority of these had moved into Devon & Cornwall more than 10 years ago. The proportion of in-migrant entrepreneurs was particularly high in the manufacturing and business services sectors. Whilst a majority of enterprises were owned by people without other business interests (79%), there is evidence that portfolio entrepreneurship was more common among the larger SMEs and among the more successful and dynamic businesses. Businesses owned by portfolio entrepreneurs were more likely to have products/services judged to be innovative by national and global market standards than firms owned by entrepreneurs with single business interests, and also more likely to have developed new markets during the two years prior to the interviews.

Support needs

Turning specifically to issues with implications for support needs, there is little evidence of any overall perception by surveyed business owners of locational disadvantage with respect to infrastructural provision. Most surveyed entrepreneurs were more than satisfied with the accessibility of their businesses to the national road network, as well as with the level of educational provision within the sub-region, although their assessment of public transport and accessibility to the telecommunications network was more variable. For example, a lack of broadband availability was a particular concern reported by ICT firms in Cornwall.

Although few firms identified barriers to innovation that they perceived to be associated with their rural location, those that did point to such constraints referred to a lack of contact with funding institutions that are based in London, a lack of locally skilled staff, the stigma attached to having a south west address and the size of local markets, combined with distance from potential national and international markets. As previous studies have found, one of the most frequently mentioned constraints by rural enterprises was access to skilled labour, reflecting the small size and scope of rural labour markets (Westhead, 1995; Smallbone *et al.*, 1997; Centre for Enterprise and Economic Development Research, 1998).

More positively, about one third of surveyed enterprises had drawn on some form of local know-how or expertise in the development of their innovative products/services, sourced mainly from other local firms or business support organizations. Few surveyed business owners perceived their peripheral rural location to seriously affect their ability to access information about markets or to distribute their products/services effectively.

Previous research has suggested that rural firms typically lag behind their urban counterparts in terms of the effective use of ICT (North *et al.*, 1997; Talbot, 1997; Gray & Juhler, 2000; Centre for Rural Economy, 2000b). This is potentially important since effective use of ICT is one of the ways that rural businesses can overcome some of the disadvantages with respect to distance from major markets and sources of supply. The enterprise survey showed that a majority of respondents judged that ICT was helping them to overcome some of the barrier effects of distance associated with their rural location. At the same time, this varied considerably according to location and sector: for example, higher among Devon-based firms than those in Cornwall (69% and 54% respectively), reflecting the perceived lack of telecommunications provision in Cornwall, which is the more peripheral county.

Use of business support

In terms of the take-up of business support, a significant minority of the surveyed firms (1 in 6) had participated in some form of public sector programme during the previous five years and/or had received some form of assistance from a government agency, which typically involved some form of grant. Small firms (i.e. 10-49 employees) were significantly more likely to have been beneficiaries of some form of public sector support than microenterprises (i.e. 1-9 employees),

which is not altogether surprising since the latter group were not a target for public sector assistance in England through most of the 1990s.

Just under one third of surveyed enterprises (29%) had received some form of 'soft', external assistance in the form of information, advice, consultancy or training, to support their product/service innovation. Business Link was the most common source of this assistance: 15 firms, or approximately half those receiving external assistance for this purpose. Market-based assistance (i.e. from private sector sources) for product/service innovation was much less important, which contrasts with previous studies, undertaken by the authors, concerned with external support for product/service innovation in SMEs, in the South East region, where the market for specialist, technical consultants is more developed (Smallbone *et al.*, 1993a). As others have noted, the market failure argument with respect to access to business support is particularly pertinent in a peripheral context (Bennett & Smith, 2002).

Fewer firms had used external advice or assistance to support process changes, than in the case of product/service innovation (8% of all firms, or 17% of those making some form of process change). However, in this case, the main sources of information or advice were market-based sources, with no firms reporting using a public or quasi-public sector agency for this purpose. One in six firms had received some form of external assistance with marketing during the two years prior to the interviews. Young (i.e. less than four years old) and Devon-based enterprises were more likely to have accessed this type of assistance than older firms and/or those based in Cornwall.

A significant minority of firms (about 30%) had received some form of 'soft' assistance to support product/service innovation, in the form of information, advice, consultancy and/or training. Business Link was the most commonly reported source of this form of assistance, which in most cases, was sourced from within the sub-region. The majority of firms were satisfied with the external assistance received to support their innovative effort, although a minority of firms reported support needs, that were at least partially unfulfilled, typically related to either finance or to technical support.

Conclusions and implications for policy

Conclusions

The empirical evidence from the population and enterprise surveys, together with material drawn from secondary sources and key informants, lead to a number of conclusions, concerning the nature and extent of entrepreneurship in the study area. Entrepreneurship in remote rural areas in peripheral regions, such as Devon & Cornwall, typically takes the form of self-employment and owning and running very small firms. The high levels of self-employment, especially amongst men, are partly associated with the important role of agriculture and related activities. As a result, whether or not they may be viewed as a positive feature depends on the willingness and adaptability of these people to change. At the same time, most of the firms in emerging sectors of activity (e.g. IT, business services) are also very

small, which is arguably appropriate to the needs of these peripheral rural areas, where labour markets are small.

The entrepreneurial capacity of the sub-region is enhanced by the fact that one third of respondents in the surveyed rural districts had some form of current and/or previous experience of starting or running a business. Since the survey results, together with those from previous research, demonstrate the positive influence of both previous private sector employment and parental influences on an individual's propensity towards entrepreneurship, current conditions would appear to offer a good base for future entrepreneurship development. At the same time, the entrepreneurial capacity of the surveyed rural districts appears to be heavily influenced by a minority of people, who are engaged in a number of forms of entrepreneurship, including business ownership, managing and running some other organisation and/or currently starting a new venture.

The existing base of entrepreneurial experience may also be seen as a potential future resource for the sub-region, to offer advice and mentoring, for less experienced entrepreneurs. This particularly applies in the case of older in-migrants that may not wish to continue to be active entrepreneurs themselves but who may have experience that can be of benefit to others. Mentoring is a form of advisory service that provides on-going support, reassurance and guidance on a regular basis throughout the process of start-up and early stages of developing a business. It is often delivered through volunteer mentoring programmes and linked to other types of support, most notably finance.

'Entrepreneurship occurs at the point where entrepreneurial opportunity and entrepreneurial capacity meet' (Reynolds *et al.*, 2001). Evidence from the enterprise survey suggests that surveyed rural districts present good opportunities for entrepreneurship, at least in the form of self-employment or ownership of very small enterprises. Moreover, this applies to innovative businesses in emerging sectors, such as computing/IT and business services, as well as manufacturing, thereby contributing to a diversification of the economic base away from a dependency on land-based and tourist activities. For larger businesses, other research suggests that a market town or small urban settlement may present more attractive locations.

At the same time, the peripheral rural environment does contain constraining factors on opportunities for business growth, such as access to skilled labour, because of the small size and scope of rural labour markets; and limited local market opportunities for many activities, combined with distance from potential national and international markets. However, it is encouraging that a majority of respondents in the enterprise survey judged that ICT was helping them to overcome some of the barrier effects associated with distance, particularly in Devon.

It should also be noted that the extent to which small firms are successfully able to compete from a peripheral rural location varies considerably between sectors. One encouraging development in this regard is the so-called 'digital peninsula' in South Cornwall, which comprises a cluster of very small businesses, involved in IT and related activities. In these activities, as well as in other business services, at least half the surveyed enterprises were generating a majority of their sales from

outside the sub-region, thereby demonstrating the feasibility of a location in the sub-region for very small firms in these sectors.

Policy implications

Policies to encourage and support existing and potential entrepreneurs must be sensitive to the distinctive characteristics of rurally located enterprises (particularly their very small size) and the distinctive characteristics of the rural environment (e.g. size and scope of the local markets for products, labour and business services). In this context, the study suggests that future policy approaches need to incorporate the following principles:

(i) A more systematic and proactive approach to rural enterprise support. The barrier effects of distance can make the delivery of business and training support services to rural firms more expensive than in an urban context, requiring creative solutions but also a higher level of resource allocation per unit in many cases. A report from the Cabinet Office has stressed that the SBS must achieve a similar level of performance in rural as in urban areas (Cabinet Office, 1999: 66). To achieve this requires approaches, which recognize the distinctive characteristics of the rural environment.

Experience from the 1980s and early 1990s, when a dedicated rural agency (the Rural Development Commission) was operating, suggests that proactivity and outreach activity by business advisers, involving regular contacts with client businesses to develop trust-based relationships, is a successful model for delivering advisory support in rural areas (Smallbone *et al.*, 1993b). In fact, it may be a necessary condition to be fulfilled if business support is to successfully penetrate the more dispersed rural communities. Although this type of support can be expensive to deliver, it is almost certainly necessary if Business Links are to increase their penetration levels in rural areas.

Encouraging and supporting rural enterprise needs to embrace potential as well as existing entrepreneurship, which is emphasized by the falling business stock. In this regard, the 'digital peninsula' initiative would appear to be very appropriate to the needs of rural regions, based on high value added activity and technology that offers a means of overcoming some of the barrier effects of distance. Close co-operation between the universities in the sub-region (Plymouth, Exeter and Cornwall) and the business support network can help to facilitate this type of cluster development, within the context of sectoral strategies, which the South West Regional Development Agency is in a good position to steer.

(ii) A need for ongoing access to sector-specific support for land-based and tourism businesses. Ongoing access to sector specific assistance is necessary to help to address the specific business support issues facing key rural industries, such as agriculture and tourism. Although farms share many of the business problems faced by other small firms, suggesting that the integration of the business advisory service for farmers into mainstream support is an appropriate development, it is important that access to high quality sector specific expertise is maintained. Other sectors that play key roles in many rural areas, such as tourism, have similar needs

for specialized support, particularly in the post 'foot and mouth' period, to encourage and facilitate the development of higher value added activities.

(iii) A need for an integrated approach to ICT support. There is a vital need to prioritize an integrated approach to improving the effectiveness of ICT use in rural enterprises. If small firms in rural areas are to exploit the potential offered by developments in ICT with respect to improving their links with customers and suppliers, policy support is vital, particularly in the more remote rural areas. In this regard, policy support needs to include basic and advanced training courses in the use of ICT for both workforce and management, which in the latter case needs to include how to successfully integrate technology with other business processes. Improvements in access to ICT infrastructure are an additional issue in some rural areas in the sub-region, particularly in Cornwall. However, recent evidence suggests that if ICT is to be used as an electronic gateway to business support services and to regulatory information, there will need to be considerable effort to assist small firms to access services telematically, as well as to improve the infrastructure in some areas (Lowe & Talbot, 2000). Inferior and patchy access to telecommunications infrastructure is one of the disadvantages for firms of being located in rural areas nationally.

A final point revealed by more detailed case studies is that ICT is not a panacea for overcoming all of the problems associated with assisting remote rural enterprise. 'Remote assistance', in much the same way as 'remote marketing' using the Internet, still requires some contact through face-to-face meetings, particularly in the initial stages of assistance. Indeed, at the heart of successful enterprise support, in any location, is the establishment of 'trust-based' advisor-client relationships. There are examples of good practice in this regard, from around the country and it is important that the approach used to help enterprises in the study area to upgrade their ICT performance, is sensitive to the need to integrate IT into the wider business processes.

(iv) A need for a more integrated rural enterprise policy. The effects of the 2001 'foot and mouth' epidemic have demonstrated the potential vulnerability of rural economies in England, which is associated with the high level of interdependence between businesses in agriculture, tourism and local services. Whilst there are no easy solutions to this issue, it is important that Business Link works closely with the Regional Development Agency and other key partners to develop approaches that are economically as well as environmentally sustainable. RDAs would seem to be the most appropriate organizations to co-ordinate rural enterprise policy at the regional and sub-regional levels, in the context of 'acting as the key organizations and catalysts for overseeing and targeting support for all sections of the rural economy and to bring about the integrated approach' that is required (Carroll *et al.*, 2002; Ward *et al.*, 2001).

Policy case studies from other parts of the country include examples which demonstrate the advantages of a strategic approach to rural development, which involve rural communities and which avoid the use of top-down solutions (Smallbone *et al.*, 2002). In this context, there is an important potential role for business support agencies, working in close co-operation with those responsible for

housing, transport and social issues. Other key characteristics of successful initiatives appear to be the use of an action research approach to inform and monitor policy development and implementation, and sustainability that emphasizes capacity building and partnership working between agencies.

(v) *A need for initiatives targeted at minority groups of entrepreneurs.* Within the context of a mainstream approach to business support, the case for targeting initiatives at particular groups may be based on their distinctive needs and/or their distinctive contribution to economic development (e.g. technical entrepreneurs) and/or their under-representation among the existing population of entrepreneurs (e.g. women) and/or social inclusion.

A potentially important target group for policy initiatives is the 41% of 18-34 year olds in the population survey that expressed an interest in starting a venture in the future, particularly the 25% who expressed certainty about this. The potential for entrepreneurship among this age group is illustrated by the fact that more than half the owners of surveyed innovative enterprises started their businesses when they were under 40 years of age. At the same time, limited business experience and limited access to financial resources can often present distinctive support needs for these younger entrepreneurs (Centre for Enterprise and Economic Development Research, 2001).

It is also significant that there are signs of more educationally qualified people increasing their propensity towards business ownership. Whilst educational qualifications are not necessarily predictors of business success, there is an 'a priori' expectation that educationally qualified people are more likely to set up businesses involving higher value added activities than their less well qualified counterparts. This offers greater potential for employing others, as well as contributing to external income generation through non-local sales. This can be illustrated with reference to the computing/IT sector, based on the survey of innovative enterprises. Although less than one in three business owners in the entire survey were educated to degree level, the proportion was almost double this figure in the computing/IT sector, and also among younger firms.

Women represent another potentially rewarding target group for policy makers, on the basis that they are currently under-represented in the entrepreneurship base of the sub-region, compared with their male counterparts. Although many of the support needs of women reflect those of their male counterparts, previous research undertaken in the region has drawn attention to the need for mainstream support agencies to re-assess their attractiveness to potential female clients and the image they portray through promotional material (Centre for Enterprise and Economic Development Research, *op. cit.*).

(vi) *A need for a more systematic evaluation and dissemination of 'good practice' rural policy.* There is a considerable range of rural business support initiatives taking place in the UK, but surprisingly little knowledge and dissemination of the good practice elements of these activities taking place between policy practitioners at a local level. Therefore, an important recommendation is that there should be a more systematic approach to the dissemination of rural enterprise support policy at a national level, in order to facilitate effective policy learning and future policy

development. This should be linked to a more systematic approach to policy evaluation in order to provide a quality control over what is disseminated.

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Chapter 9

Entrepreneurship in Rural Germany: Waldshut and Nordwestmecklenburg

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Introduction

This chapter sets out the results of empirical fieldwork conducted in the German CSAs: Waldshut in the Federal State Baden-Württemberg and Nordwestmecklenburg in the Federal State Mecklenburg-Vorpommern. It includes quantitative data from population and entrepreneurship surveys as well as information from key informant interviews. In order to bring into focus the existing economic, social and political framework the chapter opens with a brief review of rural areas and entrepreneurship in Germany and profiles of the CSAs. The chapter concludes with a recommendation for a business support system.

Classification of rural areas in Germany

There are several different scientific and political approaches used to classify rural areas in Germany. In general the term rural areas is employed to describe areas with very diverse economic structures, heterogeneous economic problems and varying potential for their development. Following this it seems clear that there is no singular, typical and homogeneous entity that may be called a 'rural area' (Herdzina, 1993; Schön, 1997). And, because rural areas are so very different it would be obviously inappropriate to impose a single model development strategy on all of them. Instead a variable, case-sensitive regional policy should be followed, that seeks to activate and stimulate any endogenous potential for development within the different types of rural areas (Herdzina 1995; Bade, 1997).

The Bundesraumordnungsbericht⁷⁹ (BBR, 2000) distinguishes between four categories of rural areas:

⁷⁹ Bundesraumordnungsberichte (National Reports of Regional Planning) are drafted at irregular intervals by the Bundesamt für Bauwesen und Raumordnung (BBR) (Federal Office for Building and Regional Planning) for presentation at the Deutsche Bundestag (German Parliament). The purpose of the report is to highlight recent trends in the development of different space categories in Germany (BBR 2000).

1. *Rural areas that are close to economically dynamic agglomerations* have because of their proximity to, and relationships with, those areas the best opportunities for economic development.
2. *Rural areas which are adjacent to agglomerations and also have dynamic economic development* benefit – though more indirectly – from growth impulses emanating from the contiguous agglomerations. The low-priced trade zones available and the financial and tax incentives proposed by regional authorities combined with an at least sufficient infrastructure endowment have resulted in the relocations of companies with high levels of manufacturing capacity to these areas (BBR, 2000: 66). However, many of these companies, the so-called ‘extended workbenches’, have shown a tendency to become unstable in periods of economic crises and are more likely to be displaced by international competition.
3. *Rural areas that are without serious development problems and possess relatively good production conditions for farming and potential for tourism and recreation* generally have good income opportunities for agriculture based on their proximity to local markets and good natural or climatic conditions (BMBau, 1997: 4). Tourism is also usually a promising field for development in such regions. However in the long run, neither agriculture nor tourism are likely to be sufficient to provide enough sustainable employment opportunities (BBR, 2000: 66).
4. *Rural areas with less favourable conditions and without potential* have the least opportunities for development due to a variety of problems. Until now, it has not been possible to compensate for the loss of jobs in the agricultural sector by the establishment of companies in other sectors. These regions generally experience low investment intensity⁸⁰ and insufficient transport infrastructure. There are also too few institutions of higher education, an inadequate science and innovation infrastructure and a paucity of technology transfer institutions (BBR, 2000: 114). In addition the emigration of young and highly qualified labour results often in a shortage of specific qualifications and a long-term weakening of the regional development potential (Rothe, 1994: 38).

In order to create development and employment, especially in rural areas of category 3 and 4, it would seem vital to give support to small and medium-sized enterprises and business start-ups within those areas.

Entrepreneurship in Germany

SMEs play an important role in the quality and the creation of employment in Germany. However, empirical evidence shows that jobs generated in SMEs tend to be less stable and that their so-called ‘job-turnover-rate’⁸¹ is much higher. Thus

⁸⁰ This affects in particular the less favourable rural areas in North and East Germany. The investment intensity is defined as the average industrial investment per inhabitant (BBR, 2000: 23).

⁸¹ The job turnover rate is defined as rate of expansion + rate of foundation – (rate of closing down + rate of contraction).

SMEs account for a high share of newly generated jobs but also for a high share of job losses (Brixy, 1999; Strotmann, 2000).

Many SMEs are skilled craft enterprises⁸² with less than 50 employees, which are managed by their founder or owner. About 16% of the total workforce in Germany is employed in craft-related enterprises. The craft sector is a main provider for vocational training employing 35% of all apprentices in Germany (Dietz, 2000; ZDH, 2003).

The development of workplaces and jobs through the foundation of enterprises within the last years was greatly influenced by the economic changes that took place in East Germany. German reunification led to a break down of the East German economy and to far reaching restructuring processes that are still not finished. In the first years after reunification a large number of new businesses appeared in East Germany. The new venture intensity was even significantly higher than in West Germany (Brixy, 1999: 79). However, since 1999 the foundation number has decreased both in West and East Germany (Sternberg, 2000: 188; Creditreform, 2003).

The business environment for SMEs and business start-ups

There are many support programmes in which SMEs and start-ups can participate. In the German context, the most important structural fund measures of EU are Objective 1 and Objective 2 (Franzmeyer, 2001). The LEADER initiative is of significance for the development of entrepreneurship in rural areas (Axt, 2000).

Measures to encourage SMEs and business start-ups at the national level are focused on providing a supply of venture capital and the acceptance of guarantees and subsidies (Müller, 2002). Additional measures are the provision of advanced training schemes, the development of technological networks, and the transfer of knowledge from research institutions to SMEs. One important institution that provides support programmes is the Mittelstandsbank des Bundes (SME bank) which was established in 2003 combining the support activities of the Kreditanstalt für Wiederaufbau (KfW) and the Deutsche Ausgleichsbank (DtA).⁸³

In addition, enterprises in less favourable areas can receive support within the framework of the 'Joint Initiative for the Improvement of Regional Economic

⁸² A skilled craft enterprise is defined by its membership to a skilled crafts trade. In the skilled craft sector there are 94 skilled occupations, such as hairdresser, carpenter, electrician. A further 57 occupations belong to craft trades related industries. The regulations for the skilled craft sector are codified in the 'Crafts Act' that was passed in 1953 and modified in 2003. In order to start a business in most skilled craft occupations or to train apprentices it is necessary to pass the appropriate master craftsman's examination. In order to apply for that exam the applicants have to finish their apprenticeship, work at least three years in their profession and undertake one year of additional advanced training (ZDH, 2003).

⁸³ For a detailed description of the programmes see BMWi 2000, BMBF + BMWi 2000, DtA 2003, KfW 2003.

Structures⁸⁴ and the 'Joint Initiative for the Improvement of Agriculture Structure and Coast Protection'.⁸⁵

The governments of the Federal States have implemented further support programmes⁸⁶ for SMEs and start-ups (Scherzinger, 1998). The guarantee banks of the Federal States offer guarantees to safeguard investment and equipment loans (VdB, 2003). Additional information and consulting services are offered in Baden-Württemberg by the ifex Informationszentrum für Existenzgründungen (information centre for business start-ups) of the Landesgewerbeamt (IFEX, 2003) and in Mecklenburg-Vorpommern by the Landesförderinstitut Mecklenburg-Vorpommern (Support institute of the Federal State Mecklenburg-Vorpommern) (LFI, 2003).

In addition, many universities and universities of applied sciences have established technology transfer agencies (Reinhard & Schmalholz, 1996: 11). A growing number of universities also have implemented their own programmes for start-ups providing essential knowledge about business creation and management (Heinze & Schulte, 2002). As a result of these programmes it is hoped that graduates and members of the university will be motivated to take the first steps into self-employment.

Start-ups and SMEs also receive support provided by the Chambers of Industry and Commerce, the Chambers of Crafts and Trade and other SME support organizations. This support includes consultation, information services, vocational and advanced training programmes (Frick *et al.*, 1998).

Regional profile

The socio-economic profile of Waldshut

The first CSA we will consider is the Landkreis (administrative district) Waldshut. Waldshut is located in South West Germany in the Federal State of Baden-Württemberg (see Map 1.4). It is bordered by Switzerland to the south.

Two key factors have played a determining role in the economic situation in Waldshut both in the past and present: The first is the river Rhine which acts as an important traffic route and a rich power source with low production prices; the first large-scale water power stations having been established back in the late 19th century. The second key factor is the Black Forest, the basis for the wood processing and paper industry and, in more recent years the tourism sector. Industrialisation began in the last decades of the 19th century with the development of the textile industry. The beginning of the 20th century saw the establishment of the chemical and pharmaceutical sector. With the decline of these sectors in the seventies and eighties the local economy experienced considerable job losses that

⁸⁴ Gemeinschaftsaufgabe zur Verbesserung der regionalen Wirtschaftsstruktur, Artikel 91 GG. For a closer analysis of the characteristics and aims see Eckey (1996).

⁸⁵ Gemeinschaftsaufgabe zur Verbesserung der Agrarstruktur und des Küstenschutzes. For a closer analysis see Anderegg (1999).

⁸⁶ For further details regarding the programmes and institutions of the Federal States see BMWi (2002).

could not be counter-balanced by employment in the emergent health spa and tourism sectors (Nothelfer, 1979; Boelke, 1987).

By the end of 2001 there were 166.114 people living in the 32 municipalities of Waldshut. About 36% of the population lived in the four largest municipalities. The total population of Waldshut has increased by 17% since 1981 due to migration (13%) and natural growth (4%).

Looking at the number of employment places⁸⁷ in Waldshut, there was an increase from 43,270 up to nearly 50,000 employed persons between 1981 and 1992. By 2000 this figure had decreased to 46,166 employed persons. The percentage of employed persons in the agricultural sector over the last two decades was about 1%. Manufacturing was the dominant industry in 1981 accounting for one out of two workplaces. The share declined thereafter but by 2000 about 40% of the employment places could still be found in the manufacturing industry. In recent years a rapid structural change can be seen towards the tertiary sector. But the process of tertiarisation is still lagging behind the level of structural change in Baden-Württemberg.

Following the development of employment places the unemployment rate decreased between 1985 and 1991 from 4.9% to 4.6%. Up to 1997 it increased to an average of 9.9%, which was higher than the average for Baden-Württemberg. After remaining at that high level, the unemployment rate dropped to 6.7% by 2000, which was still higher than the average for Baden-Württemberg (Statistisches Landesamt Baden-Württemberg, 2002).

Since Waldshut is a border area, the number of cross border commuters to Switzerland is of particular economic interest. For many professions the salaries in Switzerland are higher than in Germany. In fact some 15% to 18% of the total Waldshut labour force is diverted to the Swiss labour market (IHK Hochrhein-Bodensee, 2001). The consequences for the economy of Waldshut are even worse than these figures suggest since there is a significant percentage of highly qualified workers among the commuters.

Waldshut's gross domestic product per gainful worker⁸⁸ in 2000 was 11.5% below the level of Baden-Württemberg. The trend of declining agricultural and manufacturing sectors, already indicated by the diminishing number of employment places, is also reflected in the gross value added in Waldshut as well as in Baden-Württemberg. In 2000 agriculture accounted for 1.8% and industry for 40.5% of gross value added in Waldshut (1.0% respectively 39.1% in Baden-Württemberg) (Statistisches Landesamt Baden-Württemberg, 2002).

The following qualitative assessments illustrate the contemporary regional dynamics in Waldshut based on interviews with key informants (KIW 1, 2, 4, 6, 7, 8, 9, 10, 12, 13):

- the formation of public private partnerships as well as of networks of enterprises is seen as increasingly important;
- the location of Waldshut next to Switzerland has several disadvantages, which have a number of negative impacts on the developmental possibilities of the

⁸⁷ Referred to as all employed persons who are subject to social insurance contributions applicable to the place where they work. Not included are self-employed persons and civil servants.

⁸⁸ This includes self-employed persons, family workers, employed persons and civil servants.

region. These are: a greater distance from potential sales markets, a limited sales market, since Switzerland practises some protectionist policies, and a lack of qualified labour due to the higher salaries available in Switzerland;⁸⁹

- however, proximity to Switzerland also has some advantages for the region: The airports of Zürich and Basel are close to Waldshut and its retail industry benefits from Swiss purchasing power;
- a poor transport infrastructure, in particular inadequate links to the motorways, results in noticeable higher transport costs;
- there is considerable potential for the development of the combined tourist attractions and health resources in Waldshut. Many areas in the region are classified as climatic spas. Special infrastructure facilities such as massage and health care schools have been developed;
- the decline in agricultural enterprises has had negative effects on tourism, since tourists expect to see a scenic landscape shaped by agriculture when spending their holidays in a rural area. The agricultural sector can exert positive external effects on the tourism sector through its influence on the appearance and condition of the landscape. Awareness of this mutual relationship has already resulted in collective projects such as those of the hotels and local farmer associations that organise trips for tourists to visit farms and farmer markets and promote on-farm tourism;
- there are substantial differences between the northern and the southern parts of the region with regard to the factor endowment and the temperament of the people. The south has a well developed economic and transport infrastructure along the river Rhine. The people there tend to be open minded and more inclined to risk. The north has a weak economic and infrastructural connection to the south. People who live in the Black Forest have a reputation for being rather reclusive.

The socio-economic profile of Nordwestmecklenburg

The second CSA is the Landkreis (administrative district) Nordwestmecklenburg which is located in the Federal State of Mecklenburg-Vorpommern.⁹⁰ To the north Nordwestmecklenburg is bordered by the Baltic Sea. As a part of the former GDR, Nordwestmecklenburg suffered from its location near the Iron Curtain since it was a so-called restricted area and experienced economic discrimination.

For centuries Nordwestmecklenburg was an area dominated by agriculture. The industrialisation started at the end of the 19th century with the fabrication of agriculture machinery. Later the construction sector, wood processing and food processing industry became important. But overall the process of industrialisation was far less economically significant than in other parts of Germany. After World

⁸⁹ Some evidence for the existence of border effects for overall Germany can also be found in a study of the Hamburg Institute of International Economics (HWWA) using a market potential function and measuring regional wage differences. The study shows that border regions seem to be less economically integrated with their neighbouring regions on the other side of the border. But these results are weakened by the finding that a rather strong localisation of demand linkages exists for all German regions: the distance between the peripheral regions and agglomerations is more important than the location at the border or within Germany (Brakman *et al.* 2002).

⁹⁰ For the location of Nordwestmecklenburg see Map 1.4 on page 19.

War II the local economy was shaped by the development of large LPGs (Landwirtschaftliche Produktionsgenossenschaften – agricultural producers' co-operatives). Also significant was the foundation of a dockyard industry in Wismar, which 'spilled over' and enabled the development of a supply industry and facilitated the creation of industrial employment in Nordwestmecklenburg. With the privatisation that came after German reunification, the LPGs were restructured. This resulted in a decrease of agriculture employment of more than 50%. The economic development in the first years after reunification was heavily dependent on the construction sector (Buchsteiner, 2001).

Nordwestmecklenburg consists of 108 municipalities. About 90% of the population live in small settlements with less than 1,000 inhabitants. Nordwestmecklenburg experienced a decline in the resident population between 1981 and 1990 from 112,648 to 108,852 residents. During the 1990ies there was a significant population increase mainly through immigration reaching 121,153 residents by 2001. This development however is not in line with the overall trend of declining resident population in Mecklenburg-Vorpommern (Statistisches Landesamt Mecklenburg-Vorpommern, 2002).

Between 1995 and 1999 the total number of employed persons⁹¹ in Nordwestmecklenburg was at about 30,000, while the employment figure in Mecklenburg-Vorpommern decreased by 6.9%. Nordwestmecklenburg's economy still shows a strong orientation towards the agricultural sector which accounts for 7.6% of all employed persons when compared with 4.7% in Mecklenburg-Vorpommern and 1.4% in Germany. The manufacturing industry in Nordwestmecklenburg (14.8%) as well as in Mecklenburg-Vorpommern (11.1%) is of small importance. The relevance of the construction sector is, at 20.9% of all employed persons considerably higher than in Mecklenburg-Vorpommern (14%).

The unemployment rate in Nordwestmecklenburg increased during the period of 1995-2000 from 14.4% to 15.8% but remains significantly below the level of Mecklenburg-Vorpommern (19% in 2000). The situation in the labour market therefore seems to be better than the average for the East German Federal States (17.4%) but this is rather poor compared to the figure for Germany (9.6%) (Statistisches Bundesamt Deutschland, 2002).

One specific problem for the region's labour market is caused by the economic significance of the commuters. A considerable proportion of the local labour force works outside Nordwestmecklenburg due to the proximity to the more attractive job markets found in the agglomerations in western Germany. The negative net commuter value is 15,364 persons, which is by far the highest figure of all administrative districts in Mecklenburg-Vorpommern.

Nordwestmecklenburg's gross domestic product per gainful worker⁹² in 2001 was 1.4% below the level of Mecklenburg-Vorpommern, the gross domestic product per inhabitant was 31.5% below the level of Mecklenburg-Vorpommern. The importance of the agricultural sector (9.2%) and the industry sector (29.9%) to the regional economy with regard to the gross value added is higher in

⁹¹ Referred to as all employed persons who are subject to social insurance contribution regarding the place where they work. Not included are self-employed persons and civil servants.

⁹² This includes self-employed persons, family workers, employed persons and civil servants.

Nordwestmecklenburg than in Mecklenburg-Vorpommern. (Statistisches Landesamt Mecklenburg-Vorpommern, 2003)

The construction sector is of importance for Nordwestmecklenburg although its situation has deteriorated over the last years. At the beginning of the 1990ies, the former GDR – and thus Nordwestmecklenburg – experienced considerable leeway with regard to traffic infrastructure, network infrastructure and adequate house building. Consequently, the construction sector was able to grow at an appreciable speed. Now that the requirements of the construction sector have been largely satisfied Nordwestmecklenburg has an unhealthy market structure that requires adjustment processes.

The following qualitative assessments illustrate the contemporary regional dynamics in Nordwestmecklenburg. The information is mainly derived from interviews with key informants (KIN 1, 3, 4, 5, 7, 8, 9, 10, 11, 13):

- the entrepreneurial mentality and the sense of self-sufficiency have not been strongly developed due mainly to the historical situation that pertained in the GDR. Because of the entrenched attitudes and authority-reliant mind-sets of the past, governmental support is usually requested at an early stage. A sense of resignation, low aspiration levels, and the inflexible mentality that results from long years of living in a planned economy are often found among people living in the region;
- the people tend to be reserved and their response to regional initiatives is often lukewarm. This might be the reason for the low level of co-operation between the Chamber of Industry and Commerce and the Chamber of Crafts and Trade, as well as between the various city administrations and business associations. Furthermore, there is little co-operation between enterprises;
- the reluctance of banks to risk venture capital (due to a high number of insolvencies shortly after the reunification) further complicates the founding of enterprises. In addition, bad experiences with investors shortly after reunification led some town administrations to view with a fundamental mistrust projects linked to new business enterprises;⁹³
- due to a high commuter mobility the younger and better qualified labour force has become lost to the region. But the proximity of the region to the western part of Germany can also be seen as an advantage since the lower wages attract western industry;
- the agriculture and the dockyard industry which were dominant during the period of the GDR now belong to shrinking sectors in the German economy. In addition, many enterprises left the region after the reunification using the right to choose their location freely. For this reason there is a limited basis of forward looking enterprises in the industrial and service sector;
- despite the fact, that the dockyard industry is a shrinking sector, it is seen as a potential source of development since a positive influence exerted by input and output connections is expected for suppliers and crafts in the region;
- the tourism sector is a further potential source of development. Until now, only the coastal region can be said to have benefited to any certain extent from

⁹³ Bergmann *et al.* (2002) received similar results to the first three aspects mentioned here in interviews with experts in the region Mittleres Mecklenburg which is located adjacent to Nordwestmecklenburg.

tourism. Many other East German cities and regions are still unknown and the numbers of foreign tourists are very low.

Population survey

The main purpose of the population survey⁹⁴ was to identify subgroups in the population that show a high propensity for and positive attitude towards entrepreneurship and to identify the personal characteristics of the local entrepreneurs.

The samples in both CSAs show a good level of education with 81.5% of the respondents in Waldshut and 87.9% in Nordwestmecklenburg having at least a technical or university degree. In Waldshut, one out of two respondents is a in-migrant to the region, while in Nordwestmecklenburg 44.2% are in-migrants. About one quarter of the respondents in both regions are children of people who are or were involved to some degree in entrepreneurial activities.

In Waldshut 8.2% of the respondents own a business or are self-employed. Only 80.4% of them – 6.6% of all respondents – are involved in decision-making processes. In order to compare these figures with the self-employment rate in West Germany, they have to be based on the working population.⁹⁵ By this measure, 15.2% of the working population own a business or are self-employed. The smaller percentage number of 12.2% are business owners who are involved in decision-making process and therefore would qualify as entrepreneurs within the context of this survey. These figures are higher than the average for self-employed persons in West Germany and in Baden-Württemberg, which stood at 10.3% respectively 10.4% in 2000 (IW, 2002; Landratsamt Waldshut, 2003).

In Nordwestmecklenburg 10.2% of the respondents own a business or are self-employed. Only 84.3% of them – 8.6% of all respondents – are involved in decision-making processes. Based on the working population, these figures are noticeably higher than the figures for East Germany: 19% of the working population own a business or are self-employed while 16% are business owners which are involved in decision-making process. The number of self-employed people in East Germany was 8.4% in 2000 and 7.4% in Mecklenburg-Vorpommern (Braun & Diensberg, 2002; IW, 2002).

In order to identify sub-groups within the population that show a high propensity for, and a positive attitude towards, entrepreneurship the sample taken was divided into the categories of gender, age, education, parental entrepreneurship and birthplace. The propensity for entrepreneurship is measured by the number of business owners, decision makers in businesses and those people who are actually involved in creating a business. Table 9.1 demonstrates that the people in

⁹⁴ In both case study areas a telephone survey of the population was conducted between February and August 2001. The method used for the selection of the sample was a random sample of permanent residents of each region with quotas for gender and age given by demographic statistics. The data set for each region is based on 500 interviews. Since the allocation of the survey sample regarding gender and age for some subgroups differs from the allocation of the population the results were weighted in order to enable us to work with representative results.

⁹⁵ Working population: population minus people in education, retired persons, housewives and unemployed persons.

Nordwestmecklenburg show a somewhat higher propensity for entrepreneurship than the people in Waldshut. The positive attitude towards entrepreneurship is measured by analysing such factors as the interest manifested in starting a business, previous attempts to start a business, the provision of financial support for new businesses, and social or personal contacts maintained with entrepreneurs. In general, the people of Waldshut manifested a more favourable attitude towards entrepreneurship than the people in Nordwestmecklenburg.⁹⁶

Table 9.1 Propensity for and positive attitude towards entrepreneurship

	Waldshut	Nordwestmecklenburg
	Propensity for entrepreneurship	
Business owners	8.2%	10.2%
Decision makers	6.6%	7.2%
Involvement in creating a business	0.9%	0.9%
	Sub-groups with high propensity for entrepreneurship	
	Male**	Male**
	35-64 years old**	35-64 years old**
	Technical degree** or university degree**	University degree
	Indigenous people	In-migrants
	Parents as role models**	
	Indigenous people with parents as role models**	
	Positive attitude towards entrepreneurship	
Interest in starting a business	23.6%	22.1%
Previous attempts to start a business	18.4%	15.7%
Financial support	8.4%	4.5%
Social and personal contacts to entrepreneurs	69.1%	61%
	Sub-groups with positive attitude towards entrepreneurship	
	Male**	Male**
	18-49 years old**	18-49 years old**
	Secondary degree** or university degree**	Secondary degree** or university degree**
	Parents as role models**	Parents as role models
	Indigenous people with parents as role models	Indigenous people with parents as role models

** Statistically significant at $p < 0.01$

The sub-groups that showed the highest propensity for and most favourable attitude towards entrepreneurship regarding gender, age and education are similar

⁹⁶ The results for Nordwestmecklenburg are in line with recent studies for Mecklenburg-Vorpommern: the population there shows a low assessment of start-up opportunities and the population's characteristics complicate the development of a culture of entrepreneurship (Braun & Diensberg 2002).

in both CSAs. However, there are a few significant differences related to the impact of in-migrants to the region and parents functioning as role models.

In Waldshut, those with parents involved in entrepreneurship and the smaller sub-group of indigenous people with parents as role models show a percentage significantly above the average of the whole sample in responses to most questions regarding a propensity for as well as a positive attitude towards entrepreneurship. This could be to some extent due to a long-time entrepreneurial tradition in the region. But the spirit of entrepreneurship seems to be particularly influenced by positive examples within the family.⁹⁷

The picture regarding the propensity for as well as a positive attitude towards entrepreneurship is less clear-cut in Nordwestmecklenburg than in Waldshut. People with parents as role models show a percentage above the average in several questions but this subgroup and that of indigenous people with parents who are involved in entrepreneurship, which prevailed in the Waldshut, is not as important in Nordwestmecklenburg. They do though, in several cases, show some relevance. In-migrants to the region are, however of significance for entrepreneurship in Nordwestmecklenburg. They show percentages above the average in owning and managing businesses, in previous attempts to start businesses and in providing financial support for new businesses. In addition, they are more affirmative about their intentions to start businesses in the future than the indigenous people. There is also a notable potential for entrepreneurship among younger people in the region. The group of people aged between 18 and 49 indicated in many of their answers to questions a pro-business propensity and a positive entrepreneurial attitude that was above the average.

In both regions about 10% of the residents are entrepreneurs within the context of this survey: they are either owners of businesses involved in the decision-making process or are involved in managing a business. that they do not own, or they are currently involved in creating a business.

In Waldshut 70% of the entrepreneurs are males, while in Nordwestmecklenburg 88% are males. All entrepreneurs questioned had at least technical education. One of the reasons for this high figure might be the German regulation that stipulates that the owner or manager of a craft enterprise must have passed a master craftsman's examination. In addition, two thirds had work experience before they started their entrepreneurial careers.

In Waldshut about 56.5% of the entrepreneurs have strong roots in the region since they were born there. About 52% of entrepreneurs had parental role models for their careers since their parents were, or still are, involved in running businesses. These two factors, being native born and having parents who serve as role, are found together in 39% of the entrepreneurs. The involvement of parents in entrepreneurship and the possession of personal ties to the region would appear to account for the most significant differences between the group of entrepreneurs and the group of non-entrepreneurs.

⁹⁷ The relevance of parental role models for entrepreneurship had been reported also by the Deutsches Institut fuer Wirtschaftsforschung (DIW). When analysing the socio economic panel (1990-1996) the DIW found that nearly 20% of the West German founders of new business had parents who are or were self-employed (DIW, 1998).

In Nordwestmecklenburg, the main body of entrepreneurs (58%) are in-migrants to the region and about half of them came from West Germany after reunification. One consequence of this is the fact that many enterprises in the region are of more recent origin compared to those in Waldshut. Only 20% of the entrepreneurs have parents who were, or still are, involved in running a business. In contrast with the results in Waldshut the relevance of parents as role models is under-represented compared to the group of non-entrepreneurs.

Entrepreneurship survey

The main purpose of the entrepreneurship survey⁹⁸ was to classify enterprises according to their innovative ability and their attitudes towards innovation over recent years and looking into the future. In order to derive a reliable system of classification a cluster analysis was undertaken. The following criteria were chosen for the cluster analysis:

- any innovative products/services;
- any innovative processes;
- other innovative aspects;
- an increase in sales or profits;
- any measures undertaken in developing new products/services;
- the development of any new geographical markets;
- the development of new types of customer;
- any changes made designed to improve manufacturing or other business processes.

As a result of the cluster analysis we were able to classify the enterprises into two main types:

- cluster 1: innovative, dynamic and successful enterprises (50 in Waldshut. 37 in Nordwestmecklenburg);
- cluster 2: defensively-acting enterprises with little innovational awareness (50 in Waldshut. 63 in Nordwestmecklenburg);

Regardless of analysing the two regions independently or together the classification of the enterprises into the two clusters leads to the same result and shows the existence of general patterns of behaviour and reveals the key characteristics of both the dynamic and defensively-acting enterprises.

The following sections present the main results from the entrepreneurship survey. They reflect the common as well as the individual characteristics of the

⁹⁸ The method used for selecting the sample of entrepreneurs was based on identifying indicators of innovative orientation among the local enterprises. In order to exclude unsuitable enterprises from the sample *ex ante*, it was determined that the chosen enterprises should manifest innovative activity in the sense of the filter questions given in the questionnaire. The survey started in May 2001 and lasted until July 2001. As a method of investigation personal interviews with the entrepreneurs were used.

enterprises investigated in both regions and show the main distinctions between the two clusters.

Characteristics of the enterprises The samples in both regions are characterised by a large number of enterprises from the manufacturing sector. In Waldshut some 59% and in Nordwestmecklenburg 46% come from this sector. The agricultural sector is of significance only in Nordwestmecklenburg (8%). The service sector accounts for 39% of the Waldshut enterprises and for 46% of those in Nordwestmecklenburg. About one third of the enterprises in both regions reported having at least one other business location. In Nordwestmecklenburg 25% of the enterprises have share capital which is partly or completely owned by individuals or companies from outside the region. By comparison in Waldshut this number is only 17%.

About half of the enterprises surveyed are very small with less than 10 employees. The employees live mainly in the same region in which the company is located (about 95% of all employees) while labour input from abroad is negligible. There are clear differences in the enterprise management structures between the two regions. While in Waldshut nearly two thirds of the enterprises are led by teams of two or more managers, 58% of the enterprises in Nordwestmecklenburg are enterprises with one 'owner-manager'. Sales as well as sales growth also varies between the two regions. 40.6% of the enterprises in Waldshut had sales in excess of 1,500,000 EUR in the year 2000 while the figure for Nordwestmecklenburg was 26.5%. The number of enterprises that increased their sales between 1998 and 2000 was also higher in Waldshut, at 60%, than in Nordwestmecklenburg, where the figure was 42%. The participation in support programmes between 1996 and 2001 was considerably higher in Nordwestmecklenburg (73%) than in Waldshut (29%). Both clusters identified show the following characteristics:

- dynamic enterprises belong mainly to the manufacturing sector, while the defensively-acting enterprises operate mainly in the services sector;
- a higher percentage of dynamic enterprises have other sites with a more significant level of internationalization;
- dynamic enterprises have, to a greater extent, partners in share capital from outside the region. They also prefer an ownership structure that is other than a sole trader while nearly half of the defensively-acting enterprises are sole traders;
- dynamic enterprises are usually larger in terms of employment and total sales. They are also more successful in increasing their sales and number of employees. In addition, they employ a larger number of managers than their counterparts and are more likely to recruit managers from outside the business.

Product and service innovation The figure for innovative products and services is 68% in Waldshut and 57% in Nordwestmecklenburg. In many cases the concept for the innovation was developed in cooperation with other people. These were mainly regional company employees or national businesses in the same market or industry as well as in other markets or industries. In Waldshut regional family members contributed to the innovation while in Nordwestmecklenburg company

employees from other parts of Germany made useful contributions. The most significant determinants that make the products or services innovative are: Improved quality – which was mentioned by 83.8% of the innovative enterprises in Waldshut and by 63.2% in Nordwestmecklenburg, – a higher level of sophistication (69.1% and 54.4% respectively), and a higher level of convenience (50% and 33.3% respectively). While each of these three characteristics was identified to a larger extent by enterprises in Waldshut, lower prices proved to be more important to the respondents in Nordwestmecklenburg – 24.6% in contrast to 19.1% in Waldshut.

When enterprises innovate they often lack information about the relevant markets for their innovations, the concomitant production and service provision processes and the appropriate strategies for procuring adequate financial resources. In both regions enterprises found the information they needed in similar ways. Their main sources of information concerning the relevant markets were their own market research, other national businesses within the same industry and business support organisations on a regional and national level. Information about the production and service provision processes came mainly from other businesses in the same industry, from contacts in previous employment or from suppliers or business support organisations. Universities and research facilities were of relevance only in Waldshut. Information about financial sources was obtained mainly from regional and national banks and from financial advisors and consultants.

Our study shows that about 75% of enterprises are interested in developing new products or services and have already undertaken the first steps such as searching for information, carrying out market research or preparing business plans to reach this goal. Most enterprises in our survey identified some barriers to innovation, especially the lack of finance, the shortage of skilled staff, a lack of time and the risk and fear of failure. The last reason in particular may be due to the prevalent condemnatory German attitude towards unsuccessful entrepreneurs. For 46.9% of the enterprises in Waldshut but for only 25% in Nordwestmecklenburg these barriers were related to their rural location.

The two clusters show the following distinctions:

- dynamic enterprises are more innovative with regard to both products and services. The share is higher in Waldshut than in Nordwestmecklenburg;
- dynamic enterprises use partners to a greater extent to develop their innovations. Most important for the development are the regional and national company employees;
- dynamic enterprises attach great importance to the level of sophistication of their innovative products even more than they do to quality, additional customer convenience or lower prices. These differences are more significant in Waldshut than in Nordwestmecklenburg;
- dynamic enterprises make extensive use of the possibilities for collecting information concerning the relevant markets, production and service provision processes and financing from external sources. They used sources which are located mainly outside the region and which were largely ignored by the defensively-acting enterprises which tend to rely mainly on regional sources of

information. In addition, dynamic enterprises in Waldshut use universities and research facilities as sources of information;

- dynamic enterprises are more critically aware of the importance of innovations. They are, therefore more interested in developing further innovations and are closer to the implementation process.

Markets Enterprises in Waldshut are more integrated in international networks and business connections than enterprises in Nordwestmecklenburg. The Waldshut businesses realise about 21.5% of their sales from outside Germany and receive about 13.2% of their inputs from abroad while by contrast enterprises in Nordwestmecklenburg realise a mere 5.8% of international sales and receive only 13.9% in international inputs. One probable reason for this fact is that commerce in the former GDR was focussed almost entirely on the socialist Eastern countries until the economy collapsed about ten years ago. As a result, the enterprises in this region have had to build new international networks almost from scratch. On the plus side, enterprises in Nordwestmecklenburg are quite well integrated in subcontracting networks since 38% of them – as against 23.2% in Waldshut – work as subcontractors and 50% – compared with 55.6% in Waldshut – have at least one subcontractor.

The weaker and less dynamic international orientation of enterprises in Nordwestmecklenburg can also be observed with regard to the development of new markets. While 35% of the enterprises in Waldshut developed new international markets, the figure for Nordwestmecklenburg is 9%. The percentage that indicates the development of new customers is 57.1% for Waldshut and 53% for Nordwestmecklenburg. The most important information sources for the development of new markets were technical literature and trade journals, websites, trade fairs and exhibitions as well as customer feedback. About 85% of the enterprises are interested in developing new markets, while about 68% have already undertaken some initial steps with regard to that goal. But there are significant obstacles to the development of new markets. The most important are a lack of finance, the risk and fear of failure and a lack of time. About a third of the enterprises see these hindrances as being related in some way to their rural location.

The two clusters show the following distinctions:

- the group of dynamic enterprises have a stronger international orientation;
- dynamic enterprises receive a higher share of inputs from abroad while defensive enterprises receive a higher share of inputs from their own region. The difference between the two clusters is more distinct in Nordwestmecklenburg than in Waldshut;
- dynamic enterprises generate a considerable part of their total sales in national and foreign markets. Defensive enterprises realise more than half of their sales in regional markets. When sales taken into account, the international orientation is more marked in Waldshut than in Nordwestmecklenburg;
- dynamic enterprises in Waldshut are more integrated in subcontracting networks. They both work as subcontractors and have subcontractors working for them to a larger extent than the defensively-acting enterprises;

- all dynamic enterprises have developed new national or international markets whereas the defensive enterprises developed none or only regional markets;
- a greater number of dynamic enterprises have developed new customers. These customers are located mainly in other parts of the country or abroad while the new customers developed by the defensive enterprises were mainly located within the region;
- dynamic enterprises are demonstrably more interested in developing new geographical markets, whereas many of the defensively acting enterprises did not undertake any steps to seek out new markets;
- dynamic entrepreneurs are more progressive with regard to their methods of promotion. They make extensive use of modern instruments of promotion such as websites and manifest a more outward-oriented behaviour by visiting trade fairs and exhibitions. The defensively-acting entrepreneurs deploy more traditional forms of promotion such as advertising or rely on their reputations growing by word of mouth. Dynamic enterprises also varied their promotion methods more often and sought to find specific methods for their different products and services.

Processes and the use of technology About half of the enterprises in both regions reported changes in manufacturing and business processes within the last two years. Many of these enterprises were enabled by these changes to meet the requirements of new customers and / or to penetrate new markets. The enterprises show a familiarity with the different applications of information and communication technology (ICT) since they use e-mail, Websites, electronic data interchange and online databases to a large extent. The use of e-mail and of websites is higher in Waldshut (92.8% and 79.6%) than it is in Nordwestmecklenburg (81.8% and 73.7%). but electronic interchange and online databases are used to a greater extent by enterprises in Nordwestmecklenburg. The enterprises in Waldshut (72.7%) are also more advanced with regard to the creation of websites than the enterprises in Nordwestmecklenburg (59.6%).⁹⁹

The two clusters show the following distinctions:

- dynamic enterprises introduced changes in their production business processes to a greater extent. The differences between the clusters in this respect are more distinct in Nordwestmecklenburg than in Waldshut;
- dynamic enterprises also introduced innovative processes to a greater extent than defensively acting enterprises;
- dynamic entrepreneurs use modern ICT more and they are consequently more used to integrating modern ICT applications into their business processes and development;
- dynamic enterprises attach a greater importance to the further development of the ICT as a catalyst for positive economic trends;
- despite the fact that defensive enterprises use ICT to a lesser extent they consider that a greater use of ICT could have a positive impact on their enterprises.

⁹⁹ The ZEW (2003) reports in a recent survey of 93.5% of all German firms having Internet access. 75.4% operate their own website and 29.5% use EDI.

The nature of the entrepreneurs Of the entrepreneurs interviewed the percentage figure for female entrepreneurs is only 13% in Waldshut and 20% in Nordwestmecklenburg. The majority of the entrepreneurs have at least a technical education or a university degree. The relationship of the entrepreneurs to the region in which their company is located shows some differences between the two regions. While in Waldshut 94% of the entrepreneurs live – and 58.2% were born – in the region, only 79% of the entrepreneurs in Nordwestmecklenburg live – and 50.5% were born – in the region. The main factors influencing the influx of in-migrants from outside the regions were employment and business opportunities. Another difference is in the degree of relevance of parents acting as role models. In Waldshut 55.6% of the entrepreneurs have parents who are or were running a business compared to a figure of only 39% for Nordwestmecklenburg. The reason given by 47% of the entrepreneurs for locating their business in Waldshut was that they moved into a business that was already there. For 29% there were family reasons or the fact that the chosen town was their hometown. The main reasons put forward in Nordwestmecklenburg were that the chosen town was the hometown of the entrepreneur or that there were family reasons (32%) another 21% identified business opportunities that had arisen and 17% moved into a business that was already established.

- In Waldshut, there are no significant differences between the two clusters regarding the personal characteristics, such as the gender, age and education of the entrepreneurs.
- In Nordwestmecklenburg, the dynamic entrepreneurs had better educational qualifications and had benefited to a greater extent from parents who functioned as role models for their entrepreneurial careers.

Concluding remarks

Rurality

According to the classification of rural areas introduced in section 0, both regions can be classified in category 3: rural areas without serious development problems and with relatively good production conditions for farming and potential for tourism and recreation. However there are certain specific characteristics in both regions which determine a relative proximity to other BBR-Categories: the southern part of Waldshut can be classified as BBR-Category 2 since it shows dynamic economic development and manages to take advantage of the proximity to Swiss agglomerations. Nordwestmecklenburg on the other hand shows elements of BBR-Category 4 due to its industrial structure, which is dominated by low value adding sectors, and its poor endowment with R&D intensive sectors. The following analysis with regard to possible business support policies for Waldshut and Nordwestmecklenburg may be usefully predicated for BBR-Category 3 types.

The relevance of the agriculture and forestry sector declined in both regions over the last decades with regard to employment as well as gross added value.

However, the landscape in both regions is still mainly dominated and defined by agriculture and forestry.

For many of the enterprises investigated the rural location seems to have caused no appreciable problems. They are locally embedded, have local markets, recruit their employees from within the administrative district and they use mostly local inputs. But there are enterprises that do consider their rural location to be a barrier to their development. In Waldshut 46.9% of the enterprises analysed identified their rural location as an obstacle to product innovation due to the poor business environment, the smallness of the local markets, and the poor technical infrastructure. For 36% of the enterprises the rural location constituted a barrier to the development of new markets and 22.9% saw it as a barrier to the improvement of the firm's technological level. In Nordwestmecklenburg 25% of the enterprises identified the rural location as a dis-incentive to product innovation because of the poor business environment and the small local markets. For 31.3% of the enterprises the rural location was considered to be a barrier to the development of new markets and 16.5% viewed it as a hindrance to the improvement of their firm's level of technology. ICT is considered by more than half of the enterprises in both regions to be very helpful in overcoming some of the constraints of the rural location. In this context though, one has to consider that there might be some differences in the individual enterprises' awareness with regard to the impact of their rural location. Especially dynamic enterprises realised that their rural environment was a barrier when they were better informed about the conditions and the potentialities in other regions. That many defensively-acting enterprises were less aware of the potential restrictions caused by their rural location was perhaps due to a lack of awareness of the possibilities of comparison or their lower orientation towards other regional markets.

Entrepreneurship

Within the two regions, two types of dynamic and defensively acting entrepreneurs were identified. Moreover sub-groups within the resident population, which showed a more positive attitude towards entrepreneurship, could also be identified. Those different types of entrepreneurs and the respective sub-groups within the population can be used as target groups for specific and adapted political support measures.

The dynamic enterprises maintain vital co-operational networks. In the process of developing innovative products and services they look for relationships with other entrepreneurs or organisations. They are integrated in far-reaching national and international networks in order to get information and advice about product and services innovations, relevant markets as well as production processes. A business support policy should therefore make use of the manifested willingness to co-operate with policy measures such as information about the legal aspects of co-operation and the implementation of information market places in order to promote both demand and supply for co-operational activity.

Most of the dynamic enterprises in Waldshut showed an international orientation, from which it may be concluded that some international integration appears to be vital for further business success. However, many of the enterprises

highlighted a lack of financial resources as an impediment to the development of new markets. Consequently, any policy system adopted should facilitate the entrepreneurs' willingness to develop new markets through financial support and advice about useful contacts. Since the enterprises in Nordwestmecklenburg are rarely represented in international markets, one of the possible policy strategies for the future would be to foster the initiation of international contacts.

A starting point for the support of defensively-acting enterprises would be to examine the success factors of the dynamic enterprises in order to promote and foster best practice. Since the defensively-acting enterprises are less integrated into networks than the dynamic enterprises, any projected support policy system should first raise awareness of the necessity of co-operation with other enterprises as well as with business support organisations.

Many of the defensively-acting enterprises failed to identify any obstacles to innovation and at the same time they were not innovative in any way. Some members of this group of enterprises identified the smallness of their local markets as the most significant dis-incentive to producing any innovations. So, an apposite policy in these circumstances would be to provide the entrepreneurs with the necessary funds and expertise to both analyse their markets and the possibilities for market extension. And, if it is not possible to penetrate new geographical markets, the enterprises could at least be enabled to verify whether consolidation of their market position with new marketing instruments or a functional market extension is possible. Moreover, the interregional and international co-operative contacts with enterprises acting on the same markets, on preliminary and downstream markets could be a successful method for surmounting the barriers created by the rural location. In addition, the defensively-acting enterprises in Nordwestmecklenburg identified poor business environments as important barriers to innovation. This state of affairs should be sufficient to provide a mandate for the local administrative authorities to improve the information transfer from the information carriers to the entrepreneurs who need the information.

Indigenous people within the population in Waldshut with parents who are already involved in entrepreneurship showed a high propensity for, as well as a positive attitude towards, entrepreneurship. The spirit of entrepreneurship seems to be influenced mainly by positive examples within the family. The relevance of parents as role models in Nordwestmecklenburg is not as relevant as it is in Waldshut, but those people showed a percentage above the average in response to several questions regarding their propensity for, as well as the positive attitude towards, entrepreneurship. There is also a clear potential for entrepreneurship among younger people in the region. The people aged between 18 and 49 showed an entrepreneurial spirit and a positive business attitude that was above average when responding to questions on this point.

In order to facilitate and promote entrepreneurship, these results can be seen as a compelling incentive for the regional authorities to encourage the idea of social networking and the diffusion of entrepreneurial thinking – especially among young people. In Waldshut, the regional authorities could consider giving support to the children of entrepreneurs living in the region. In Nordwestmecklenburg, the dynamically-minded in-migrants to the region form a very important pool for

potential entrepreneurship and so might also be usefully targeted by a support policies system.

Since the number of entrepreneurs in Germany is already quite low, it will clearly not be sufficient to focus on that group of people who already have entrepreneurial role models. It is equally important to promote entrepreneurship within the sub-groups that do not have role models who are already involved in entrepreneurship.

Policy

In the following we will outline a number of support measures that we believe could be vital elements of a strategy for *a robust and holistic business support and development system* within the regions we have investigated and for BBR-category 3 types or rural areas. The attribute of robustness which we contrast with a concept of 'per se rules' or a case-led concept should clearly express the strategic intention of the concept. A support concept dominated by 'per se rules' would not take into sufficient consideration the specific characteristics of different regions. On the other hand, a support concept which follows the strategy of concentrating on individual cases runs the risk being inapplicable as 'good practice' in other regions. Our suggested approach of a robust and holistic business support policy tries to combine the strengths of both extreme approaches: it could be implemented on the basis of observable characteristics and it is appropriately robust regarding variations in the details of individual regions and individual target groups.

Our analyses of the entrepreneurship survey, the population survey and the key informant interviews indicate that key elements of such business support policies for dynamic as well as defensively-acting enterprises could be the following:

- *Fostering the endogenous potential of the region*: this includes the implementation and fostering of co-operation between businesses as well as co-operation between businesses and administrative units or public organisations. The implementation of a regional-specific infrastructure should also be a crucial element. A methodical system of regional marketing, which promotes the individual comparative advantages of the regions would also seem to be a promising instrument with which to bundle several forces in order to develop a stringent concept acting to release the endogenous potential within the regions.
- *Education*: it would be important to introduce measures to foster entrepreneurial thinking within schools. Examples of such practice might be project workshops or voluntary working groups that deal with entrepreneurial issues in order to enable the students consider becoming entrepreneurs as an alternative to being employed by a company. Where vocational training and advanced training are concerned, measures might be taken that develop and improve the specialised knowledge base related to the commercial, financial and legal aspects of entrepreneurship.
- *Organisation of business support*: In both regions there are a large number of support programmes from different sources. The most difficult problem for many enterprises however, is to find the appropriate programme for their own needs and to get to know the particular organisation in charge of the

programme. Since the process of finding the appropriate programme and organisation is time consuming, many enterprises are unable or unwilling to undertake the necessary expenditure of effort. It also seems that access to support programmes is easier for larger SMEs to obtain than for small enterprises. This is due to the fact that in many small enterprises the business owner is not used to search for support programmes or even has time to apply for such programmes. Larger SMEs, however, usually have qualified and experienced managers and staff who are able to research and apply for support programmes. The consequence of this is that enterprises that are most in need of support often do not receive it, while enterprises which may be in less need have the time and staff available to access development money and other support available. It would seem essential therefore to create a well-publicised central position, a focal institution or Internet site, able to help all enterprises to find the appropriate programme or institution (functioning as a kind of one stop shopping point for support programmes).

- *Business support for business start-ups*: this would include the whole spread of measures that support the start-up processes for businesses either through financial support or through information and advice. In this context it would be vital to create a dedicated and coherent system of information transfer. The potential entrepreneur should be able to get to know and form a creative relationship with their contact person – following the one stop shopping for support programmes strategy.
- *Business support for small and medium-sized enterprises*: business support for existing businesses should include measures of financial help as well as information and advice. However, the support menu could be broadened to embrace topics such as the new rating guidelines of the Basel II Treaty or issues dealing with such problems as finding successors for retiring entrepreneurs. Again, there should be one central information co-ordinating pivot known and trusted by all regional enterprises to coordinate the necessary support.
- *Innovation and technology transfer*: it would seem imperative that there should be a closing of the information gap between the producers of innovative knowledge (e.g. universities, academies) and the potential users of this knowledge such as enterprises that are willing and able to produce innovations and have the appropriate 'innovative capacity'. Possible instruments for such a reduction could be regular innovation based newsletters detailing new instances of co-operation and available support programmes or round table discussions and conferences with entrepreneurs and researchers about specific topics. There would seem to be a clear cut case for an institution that would function as a facilitative point of contact between all enterprises in order to develop and strengthen the intensity and the quantity of co-operational networks.
- *Business knowledge transfer*: transfer of business management knowledge from universities to SMEs can also be advocated as a promising support measure. Entrepreneurs without a university degree or entrepreneurs with a technical university degree often lack elementary business management knowledge. In order to help such enterprises business and economic students could possibly develop solutions for specific problems within the framework of a practice

oriented diploma thesis. Since many entrepreneurs often feel too inhibited to approach universities for help or are unaware of the possibility of getting support from universities measures that publicise the availability of such information would be necessary as a first step. The establishment of a central transfer agency that functions as a facilitator for regional demand and the (inter-)regional supply of business management intelligence could be seen as a second step in introducing a regional knowledge transfer system.

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Key Informant Interviews:

Waldshut:

- KIW1: Stadtverwaltung Bad Säckingen (City council of Bad Säckingen).
- KIW2: Steinbeis Transfer Zentrum (Steinbeis Transfer Centre).
- KIW4: Landratsamt Waldshut. Amt für Wirtschaftsförderung (Public authority of the administrative district; department business development).
- KIW6: Landratsamt Waldshut. Tourismus Südlicher Schwarzwald TSS (Public authority of the administrative district; department tourism management).
- KIW7: Arbeitskreis Existengründerinitiative (Working party for founders of new businesses).
- KIW8: IHK Hochrhein Bodensee (Chamber of industry and commerce Hochrhein Bodensee).
- KIW9: Kreishandwerkerschaft Waldshut (Local Council of Skilled Crafts Waldshut).
- KIW10: Regionalverband Hochrhein-Bodensee (Public authority of the region Hochrhein-Bodensee).

KIW12: Bauernverband BLHV (Local farmers` union).

KIW13: Gewerbe-Akademie der Handwerkskammer Konstanz (College of the chamber of crafts and trade).

Nordwestmecklenburg:

KIN1: UniRatio Unternehmensberatung (UniRatio consulting).

KIN3: Wirtschaftsförderungsgesellschaft mbH (Business Development Ltd).

KIN4: Landratsamt Nordwestmecklenburg (Public authority of the administrative district).

KIN5: Stadt Grevesmühlen. Wirtschaftsförderung (City Grevesmühlen; department business development).

KIN7: Unternehmerverband Norddeutschland (Association of entrepreneurs in Northern Germany).

KIN8: Industrie und Handelskammer Schwerin (Chamber of industry and commerce Schwerin).

KIN9: Fachhochschule Wismar. Fachbereich Wirtschaft (University of applied sciences Wismar; department of economics)..

KIN10: Bürgerschaftsbank Mecklenburg-Vorpommern. Mittelständische Beteiligungsgesellschaft Mecklenburg-Vorpommern (Guarantee bank Mecklenburg-Vorpommern. venture capital company Mecklenburg-Vorpommern).

KIN11: Kreishandwerkerschaft Grevesmühlen (Local Council of Skilled Crafts Grevesmühlen).

KIN13: Wirtschaftsförderungsverein Gadebusch (Registered association for business development Gadebusch).

Chapter 10

Entrepreneurship in Rural Greece: Kilkis and Lesvos

Lois Labrianidis, Sofia Skordili and Thanassis Kalogressis*

Country profile: recent dynamics of Greek rural areas

Weak performance of Greek economy

Greece is one of the relatively developed countries still facing crucial structural deficiencies. To mention just a few: a major component of GDP (more than 40%) comes from unregistered activities, the agricultural sector remains both extensive¹⁰⁰ and weakly structured while manufacturing remains very limited, based on a plethora of small firms involved in traditional industries. High levels of State and EU support have failed to produce convergence with the agricultural systems of the Central and Northern European countries. The structural problems of Greek agriculture – small-scale farming operations, the fragmented and often widely dispersed nature of land holdings in conjunction with a poorly educated and ageing agricultural population – have seriously impeded modernization. As Damianakos argues (1996: 56-57), Greek farmers have preserved their traditional character, since for the great majority farming is not a profession but rather a state of social existence to which they have to submit in the absence of other options. Greek manufacturing is marked by a low ‘structural competitiveness’, (Ioakimoglou & Efsthathopoulos 2001: 4-5). The sector is characterized by a particular *dualism*. On one hand there is a very small minority of firms who are keeping abreast of state-of-the-art technology and continually upgrading their skills, while on the other hand, the great majority, unable to follow this path, compete on the basis of their only comparative ‘advantage’ i.e. using cheap labour and infringing the legislative framework. Competitive pressures have encouraged a regression towards strategies involving reducing production costs by lowering labour costs (what Pyke, 1994 coined as ‘the low road’ to competitiveness). Such strategies generate a demand for a low wage labour force, preferably unprotected, a demand, which can be satisfied

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¹⁰⁰ According to recent official data crop and livestock production contribute 13% to GDP and 19.3% to total employment among the active population, while the respective figures for the EU as a whole are 2.4% and 5.3% (Ministry of Agriculture, 2000; Damianos *et al.* 1998:4).

from two sources: firstly, cheap and flexible immigrant labour; and secondly, seeking low cost labour abroad principally in the neighbouring Balkans.¹⁰¹

Moreover, while many firms base their operations on the availability of state support, innovative sectors are under-represented. The dearth of developed networks of company support schemes (i.e. Research Institutes, Public/Local Authorities schemes, Consulting Companies etc.) is obvious, while the services provided by those schemes that do exist (often) leave much to be desired. This is also the case for local government, since municipal administration is hampered by bureaucratic disorganization and a lack of specialized personnel combined with pervasive clientelism between firms and politicians.

Various theoretical approaches have been advanced in the search for explanations of the weak performance of the Greek economy. Some of them focus solely on economic factors. Among others (for a detailed review see Lyberaki, 2000) the 'underdevelopment thesis' defines the low starting point of the Greek economy as the main factor leading to a constrained development trajectory (Fotopoulos, 1985). Others (Alogoskoufis, 1993) see it as a result of 'low productivity' caused by market inefficiencies, inflexible labour markets, distortionary taxes etc. A third approach puts emphasis on weak indigenous technological capability and the poor innovation record of the Greek economy (Giannitsis, 1993). Yet another approach focuses on the effects of the 'Dutch disease'. This supports the view that the availability of funds (migrants' remittances, foreign capital inflows and EU funds) has contributed to an overvalued currency inhibiting productive investment (Spraos, 1997). Some of these approaches may partially explain the apparent difficulty in transforming such funds into growth enhancing investment. However, none of them constitutes a satisfactory overall explanation if one takes into account that all these problems existed in the 1960s and early 1970s when economic performance was impressive. We would argue, along with others (Tsoukalas, 1993; Diamandouros, 2000; Lyberaki, 2000 etc.), that these problems accrue, to a great extent, from a weak civil society.

As Diamandouros (2000) argues, the lack of historical coincidence between the establishment of western parliamentary political institutions and industrialization produced a *deep cultural divide*. The predominant '*older culture*' bears the imprint of Balkan, Ottoman, as well as Orthodox Church, influences and is characterized by introversion: a statist predisposition coupled with levelling egalitarianism, and a preference for paternalistic protectionism along with strong kinship affiliations and suspicion. Its face is set against competition and the market innovation and the large impersonal structures of modern capitalist institutions. On the other hand, the '*younger culture*' is characterized by a secular and outward looking orientation, emphasis on institutions which mediate between the state and society, preference for reform and rationalization along liberal lines, favourable attitudes to market mechanisms and innovation, and less apprehensiveness about the costs of breaking with tradition.

¹⁰¹ Immigration to Greece and Greek FDI to the Balkans although alleviating competitive pressures in the short-term are very likely to reinforce zero-change strategies on the part of firms while militating against the development of 'healthy' companies in the formal economy (Labrianidis 1996, 2000a, 2000b and 2001).

As Lyberaki (2000) argues, both the *longue* historical *duree* and more recent experience have nurtured short-termism, defensive attitudes *vis-à-vis* change and vertical and familial links. They have also dictated undisciplined and mistrustful patterns of economic behaviour inherently hostile to structural reform.

As Tsoukalas (1993: 19) argues, the fundamental role of the modern state in Greece – never thoroughly separated from society like in the West – has resulted in social values much less influenced by market rules. The regulatory differentiation between ‘economic’, ‘political’ and ‘private’ codes of conduct which became fixed in the West – as Tsoukalas (1993: 20-21) argues – was never implemented and systematically consolidated in Greece. Individuals rarely conceive of their duty in terms of the outcome of an abstract and internalized moral code, while responsibility is expressed in non-expropriated social links of personified reciprocity and solidarity. What is rewarded, as Tsoukalas (1993: 24-25) also argues, is not the productive enterprise or collectively rational aspects of Greek society but the unique and post-rational ‘spiritual’ psychic and sensitivities of people. Greeks believe that they are ‘originally Greek’ when they sing, dance, laugh, feel, offer, fall in love or fight but never in terms of their responsibility to the community or in pursuing social rational aims. Calvinistic work ethic, honourable impersonal market behaviour, personal integrity, conformity to common rules of effectiveness and efficiency or concepts of citizenship were never considered genuinely respectable values. Hence, nobody trusts or accepts as real, the expressed word of honour of others unless personified reciprocal bonds can guarantee the credibility of an undertaking. This is highly problematic in the sense that the role of *trust* is crucial in the economy, for trust implies that, within reason, you will not let me down even if it is in your interest on occasion to do so. Trust may be based on informal rules, norms and habits as much as on economic calculation and is most effective, as Humphrey and Schmitz (1996: 7) argue, when it is taken for granted. *Greek entrepreneurs seem to lack trust* and even in some cases to be intrinsically suspicious of others.

The multiplicity of rural space

A precise demarcation of rural areas in Greece is not an easy task. The longstanding axioms defining rural areas as the non-urban space or the space of the agricultural and natural landscape are inadequate to describe the complex reality and have been heavily questioned during the past decade (Saraceno 1994). However, for practical reasons, several typologies have been developed based mainly on population criteria. Whatever the method of assessment, it is certain that *rural land use in Greece is well above the average of other EU countries*. According to OECD and the National Statistical Service of Greece (NSSG) typologies¹⁰² rural areas account for 95.6% and 80% of the country and contain

¹⁰² OECD defines rural areas, at local level (NUTS V), as those where the population is dispersed in sparsely inhabited communities with a population density of less than 150 inhabitants per square kilometre (OECD, 1998). NSSG defines as rural areas the ones where the population is dispersed in communities with a population of less than 2,000, semi-urban those with communities with a population range between 2,000 - 10,000 and urban those with population of more than 10,000.

more than one third and one quarter of the population respectively (Efstratoglou *et al.*, 1998).

Rural areas in Greece are far from homogenous. In fact they are highly diversified areas in terms of their geomorphologic characteristics, economic structure and developmental prospects. The following three typologies suggest the classification of Greek rural areas into relatively homogenized sub-areas:

- the NSSG, using altitude as a criterion, distinguishes between three categories of rural areas, plain, mountainous and semi-mountainous areas; this traditional categorization, although naïve at first glance, has been tested in several research studies and proven adequate. In fact, besides the advantage of available statistical data, altitude is a complex criterion encompassing specific geomorphologic, climatic and, in certain cases, historical and socio-economic variations as well (Beopoulos & Skouras 1999:33);
- Efstratoglou *et al.* (1998), taking into consideration the basic socioeconomic and spatial transformations that have affected rural areas, suggests a six category typology of Greek rural areas: a) mountainous and semi-mountainous areas with unfavourable structures, b) rural areas highly dependent on agricultural production, c) rural areas with intensive tourist activity, d) peri-urban rural areas, e) environmentally sensitive rural areas, f) island rural areas. These categories correspond, more or less, to the five categories of the typology of rural areas found in the document. Europe 2000+ (EC, 1994) ;
- finally, Anthopoulou (2002) reaches similar conclusions. She distinguishes three broad types of areas: 1) incorporated areas, found in plain areas, peri-urban areas and tourist areas, characterized by a diversified economic base, 2) marginal areas, mostly found in mountains, certain islands, areas remote from urban centres and less favoured areas in terms of economic and natural resources, 3) the remaining rural areas of the country falling into an intermediate category.

Policy initiatives on rural development

Until quite recently rural areas were associated with sectoral policies. The main policy instruments were, the CAP and, since the mid 1980s, regional programs financed by Structural Funds (the entire country is eligible under objective 1) in the context of the CSF. The reform of CAP in 1992 and, more importantly, the implementation of Agenda 2000, signalled a shift of policy from agricultural production to rural development.

However, the CAP has already caused major distortions. Firstly, farmers have become accustomed to being subsidized and have forgotten how to produce for the market; Focussing on subsidized quantity rather than marketable quality, they have progressively lost their skills. Secondly, in the case of Greece the guarantee sector of the EAGGF was addressed almost exclusively to intervention practices that took up approximately 94% of total funds between 1981 and 1993, whereas the corresponding Community average was 64% (Damianos *et al.*, 1998:123-24). This has led to an expansion of industrial agriculture and a decline in produce quality. Thirdly, the implementation of CAP has led to the widening of the development

gap between rural areas. Specifically, due to CAP price support schemes there has been an immense increase in cotton and durum wheat production. Plain areas specializing in these heavily subsidized intensive crops have shown spectacular development, while mountainous and less favoured areas (LFAs), comprising the great majority of rural Greece, have been further marginalized.

One of the most influential Community initiatives for Greece, particularly its rural areas, has been the LEADER program (I, II and +), initiated in 1991. A special feature of the Greek programme has been the necessity of addressing the problematic balance between farming and active population. The ineffectiveness of some of the mainstream programmes (especially the rural action plans of the regional programmes) has inevitably created interest in LEADER programmes, transforming them into programmes with mainstream characteristics (in many cases resembling small scale regional programmes). The Greek LEADER II programme has succeeded in mobilizing human and economic resources and organizing, to some degree at least, the economic restructuring of the marginal countryside areas. Perhaps one of the key factors in the success of the LEADER initiative was the establishment of the Local Action Groups (LAGs), which undertook the, relatively autonomous, management of business plans in areas with notably weak social and occupational organization structures.

Regional profiles

The socio-economic profile of the island of Lesvos

The island of Lesvos is located on the outer fringes of the EU, in the North Eastern Aegean, close to the Turkish coastline (8 kilometres – Map 1.4). It is the second largest Greek Island and 10th at the EU level, with a population of roughly 100,000. With per capita GDP amounting to only 49% of the EU average and 83% of the national average (see Table 1.3), the Prefecture¹⁰³ is one of the poorest areas in the EU.

The remoteness of Lesvos, the small size of the local market and the limited range of raw materials available on the island, all pose particular access and developmental problems. The extra transport costs of raw materials and finished products are estimated to contribute as much as 15-30% to the total cost per unit. In addition, the delays and uncertainty of marine transport are additional impediments to the competitiveness of firms in the region.

In the post WWII period, the island of Lesvos experienced a steady population decline. However, quite recently a degree of in-migration flow has become apparent. This may be attributed to: a) soldiers doing military service on the island, b) students at the University of the Aegean, c) repatriation of natives d) economic immigrants e) a limited number of foreign tourists deciding to settle on the island. Currently, due to the out migration flows of the previous decades, the elderly (60 and above) are over-represented, while the young (aged less than 39) amount to no more than 49.6%, compared to 56% at national level. The rate of illiteracy, as well

¹⁰³ The prefecture of Lesvos includes the island of Lesvos and the adjacent islands of Lemnos and Agios Efstratios. Lesvos contributes 90% of the prefectural GDP.

as primary education drop out, is well above the national averages. Only 30.3% of the population is economically active, well below the national average (37.9%), due to the large proportion of the elderly as well as to the small proportion of working women (only 16.5%). In general 'pluriactivity' seems to be widespread in Lesvos, as all over Greece, mainly due to the recent development of tourism, which has created new seasonal employment opportunities for farmers. During the period 1971-2001, bi-directional population movements of rural population towards the capital, Mytilini, as well as, from the inland parts to the coastal zones, were evident (PVA, 2000: 20/76).

Although in decline, agriculture is still the predominant local economic activity to an extent greater than the national average. The cultivation of olive trees dominates local agriculture (covering 79% of the utilized agricultural land –OPE, 2000), accounting for an impressive 20% of the national olive oil production (AENAL, 2000). A significant proportion of olive groves do not belong to farmers but to descendants of farmers now living in Mytilini or Athens. It seems that Lesvos is a test case for the hypothesis that in Greece the most widespread case is that of the occasional or part-time employment of urban professionals in farming, instead of vice versa (Zakopoulou, 1998). The survival of the olive oil sector in Lesvos relies on CAP support and the low wages paid to economic immigrants. Furthermore, since the grants, which nearly double the per kg return to the producer, are calculated on an output per tree basis, they operate as a quantity incentive, undermining the quality of the produce. Other primary sector activities of considerable importance are extensive livestock production, mostly goats and sheep, and fishing.

Lesvos, unlike most islands, where tourism dominates the local economy, presents a more or less balanced economic base. The manufacturing sector contributes 18% to the local GDP. From the late 1970s to the early 1990s the island experienced de-industrialization affecting many traditional industrial sectors like marble, mineral quarries and tanneries. According to ETAL (1999), the great majority of manufacturing is carried out by micro firms with less than 5 employees; less than 4% of firms export, 95% of firms do not employ any university graduates, while 71% have no computer. The main obstacles to the development of manufacturing are: the lack of significant local raw materials, high transport costs, and a shortage of skilled labour, as well as the lack of know-how and information (PVA, 2001). The bulk of manufacturing activity is concentrated in the food and drink sector, which contributes 65% to total manufacturing turnover (University of the Aegean, 2000:108). The production of ouzo, a traditional Greek alcoholic drink made with aniseed, is a fast growing activity. Ouzo is produced by a number of small traditional firms around the town of Plomari and in Mytilini. Recently, two French transnational corporations, Pernod Ricard and Remy Martin, entered the market through the acquisition of two local ouzo distillers (EPOM and Arvanitis). Another activity of some significance is the traditional craft of pottery, flourishing in some mountainous areas, mainly Agiasos.

The State sector, with more than 4,000 employees, is the second largest source of employment on the island after Agriculture. The presence of the University has had various positive effects on the island. Mytilini is the pre-eminent commercial centre of the island where, during the 1990s, a number of major retailers

established outlets, directly or by local franchise. Hence the local population and tourists gained access to a market of branded goods while hundreds of small local shops and SMEs lost their traditional markets. Even though Lesvos is an island of outstanding natural beauty, its tourist development started as late as 1982. The island offers a model of mass tourism, attracting visitors of low to medium income. During 1990s the tourist infrastructure of the island was developed considerably with substantial state support. It consists predominately of small hotels and rented rooms. Recently, a substantial number of agrotourist units have been established under the LEADER programme.

The socio-economic profile of the Kilkis prefecture

The prefecture of Kilkis is located in Northern Greece, close to Thessaloniki and the border with FYROM (Map 1.4). It is one of the poorest prefectures of the country, contributing 0.73% to the national GDP (Eurostat, 2003).¹⁰⁴ The town of Kilkis is by far the most important urban centre in the prefecture, containing a significant part of the population and economic activities. Other important semi urban centres are the towns of Polykastro, Goumenissa and Axioupoli.

The mechanization of agriculture during the 1960s and early 1970s caused a massive wave of emigration to Thessaloniki, as well as to Western Europe (mainly W. Germany and, to a lesser extent, Sweden and Belgium). Given that the vast majority of the emigrants were between 20-40 years old, the impact on the social structure of the area was extremely significant. During the ensuing decades the changes were smoother. Greece's accession to the EU resulted in guaranteed prices for a number of the area's agricultural products and subsidies for farming investment. It also led to the development of the secondary sector and the implementation of legislation governing development in the prefecture, creating new employment and giving rise to immigration flows. The 1980s were characterized by significant population movements within the Prefecture, mainly to the capital, but also from smaller to larger settlements. In the 1990s, the population of the area increased by almost 9%, primarily due to the return of Greeks from the Soviet Union and other ex-communist countries.

From 1961 to 1991, employment in the primary sector fell dramatically (from 83.3% in 1961 to 33.4% in 1991), while both the secondary and tertiary sectors expanded (NSSG, 1991). The primary sector has been reduced to no more than a source of supplementary income for many workers in other sectors of the economy, reinforcing the phenomenon of multiple employment, especially in those areas where farming and livestock-rearing require relatively few days of work, as in the non irrigated wheat-growing parts of the prefecture. The ratio of crops to livestock is 55 : 45 – the national level is 70 : 30, underlining the importance of livestock-breeding (Kakoulides, 2000). The predominance of durum wheat is due to very generous levels of subsidy from the CAP. Vines are also grown, mainly in the semi-mountainous areas of Paionia, which has been classified as an *Area of Designated Origin*. The last 30 years have witnessed a spectacular increase in agricultural production with farms decreasing in number and increasing in size.

¹⁰⁴ Although, in per capita terms, the region is very close to the national average (93.7%).

Since the cultivated land is not fertile it is widely abandoned hence, practising farmers rent and cultivate part of it (36% of the cultivated land is rented while at the national level the respective share is only 25%).

Cattle farming, the major livestock activity in the Prefecture has been modernized in the last two decades, particularly through the introduction of improved and foreign breeds and is almost exclusively geared towards milk-production in industrialized cattle breeding units. The apparent upward trend until the beginning of the 1990s was halted by the enforcement of milk production quotas under the revised CAP. Consequently, during 1993–1998, the number of cattle-breeding farms declined by approximately 60% within the prefecture, while livestock numbers remained unchanged, pointing to the gradual transformation of the remaining farms into large businesses. Sheep and goat breeding are still performed in their traditional form in the mountainous parts of the region, particularly in the area of Paionia.

In the secondary sector, the main source of employment is the textile industry (43.8%), followed by the construction materials and timber-processing industry (14.2%), metal processing (12.4%), foodstuffs (10.8%) and electrical goods (8.1%). The majority of the labour force (53.4%) is employed as unskilled workers. 39.4% of middle-ranking, senior administrative and scientific personnel are recruited from Thessaloniki (Employment Observatory, 1997). The industrialization of the prefecture began in the mid-1970s, based primarily on the diffusion of productive activity from the area of Thessaloniki stimulated by the policy of incentives initiated in 1971. Since then, most of the industrialization of the prefecture has been exogenous i.e. it cannot be attributed to the entrepreneurial spirit of the population, but rather to the establishment of foreign businesses and large units in the area. This led to a change in the size of firms; in 1969 only 16.4% had more than 10 employees, while in 1984 this reached 72.2% (Employment Observatory, 1997). These business units are mainly located in the institutionalized and organized Industrial Zone of Stavrochori, 5km north of the town of Kilkis. There are also unofficial industrial areas in N. Santa, Polykastro, Axioupoli and Goumenissa. Various other small manufacturing units related both to the primary sector (wineries, cheese-processing factories, wood-processing units) and to sub-contracting of clothing and embroideries are scattered all over the prefecture.

Finally, the tertiary sector accounts for 33.9% of the total active population. A large number of small and medium-sized shops, mostly located in Kilkis and other regional centres, cater for the daily and social needs of the local population. At the same time, many tiny shops (groceries, cafes, taverns) serve the various rural settlements. During the last five years, large commercial units have opened up in the town of Kilkis, primarily supermarkets, as well as franchises of other service-providing companies. Trade (wholesale and retail), however, largely depends on the nearby city of Thessaloniki, whose proximity inhibits its development within the prefecture. The level of public services is quite high in the towns of Kilkis, Polykastro, Axioupoli and Goumenissa, but it is very poor in the rest of the Prefecture. A particularity of this prefecture is that *the vast majority of people employed in public services (and the tertiary sector in general) commute daily from the city of Thessaloniki*, most often in buses especially hired for this purpose. This largely invalidates the developmental aspect of the existence of public services in the region (Labrianidis, 1987).

Population survey¹⁰⁵*Profile of business owners*

In terms of their demographic characteristics, business owners in both CSAs are not an entirely distinct group compared to the total population. In fact, the only features that clearly differentiate the two groups at most levels of statistical significance are gender and age. More specifically, in both CSAs, most of the business owners were men (60.8% in Kilikis and 72.6% in Lesvos), while almost 70% of business owners in both regions belonged to two age groups (35-49 and 50-64 years of age – Table 10.1) Surprisingly, the younger age group (18-34) appears to be quite active in business ownership, while the older age group (above 65) was more or less inactive.

Table 10.1 Main demographic characteristics of business people and total population

		Business people			Total population		
		Lesvos	Kilikis	Total	Lesvos	Kilikis	Total
Gender	Male	72.6	60.8	66.8	50.0	50.1	50.0
	Female	27.4	39.2	33.2	50.0	49.9	50.0
	Total	100.0	100.0	100.0	100.0	100.0	100.0
Age groups	18-34 years	26.2	28.0	27.1	25.4	28.6	27.0
	35-49 years	34.3	41.1	37.6	21.5	21.0	21.3
	50-64 years	35.4	26.8	31.2	25.7	33.3	29.5
	>=65 years	4.1	4.0	4.0	27.4	17.1	22.2
	Total	100.0	100.0	100.0	100.0	100.0	100.0
In comers	Non-immigrant	85.4	74.7	80.1	83.9	70.3	77.1
	Immigrant	14.6	25.3	19.9	16.1	29.7	22.9
	Total	100.0	100.0	100.0	100.0	100.0	100.0
Place of birth	Born in the area	81.2	73.1	77.2	81.1	66.9	74.0
	Born elsewhere	18.8	26.9	22.8	18.9	33.1	26.0
	Total	100.0	100.0	100.0	100.0	100.0	100.0
Highest educational qualification	No qualification	2.6	6.5	4.5	16.8	14.2	15.5
	Primary school	44.8	51.7	48.1	39.2	51.8	45.5
	Secondary qualification	28.8	15.4	22.3	25.0	16.4	20.7
	Technical qualification	10.9	11.7	11.3	7.0	8.6	7.8
	University/HE degree	12.1	14.7	13.4	11.4	9.0	10.2
	Postgraduate degree	0.7		0.4	0.7		0.3
	Total	100.0	100.0	100.0	100.0	100.0	100.0

Quite surprisingly, the level of education of business people was only slightly higher than that of the total population. The overall low level of education is quite vividly depicted in the very high percentages of business people who are only primary school graduates (44.8% in Lesvos and 51.8% in Kilikis). The situation is

¹⁰⁵ The Survey was conducted during the spring of 2001. Three post-graduate students Maria Emmanouilidou, Yannis Papaioannou and Harita Vlachou of the School of Agronomics in University of Thessaloniki made up the team for Kilikis. Three undergraduate students Io Hatzivariv, Vivian Papasxou and Voutsas Tzani of the Dept of Geography, University of the Aegean, formed the Lesvos team. The time absorbing and demanding tasks of questionnaire coding and entry into the Population Survey database, were conducted by Mr. Lakis Sivas, post-graduate student in the Dept of Economic Sciences at the University of Macedonia.

even worse considering their meagre record of work experience and the virtual absence of any formal education or training in management.

The impact of in-migrants appears to be quite low. In contrast to Northern and Western European areas, where in-migrants were found to be a valuable source of business activity, in the Greek CSAs, they are becoming less involved in business ownership than the indigenous population. This difference can be attributed to the types of newcomers, mostly economic immigrants and repatriated natives, as well as the micro scale and local character of the enterprises.

Rural residents' perceptions of business activity

The legitimacy afforded to business activity by local residents was examined through two indicators. The first is the potential stock of latent entrepreneurship in the two CSAs, which was assessed by the incidence of future intent to start a business, past attempts in business involvement, as well as the effect of parental business activity. In both CSAs, around 80% of the total number of respondents expressed no wish to start a business at some time in the future. Only a small fraction of the remaining (8.6% in Lesvos and 6.3% in Kilikis) expressed their wish to start a business with any certainty. Therefore, the propensity of the local population towards business activity is low but not insignificant. A minority of the total population (only 3.9% in Lesvos and 13.5% in Kilikis) had already attempted to start a business (either alone or in cooperation with others). An interesting point is that only 31.5% of those who failed in the past in Kilikis eventually became business owners, while the respective figure in Lesvos was 63%, implying on the one hand that the less demanding business environment in Lesvos is more 'forgiving', while on the other, stressing the absence of alternative employment opportunities. Involvement of parents in business activity seems to be a decisive factor in initiating business activity. In both CSAs, the rate of parental involvement in business is substantially higher among business people than the population as a whole. Nevertheless we should note the large proportion of first generation business people. 69.1% in Lesvos and 74.1% in Kilikis.

The second indicator is a commentary on the level of the legitimacy afforded to business people by local residents. Less than 10% of the total population in both CSAs had provided others with finance to start a business. Providers of finance were usually parents or other close relatives of the business owners. The incidence of deals involving people outside the family was extremely rare in both CSAs.

An additional indicator of some significance is the perception of business people about business activity, with significant minorities (10.4% in Lesvos and 15.5% in Kilikis), not hesitating to state that they would rather be salaried employees than business owners.

Regional labour markets

A significant characteristic of regional labour markets in both CSAs is the high percentage of idle unemployment (i.e. those in education and under the general category 'housewives'), mostly due to the restricted participation of women in the labour market.

Overall, approximately one third of the active population in both CSAs was classified as business people. Hence, although the boundaries between self-employment and business ownership are often rather vague, *business ownership appears to be a significant source of employment.*

The sectoral breakdown of employment data of non-business owners reveals the great importance of the Public sector as an employer in both areas, particularly in Lesvos, while the co-operative and voluntary sectors are practically nonexistent. In Lesvos, where Agriculture and Services are by far the main employers in the area, the low contribution of manufacturing testifies to the severity of de-industrialization currently underway in the island. On the other hand, the sectoral distribution of employment in Kilkis is more balanced.

The pattern of labour mobility is markedly different between the two CSAs. The degree of labour mobility is extremely low in Lesvos: 60% of the active population are still employed in their first job. This is indicative of the poor productive base of the island and the lack of alternative job opportunities. This is not the case in Kilkis where a significant proportion of the active population has had a number of jobs in the past while it must be noted that a significant minority of 13.5% has shown remarkable labour mobility, changing jobs three (6.9%) or more than three (6.6%) times in the past.

Attractiveness of the area

The degree of attachment of the rural population to their exact place of origin is generally extremely high, since 79.4% of all respondents in Lesvos and 65% in Kilkis continue to live in their place of birth. Nevertheless a significant minority (20.6% in Lesvos and 35% in Kilkis) was born elsewhere, mostly coming to the area during the last decade. These figures, contrary to the long standing view that rural areas of the country are exclusively sources of out-migration flows – ‘rural exodus’ – , indicate that rural areas are also significant destinations of in-migration. The latter can be broken down into intra and inter-regional flows.

Regarding inter-regional mobility (accounting for 9% of the total sample in Lesvos and 18.4% in Kilkis), it consists mostly of economic immigrants from the Balkans and ex Communist countries (this is the case all over Greece – Labrianidis & Lyberaki, 2001), as well as repatriated natives. Domestic in-migrants, mostly repatriated natives, usually originate from Athens in the case of Lesvos and Thessaloniki in the case of Kilkis. *Therefore the attraction of both CSAs to newcomers – potential business people remains extremely limited.*

There has been a significant increase in the attraction of Lesvos as a destination during the last decade. The region of Kilkis has also shown a relative increase in in-migration flow, albeit at a more moderate rate. A closer look at last decade arrivals reveals an intra-regional mobility pattern, which is slightly different from the aggregate one. Intra-regional movement in Lesvos is slightly above the respective figure for Kilkis (3.5% and 3% respectively). A possible explanation of this reversal may be found in the relatively recent establishment of dynamic remote coastal settlements on Lesvos. The possibility

of employment in tourist activities in such areas marks the beginning of in-migration flows from semi-mountainous rural areas to adjacent coastal tourist settlements. Hence, besides the traditional flow from rural areas to the capital city of Mytilini, a second wave of intra-regional movements has emerged. In Kilkis, the distinct out-migration flow of rural population from remote rural areas to semi-urban settlements of the prefecture seems to have been maintained. However a detailed study of the places of departure and arrival of in-migrants is needed in order to arrive at more reliable conclusions.

The businesses

Businesses owned by the survey interviewees were *mostly in the tertiary sector*. In both CSAs, retail shops predominate, whereas in Lesvos, due to tourist activity, the presence of bars and restaurants is also substantial. In terms of size, *in both CSAs micro firms prevail*. In fact, no firm in Lesvos employed more than 10 people. While, in Kilkis only one such firm was found. This may explain why *a very high percentage, slightly less than 60% of the surveyed firms in Lesvos, created no additional salaried employment*. Furthermore, unpaid labour is very widespread among the micro firms.

11.7% of business owners in Lesvos, and almost double that (20.7%) in Kilkis, consider their business innovative, at least in the regional context.

The great majority of business people are owners. The proportion of managers among the total number of business people is extremely low (4%), with no notable variations between the two areas. This can be attributed to the small size of the regional enterprises. Finally, the aggregate start-up rate is 11.7%. Regarding start-ups, notable variations are observable between the two regions. The performance of Kilkis, 15%, is almost double the corresponding figure for Lesvos, 8.5%. This is an additional indicator confirming the comparatively better performance of the regional economy of Kilkis than Lesvos. It is worth noting that non-business people initiate the majority of new ventures.

Multi-business activity is not rare. A small number of business owners are currently in the process of starting up a new business while an even smaller number are at the same time, business owner, manager, and involved in the start up of a new business. Moreover, *business people are pluriactive in the sense that in Kilkis 11.1% of business people are at the same time salaried employees in other business*. Such behaviour is almost nonexistent in Lesvos. However, in both CSAs, as all over rural Greece, business people have additional sources of income, as owners of agricultural land (e.g. oil groves in Lesvos).

In most cases *businesses are under sole ownership*. In the few instances where the ownership is shared, it is with a close family member of the main owner (i.e. main owner's spouse, parent, offspring, or other relative). The sharing of ownership with a friend or business associate is extremely rare in both areas.

Enterprise survey¹⁰⁶*The enterprise*

The subsectoral mix of the sample reflects the productive specialization of each region. Although agriculture is very important in Lesvos, the low participation of primary sector firms in the enterprise survey sample implies that very few firms have managed to overcome the barriers to modernization and the initiation of new ventures. The low percentage of tertiary firms in the Kilkis sample should be ascribed, apart from the undeveloped nature of the tourist sector, to the relative closeness of the prefecture to the metropolitan centre of Thessaloniki (Table 10.2).

Table 10.2 Sectoral mix of the sample (%)

	Lesvos	Kilkis	Total
Primary sector	4.7	23.2	13.6
Manufacturing	43.9	65.7	54.4
Trade (wholesale and retail)	20.6	5.1	13.1
Hotels and restaurants	12.1	2.0	7.3
Transport	3.7	0.0	1.9
Other services	2.8	2.0	2.4
Business services	12.1	2.0	7.3
Total	100.0	100.0	100.0
	<i>n=107</i>	<i>n=99</i>	<i>n=206</i>

In terms of size, in both areas the firms of the sample are large compared to national as well as local figures.

There are a number of common features among the firms in the two regions, such as the relatively high incidence of firms with some unpaid family labour and a relatively high proportion of firms whose employment varies seasonally.

However, the differences are significantly greater than the similarities. In general, firms from Kilkis are much more outward oriented than their counterparts in Lesvos in terms of ownership structure and origin of the labour force. Another interesting aspect of the sources of labour is the overwhelming importance of the capital town of Mytilini as a source of labour in the case of Lesvos, unlike Kilkis, which has a much more balanced settlement network. Another aspect of the work force is the high proportion of part-time employment in Lesvos, almost quadruple that of the firms in Kilkis. The different characteristics of the firms in the two CSAs are quite clearly visible in Figure 10.1, which is the product of a Multiple Correspondence Analysis (MCA).¹⁰⁷

¹⁰⁶ The Survey was conducted during the first half of 2001. Two post-graduate students Ioannidis Alexis in the Dept of Economic Sciences at the University of Macedonia and Harita Vlachou of the School of Agronomics in University of Thessaloniki made up the team for Kilkis. Two researchers Kristi Konnaris, political scientist, and George Papanagiotou, formed the Lesvos team. Lakis Sivas, post-graduate student in the Dept of Economic Sciences at the University of Macedonia, conducted the time absorbing and demanding tasks of questionnaire coding and data entry into the Entrepreneurs Survey database.

¹⁰⁷ MCA allows the exploration of relationships of three or more categorical variables by decomposing a contingency table similarly to the way principal components analysis decomposes multivariate continuous data.

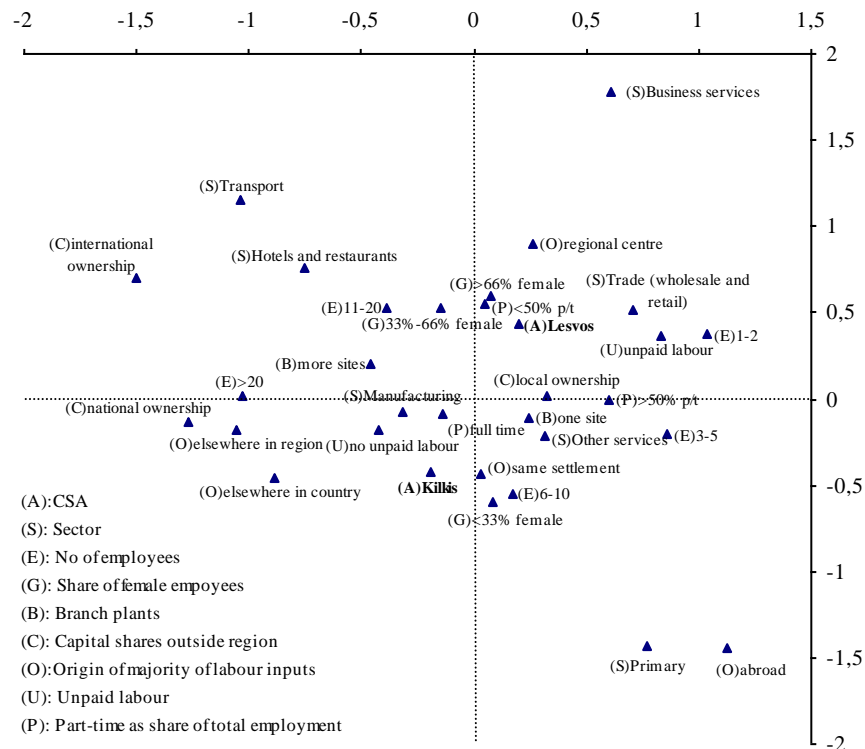


Figure 10.1 Enterprise characteristics by CSA¹⁰⁸

A very interesting feature of the firms surveyed is the considerable support provided. More than half of all firms surveyed received some kind of assistance. However, what is concealed is the different nature of support provided in the two regions. For the majority of firms in Lesvos the main sources of support were a number of programs sponsored by the Greek Manpower Employment Organisation and to a lesser extent the INTERREG and LEADER programs. The situation in Kilkis was completely different, since most of the support has been channelled via regional incentive legislation, generally considered to be significantly more beneficial than the programs in Lesvos. Even though both regions are in the same 'incentive zone', the very demanding prerequisites of the development legislation

¹⁰⁸ In order to properly interpret the figure, the following three simple rules must be kept in mind: 1. The origin is what we would call the 'average profile'. In other words, the responses near the origin reflect the most common characteristics. On the other hand, distant points imply the existence of uncommon profiles. 2. If two responses of the same variable have a similar profile (e.g. if firms in the primary sector and trading firms are of the same size and of similar importance to the whole sample) they will be at similar or nearby locations. 3. if two responses of different variables are at nearby locations, they usually represent the same respondents.

(especially regarding the size of the applicant firms and the proposed investment) practically exclude the small firms predominant in Lesvos.

Starting up in a rural setting

Some 15% of all firms in Lesvos and 9.1% in Kilkis are start-ups, i.e. less than two years old. The different performances should be ascribed to differences in capacity between the two production systems. Nonetheless, there are significantly more similarities between start-ups in the two CSAs than between their established counterparts. The only feature clearly distinguishing the start-up firms is sector (with manufacturing being much more significant in Kilkis), while in both CSAs start-ups are relatively large firms (with on average 8 employees in Lesvos and 11 in Kilkis).

The more demanding environment in Kilkis (in terms of capital, bureaucracy and know-how) is further reflected in the length of the preparation stage, the time between the first idea and the realization of the project, which was considerably shorter in Lesvos, compared to Kilkis. It seems that the development of a business idea is very much a social process in Greece. Potential entrepreneurs exchange ideas and views with members of their family, friends and informal network links more than they address their plans and ideas to formal organizations.

In both regions, the motives for starting the business are usually connected with the accomplishment of the individual ambitions and plans of the entrepreneur, while entrepreneurship, as a response to threatened or actual unemployment, seems to be very limited (4%).

Regarding the problems and benefits encountered during the start-up period and how these depend on the characteristics of the rural environment, it appears that entrepreneurs from Lesvos have a much clearer conceptualization of the situation, than their Kilkis counterparts. Restricted access to information and finance were found to be the main problems in Lesvos, stemming from the remoteness of the area, poor business environment and low level of available business support services. In Kilkis, the lack of labour/skills was found to be the most significant problem, which nevertheless, was not attributed to any aspect of rurality. The situation was quite similar regarding the benefits afforded to entrepreneurs by their rural location. In Lesvos, the availability of Regional Incentives and the quality of the natural environment are ranked first among the various benefits. In most cases these benefits were associated with the characteristics of the rural environment, mainly through the availability of local know-how and a protected market due to the remote location. On the other hand, in Kilkis, there was no consensus as to the benefits of the rural location. Furthermore, in the cases (relatively fewer than in Lesvos) where the benefits identified were attributed to the rural environment, respondents were unable to further specify the aspects involved.

As in the case of their established counterparts, start-ups depended heavily on local sources of information and/or advice about the market (i.e. contacts from previous employment, friends and local market research). Other national sources were used in fewer instances, while a few firms from Kilkis (probably affiliated to TNCs) had access to international sources of information.

Product and service innovation

Since innovation was one of the selection criteria for the survey, most of the firms in both regions (92.5% in Lesvos and 85.9% in Kilikis) declared that they had some product or service that was innovative in the regional context. In general terms there were three main groups of innovative products. The first consisted of products with significant local content, utilizing the rural image as one of the most significant ingredients. The second group, which was by far the most sizeable, consisted of a diversified range of products and services new at the local level. The last, and smaller, group included those products and services that were new or innovative on a national and often international level.

Firms producing truly innovative products are significantly larger than their counterparts. This is an indication of the absence of an innovative 'milieu' in which the interactions between firms could substitute for the economies of scale required for the innovation process.

The highly contextual character of innovation is evident in the fact that for 8.5% of firms in Lesvos the development period of the innovative product/service was longer than two years. The respective figure for Kilikis was 44.3%. The idea about the innovation was affected by agents other than the entrepreneur in more than half of the cases of firms producing innovative products or services. As expected, the input from family and friends turned out to be very significant in both areas, particularly in Lesvos. In Kilikis, cooperation with employees for the development of innovation was remarkably high. 40.9%. External sources of information were much more important in Lesvos than Kilikis, where the – comparatively much larger – firms appear to have internalized many of these sources of information.

When it came to the financing of the innovation, once again the firms from Kilikis appeared to be more capable of financing their own ventures. It is evident that the role of the state is of great importance in the development of innovative capacity in the Greek regions, since most of the financing (at least regarding the number of projects) came through public sector grants.

With regards to the future plans of the firms surveyed, it is clear that those who are not interested in developing new products constitute a minority (less than 15% in both regions).

Only 1.9% of firms in Lesvos faced no barriers to product innovation, as opposed to 17% of firms in Kilikis. Lack of finance turned out to be by far the most significant barrier, accounting for about a quarter of responses in both regions. The inability to find skilled staff was the second most significant barrier, however, it turned out to be much more so in Lesvos (17%) than in Kilikis.

Markets

The significance of accessibility (translated into differential transport costs) is very evident in the market placement of the firms in the two CSAs, affecting both the origin of inputs and the destination of outputs. Regarding the former, more than half of the firms in Kilikis use no inputs from the region, while 76.8% of the firms in Lesvos use only local inputs. Regarding sales, a very high share of firms

(67.6%) in Lesvos sell more than 50% of their output to the local market, while in the case of Kilkis the national market is much more important. Furthermore, the share of firms exporting more than half of their output is much higher in Kilkis (18.2%) than in Lesvos (4.7%).

Firms in Kilkis have also been significantly more successful in developing geographically new markets, mainly in other parts of the country or abroad, while in Lesvos new markets were local and national. On the other hand, firms from Lesvos have been more successful in appealing to new categories of customers. However, almost 70% of these were located in the region. Apparently, accessing new markets is easier for the Kilkis firms, since fewer of them use any sources of information about new markets.

As with product innovation, the main barrier to developing new markets, for firms in both areas, is the lack of finance. For the vast majority of the firms that identified some barriers to new market development in Kilkis, the rural environment did nothing to affect these barriers. On the other hand, in Lesvos 42.7% of the respondents that faced barriers felt that the rural environment was to a considerable extent responsible for them.

Regarding the main methods for promoting products or services, advertising was the most widely used method in both regions. However, sector may be more relevant in explaining decisions about promotion methods, since some methods are inextricably linked with some specific sectors.

Once again, regarding promotion and distribution, firms from Lesvos appear to be under significantly more pressure than their mainland counterparts and are constantly searching for ways to overcome the island's remoteness. This was reflected in the greater share of firms that had received help regarding marketing during the previous two years in Lesvos than Kilkis. The significance of location in regard to access to markets becomes very clear from the fact that only one third of the firms in Kilkis thought their location affected or constrained their ability to access market information, their methods of promotion or their methods of distribution. Needless to say in the case of Lesvos this situation was reversed with most of the firms being affected to a considerable extent by their remote location.

Processes and the use of technology

More than half of the firms of the whole sample had made changes in their manufacturing or business processes during the previous two years. The Lesvos firms appear to have been significantly more active in this direction. The only statistically significant variable in this respect was firm size, with the largest firms instituting changes more than smaller ones.

In Lesvos the development of new markets was clearly the main motivation for implementing changes while the primary concern in Kilkis seemed to be the competitive pressures faced by firms in their existing markets.

The advanced technologies in use were completely different in the two regions. Not unexpectedly, heavier and more 'industrial' technologies dominated Kilkis, accounting for almost 59%, while in Lesvos the most significant item was a computerized accounting system (28.6%) followed by automated inventory control (25%).

The proportion of firms attempting to obtain external finance was almost identical, as was both the type of finance sought and its sources. It is quite interesting to note that in both regions there was only one case where a venture capital company was the source of finance, while other, newer and more flexible sources of finance (e.g. Business Angels, Leasing and HP companies) were completely absent,¹⁰⁹ indicating the relative scarcity of finance modes.

Not surprisingly, the firms from Kilkis appear to be using more ICT applications than their Lesvos counterparts. Firms from Kilkis felt greater use of technologies already quite widespread in the area would help improve business performance, while for the firms in Lesvos, it appeared that 'space-shrinking' technologies like e-mail, websites, EDI would be more helpful.

A surprisingly high share of firms (considering the sample consists of the most innovative firms in the regions) did not have Internet access, something applying almost equally in both regions, 48.6% in Lesvos and 45.5% in Kilkis. Even though the modes of Internet access were quite similar in both regions, its purposes were quite different, with users in Lesvos using it mainly as a source of information, while in Kilkis the uses were more differentiated, since many firms used the Internet for promotion.

Regarding the sources of information about technology, trade fairs were very significant for both regions, while journals and newspapers were cited in Kilkis and suppliers in Lesvos.

The entrepreneur

One of the most significant aspects of the survey was the crucial importance attributed to the entrepreneur as an agent of change. As it turns out, the performance of the enterprises surveyed, as well as their impact on the locality was more or less directly related to the characteristics of the entrepreneurs. It is worth making some general remarks regarding the characteristics of the entrepreneurs. The first is that they generally appeared to be rather mature, only 8.3% being less than 30 years old.¹¹⁰ The second is that they appeared to be relatively well educated, significantly better than the average population (26.1% were university graduates – a figure significantly higher than the figure for the general population). Lastly, entrepreneurship, and this is a very important finding, was almost completely dominated by men.

Entrepreneurial talent may be found in any socio-economic stratum, however, based on a number of selected variables¹¹¹ we came up with four quite coherent and very distinct groupings of entrepreneurs by using cluster analysis. The main characteristics of the groups were:

¹⁰⁹ On the other hand it should be mentioned that such forms of finance are significantly underdeveloped, even in the most developed regions of the country.

¹¹⁰ In fact commenting on that figure is very difficult, because of the highly selective sampling method.

¹¹¹ These variables are: age, gender, education, involvement of the entrepreneur's parents in business ownership, whether the entrepreneur had any managerial experience and whether they had ever lived elsewhere.

- group 1 ‘the young entrepreneurs’ group (18.9%). They were the group with the least managerial experience (5.1%), and, while their education level was average, they were the only group in which the majority of respondents (59%) had parents who were involved in business ownership;
- group 2 ‘the dynamic entrepreneurs’ group (34%). This was the largest, and perhaps the group with the best characteristics. Their levels of education were the highest (60% were university graduates, one third of them had some managerial experience while at the same time, 86% of them had, for a significant period of time, lived elsewhere;
- group 3 ‘the artisan entrepreneurs’ group (32%). This second largest group is, in a sense, the alter ego of the previous one. No one in that group had higher than a secondary level of education, with less than half having lived in a different place, and only 14% born elsewhere;
- group 4 ‘the mature entrepreneurs’ group (12.1%). In a, perhaps not so straightforward analogy with the previous groups, this one could be seen as the alter ego of the first group, even though this referred only to the age structure, since all of the respondents in this group were more than 50 years old. Very few had any managerial experience (8%), a finding strikingly contrasted with their rather extrovert nature as a group, although this could be attributed to the fact that most were not born in the same region.

Surprisingly, the primary sector was most significant for the ‘young’ profile, accounting for 21% of respondents. Although manufacturing was dominant in all groups, it was much more significant for the last two groups. As a consequence, services were much more significant for the ‘young’ and the ‘dynamic’ groups, with the latter being the most balanced group.

The regional distribution of profiles is very interesting and perhaps one of the findings with the most significant implications. The three first groups are quite evenly distributed between the two CSAs. This balance is suddenly upset in the ‘mature’ group, where the entrepreneurs from Kilkis were an overwhelming 68%. This implies that relatively old entrepreneurs own and manage a significant part of the region’s large businesses (employing 24.2% of the workforce of the sample).

The entrepreneur and the region Only 8.4% of the entrepreneurs interviewed in Lesvos lived in some other part of the country. On the other hand, in Kilkis, more than one in three entrepreneurs lived elsewhere in the country. It appears that the larger a firm, the more likely its owner is to not live in the region.

What were the reasons then for the decision to locate the business in the area? Social pressures appear to predominate in Lesvos, since for about 82% of the entrepreneurs surveyed the location of the firm was either their home town, the area where the business was already located, or family reasons had drawn them there. On the other hand in Kilkis, although social reasons were also important, they accounted for a significantly lower share of firms. For approximately half of the firms, the reasons for locating in the region were purely economic, the incentives being the most significant one.

Policies: Development of countryside

A summary of the main findings of the population and entrepreneurship surveys, reveals, at first glance, two distinct regional profiles. Kilkis has larger firms, mainly in manufacturing, many of them not locally embedded, and a high degree of dependence on the nearby city of Thessaloniki. On the other hand, Lesvos has a more traditional productive base, significant agricultural sector and a proliferation of small locally oriented firms. However a more thorough analysis reveals that both areas share a number of common defining characteristics centred on the significance of the agricultural sector, the need for the development of a diversified productive base, and a need for improvements in physical and social infrastructure and the social environment.

Competitiveness of agriculture First and foremost, at this stage in countries like Greece, it is difficult to imagine the development of the countryside without a *prominent role for agriculture*, excepting perhaps, certain regions where tourism predominates. So policies for the development of Greek rural areas must cater for making agriculture more competitive as well as developing other aspects of the countryside. Greek farmers have severe problems in producing internationally competitive quality products, while receiving less support and protection from the state. There is an urgent need for a co-ordinated programme involving the provision of knowledge support schemes and training seminars, as well as attracting educated people to, and retaining them in, agricultural activity. It will also be necessary to stimulate the formation of co-operatives or groups of farmers (farmers being disproportionately characterized by lack of trust) and to promote contract farming for processing firms or super markets which could, in turn, lead to the retraining of farmers to produce quality products.

Up to now, under the 'productivist logic', farming in semi-mountainous areas, characterized by small and fragmented plots, has been considered problematic. This same disadvantage might be turned, with some help from public authorities, into a significant advantage if production can be shifted to organic farming. In certain cases like small islands, where control is easier, certain products are already almost organic (e.g. olive trees in Lesvos), or traditional dairy products (e.g. traditional herding of sheep and goats in Lesvos and Kilkis).

Diversification of local economies Local products can be a suitable means for the development of Greek rural areas and especially the peripheral ones. There is a need for diversification of the agricultural population into non-farm activities: on farm non-agricultural activities in the form of rural tourism services, manufacturing, preservation of the heritage of the countryside, protection of the environment, etc. Also there is a need for a strategy to attract investment from within the country and from abroad, coupled with ensuring that this investment is not just 'parachuted' into the area, as in the case of investments in Kilkis stemming from Thessaloniki. Regional incentives have been crucial, especially in attracting larger firms to Kilkis.

Improvement in physical and social infrastructure One of the main reasons for the depopulation of the countryside is the poor physical and social infrastructure of rural settlements, where even parents advise their children to leave farming ('to get away from the mud') and try their luck at an urban profession. Educational provision is very poor (single classroom primary schools), and there are very few, if any, entertainment opportunities (cinemas, theatres, bars, etc.), the traditional coffee shops only catering for older men. Moreover, in small communities, people, especially the younger generation, resent the social control and want to escape to an urban centre where they can enjoy 'anonymity'.

It is of considerable importance to *enhance the knowledge infrastructure of the rural economy* that is essential for a shift to higher quality products. This can be done either by taking advantage of people already residing in the area (e.g. academic staff in Lesvos), or can be attracted there, or through the facilitation of links with organizations outside the two CSAs.

Lack of leading figures – need for animators People in rural areas are very conservative and reluctant to take any initiative unless they are quite certain of a positive outcome. Moreover, they are often not well educated, usually older than the average population and have life experiences circumscribed by their rural environment. Thus, the presence of individuals capable of being animators is extremely important for the development of a region. The establishment of *Local Action Groups* by the LEADER initiative *played an important role in promoting the development of rural areas with weak social and entrepreneurial structures*. Such a role might also be played by ex-villagers who 'weekend' in the village bringing with them their urban experiences; or by high ranking employees of an incoming large firm or even by public employees that stay a few nights per week in the area.

The social environment is crucial for the development of entrepreneurship in the area. The lack of trust leads to lack of cooperation, even in cases where there are co-locations of firms belonging to the same sector (e.g. the case of ouzo firms in Plomari or the case of wine producing firms in Kilkis).

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Chapter 11

Entrepreneurship and Innovation in Two Contrasting Portuguese Rural Areas

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Introduction

How do different regional contexts affect aspects such as the incidence of entrepreneurship, entrepreneurial culture, learning processes and innovation behaviour?

We know that these questions cannot be answered by formulating an all-embracing theory offering across-the-board explanations for any type of regional context. We also know that territories are contexts which have a significant influence on the social and economic conditions affecting entrepreneurship and company performance.

For those who argue that many aspects of economic development are context-specific and path-dependent, this problem can be solved reasonably well by carrying out comparative case studies. This chapter contains two case studies carried out in two different Portuguese rural regions: Baixo Alentejo and Oeste.

Section 1 contains a typology of Portuguese rural areas, based on three categories: marginal rural areas, peripheral rural areas and urban-rural areas. The two areas chosen for study fall within this typology: the municipal district of the Left Bank of the Guadiana (Baixo Alentejo Region) is a marginal rural area, and the districts of Bombarral and Cadaval (Oeste Region) are a peripheral rural area.

Following a short description of the Baixo Alentejo and Oeste regions (p. 249), we assess the processes of entrepreneurship (p. 252) and innovation (p. 256) in the two areas studied, based on face-to-face interviews carried out using three complementary methodologies: a Population Survey, an Entrepreneurship Survey and in-depth interviews of those in charge of the main companies, co-operative entities and local public institutions. Our analysis enables us, in the final part (p. 266), to put forward three aspects which should be specifically taken into account when developing state policies for promoting entrepreneurship in the rural milieu so that they are properly suited to the needs of each territorial context.

Rural areas in Portugal: a typology

Portugal is a small country with significant internal social and economic disparities. Most of these disparities have clear geographical patterns. In fact, the

rural-urban opposition, together with the North-South divide and the coast-inland divide, remains a powerful differentiating factor.

Rural areas (defined as areas having a demographic density lower than 100 inhabitants per sq. km) cover 3/4 of the land area of the country but account for only 14% of the population. And most rural NUT III regions are among the poorest 20 regions in the EU in terms of *GDP per capita* while the Lisbon metropolitan area has levels of development higher than the EU average.

Portugal is undergoing an accelerated process of urbanization. But rurality persists as a structural feature of most of the national territory and the cultural significance of agricultural activity is still alive in Portuguese society.

There is a great diversity of rural areas. The results of a number of studies on this subject carried out in Portugal (Gaspar, 1987; Ferrão & Jensen-Butler, 1988; Cordovil, 1991; Cavaco, 1999; MEPAT, 1999; Ministério do Planeamento, 2000; Marques, 2000; Lopes, 2001) can be summarized in the following typology of rural areas.

Marginal rural areas

This type of rural area is to be found mainly along the Northern border and in the whole of the interior. Its main features are low and very low population density (under 75 inhabitants per sq. km.), marked demographic ageing and, consequently, a decline in population numbers. 85% of parishes classed as marginal rural areas experienced declining demographic trends in the period 1991-2001, even if half of them managed to attract people to build second homes.

Family agriculture and public services are the dominant activities, although private and non-profit social services and the local-oriented wholesale and retail trade are also relevant. Employment in the building sector in towns in the region or on the coast, giving rise to temporary displacements, usually acts as a supplement to the local economy. The entrepreneurial fabric is weak, the qualifications of the human resources are low, and access to the main towns of the country is still poor.

Peripheral rural areas

Rural areas of this type are to be found mainly in the coastal part of the country, either on the periphery of the metropolitan regions of Lisbon and Porto, or along the central coastal strip connecting the two.

These are areas with medium population density (75 to 150 inhabitants per sq. km.). Their demographic behaviour varies more according to the characteristics of nearby towns than as a result of their own dynamics. During the 1990s some 3/4 of the parishes included in the semi-peripheral areas close to towns and cities recorded strong demographic growth or, even where the population numbers fell, demonstrated an ability to renew their housing stock.

Agriculture is still significant in these areas, but family sources of income are relatively diversified: building, light industry and repair/maintenance services are of some significance in the local economy and the nearby towns are important labour markets. The entrepreneurial fabric in these areas is better developed and

may even have some international contacts here and there. Employee qualifications tend to be close to the national average.

Rural-urban areas or diffuse urban areas

These are areas with high population density (150 to 600 inhabitants per sq. km.), corresponding to spaces which are in transition between the rural and the urban. They also include areas with a spatial pattern of diffuse urbanization based on medium-sized and small cities.

The demographic dynamics here are positive, these areas representing both an alternative location to the congested city with high land prices and its surrounding peripheral and marginal rural areas. Over the last decade 70% of parishes in rural areas of the rural-urban type recorded strong population and housing growth.

The prevalent pattern of rural tertiarization is associated with a small but usually very active entrepreneurial fabric. The level of human resource qualifications tends to vary according to the importance of the state services which are located in them (e.g. universities and high-level public services).

Case-study areas: a brief presentation

Two contrasting rural areas were chosen to assess to what extent different regional contexts affect the incidence of entrepreneurship, the prevailing types of company, forms of entrepreneurial culture and behaviour in relation to innovation. The NUTIII Baixo Alentejo and Oeste regions are regions which contain predominantly marginal and peripheral rural areas, respectively. The short description of these regions (Gaspar, 1993; Eurostat-INE-EC, 1998; DGDR, 2000) helps to understand how their history and location affect today's values, attitudes and types of behaviour in relation to entrepreneurship, learning and innovation.

The NUTIII *Baixo Alentejo* region,¹¹² located in the southern part of inland Portugal, is the least densely populated area of the country (about 16 inhabitants per Km²). It is a good example of a *marginal rural area*: 93% of parishes fall into this category, the large majority suffering from declining population trends, even if half of them had an increase in the housing stock during the 1990s related to second homes.

Historically the lack of water, the nature of land ownership (*latifundia*), and the uncertainties of climate and market attaching to primary sector activities, have meant that the regional economy has been subject to significant fluctuations. Since the mid-19th century the planting of forests of cork trees expanded strongly in response to demand from the national and international markets. Between the end of the 19th century and the 1940s there was extensive clearing of the land in order to grow cereals: this culminated with the Second World War, a period during which the Alentejo was the country's breadbasket. It was also during this time that the many mineral deposits in the region (copper,

¹¹² For a more detailed description see CIDE, 1994; CCRLVT, 1997 and 1999; Baptista, 1999.

pyrites) were intensively exploited in response to growing international demand. This period also saw the building of the region's main public works: roads, railways, dams and other hydraulic and irrigation works to encourage agriculture. The first half of the 20th century was therefore the region's golden age. Population numbers increased through migration from other parts of the country, and the Baixo Alentejo's population peaked in the 1950s at 248,000 inhabitants (135,000 in 2001).

The changes in the world economy after the Second World War, together with soil depletion, rapidly brought this economic growth period to an end. The nature of property ownership remained the same and the majority of the population, a very poor, illiterate and landless agricultural proletariat, was only able to survive by emigrating. Its main destination was the Lisbon region. Emigration abroad was significant, but not as extensive as in other regions of the country, given the lack of funds to finance it (either through the sale of land or of animals).

Currently the industrial fabric is very weak, the retail and service sectors are limited almost entirely to providing support to life in the towns, and are adversely affected by low levels of consumption and by the small scale of local markets. The local economy heavily relies on public sector employment.

The agricultural landscape of the region is made up of large farms which cultivate crops on an extensive basis (cereals for grain, animal fodder, some irrigated field crops: maize, oleaginous seeds), pasture and olive groves. Over the last two decades there has been a noticeable increase in the amount of irrigated land used to grow field crops for industrial use (maize, sunflower, rape, beetroot and seeds for animal fodder) at the expense of a decline in the area of dry arable land (for grain) and vegetable oils.

The rearing of animals for producing cheese and meat and its derivatives is also significant. In recent years a number of meat-producing ostrich farms have emerged. This is an alternative to beef which has suffered from the crisis in beef consumption brought about by BSE.

The NUT III Oeste region¹¹³ is located on the coast, close to the Lisbon metropolitan area. It has strong internal disparities. Roughly half the number of parishes is in *peripheral rural areas* close to small towns, most of them recording strong population growth or population decline with an increase in the housing stock. The remaining parishes are classified as *urban* (7%), *rural-urban* (34%) and *marginal rural areas* (14%).

Historically, the engine of economic development for the Oeste region's economy until the 1960s was wine production. Towards the end of the 1950s large-scale low-quality wine production entered into a decline which had an immediate impact in the growth of unemployment. Many small producers and salaried agricultural workers were forced to emigrate to foreign countries (Western Europe, North America), to the Lisbon metropolitan area and also, partly, to the towns in the region.

The crisis in the wine industry also brought about a change in the structure of the region's production: the region's economy now began to be dominated by

¹¹³ For a more detailed description see CCRA, 1996 and 1998; Associação dos Municípios do Oeste, 1998; Guerra, 1999.

fruit farming, especially pears and apples, and horticultural products, which it was possible to develop intensively on account of the favourable climate and the proximity of the Lisbon market, and animal husbandry (poultry, pigs and cattle), which were also produced to supply the capital.

Several associated industries sprang up at the same time: machinery and equipment, flour and cattle feed, processing of food products (canning, frozen foods, and sausages), etc. Processing of non-metallic mineral products are also important activities in the region.

In the 1990s, better access to the Lisbon Metropolitan Area, as a result of the new A8 motorway, had another major effect on the region: a strong expansion of building-related activities, as a result of the proliferation of second homes in the main seaside villages and, although to a lesser extent, in some rural areas.

Given the size of the two regions, field work was limited to specifically selected sub-regions: the districts of the Left Bank of the Guadiana, in the case of the Baixo Alentejo; and the districts of Bombarral and Cadaval, in the case of the Oeste region. These sub-regions are examples of marginal and peripheral areas, respectively.

Despite the differences between the two areas, they have similar economic profiles. In both cases most companies reflect the following three situations:

- processing of local raw materials (agriculture, animal husbandry, the mining industry, ceramics, etc.);
- activities associated with building (warehousing, wholesale and retail trades, the building trade itself, etc.);
- local market-oriented services (shops, restaurants, personal and social services).

Table 11.1 Description of the regions and study areas

	Oeste Region		Baixo Alentejo Region	
	NUT III	Bombarral and Cadaval municipal districts	NUT III	Left Bank municipal districts
Area (km ²)	2,512	266	8,545	3,358
Resident Population (1991)	359,430	26,243	143,020	45,269
Resident Population, (2001)	395,984	27,263	132,704	41,253
Working Population (2001)	179,665	10,956	50,818	14,716
Total employment in businesses (2000)	69,049	3,341	15,323	3,235

Source: WWW.INE.pt.

A Population Survey was applied in both sub-regions to those of working age (650 interviewees in each study area) and an Entrepreneurship Survey was applied in the segment of the 100 most innovative local companies.¹¹⁴

Entrepreneurship¹¹⁵

Regional incidence of entrepreneurship

Three criteria were used in the Population Survey to decide whether those interviewed could be classed as 'having entrepreneurial status':

- self-employed or owner/shareholder in a company/organisation having direct involvement in its day-to-day or strategic management (criterion A);
- having a controlling or influencing role in the company/organization's strategic decisions, while not being an owner/shareholder (criterion B);
- involvement in the setting up of a new company/organization (criterion C).

Those who fall under at least one of the three above criteria are classed as having entrepreneurial status. Owners of companies or organizations who are not directly involved in management are not regarded as having entrepreneurial status.

Surprisingly, *entrepreneurial incidence* (relative weight of interviewees classed as entrepreneurs) for each area is fairly similar: 18.9% in the municipal districts of Bombarral and Cadaval (Oeste region); 17% in the municipal districts of the Left Bank of the Guadiana (Baixo Alentejo region). In both cases it is the first criterion (A) which predominates, with the remaining criteria (B and C) occupying subordinate positions, at around 2-3%.

Table 11.2 summarizes the main attributes of individuals having entrepreneurial status or not, the main distinguishing variables being the degree of contact with the business world and age. Gender and the degree of schooling are also relevant differentiating features. The over-representation of students in Bombarral/Cadaval, and of clerical-managerial in Left Bank, as previous occupations among entrepreneurs, suggests the existence of distinct regional patterns of access to entrepreneurial status. In relative terms those who were previously employed as manual workers/labourers are more unlikely to be found in situations of entrepreneurship. Even so, those who came from these occupations still represent the highest proportion in both study areas.

About ¼ of interviewees classed as having entrepreneurial status would prefer to be in stable paid employment rather than to be in their current roles as an entrepreneurs.

¹¹⁴ In the Left Bank we were able to interview only 90 firms which met at least one of the eligibility criteria.

¹¹⁵ Various aspects of this topic are developed at greater length in Ferrão and Lopes (2003).

Table 11.2 Individuals having or not having entrepreneurial status: main attributes

	Bombarral and Cadaval (Oeste Region)		Left Bank (Baixo Alentejo Region)	
	Individuals not having entrepreneuria l status (81.1%)	Individuals having entrepreneuria l status (18.9%)	Individuals not having entrepreneuria l status (83.0%)	Individuals having entrepreneur ial status (17.0%)
Age group:				
- 35-50 (%)	27.6	46.3	28.2	49.5
- >50 (%)	52.7	34.1	40.8	24.3
Female (%)	52.5	45.5	50.5	38.7
Place of birth:				
- Same as current (%)	49.3	52.9	78.2	82.0
- Other in the region (%)	34.0	31.0	17.0	14.4
Highest educational qualification:				
- Primary school (<6 years)	62.5	51.2	67.3	61.3
- Primary school (7-9 years)	18.3	26.8	15.2	18.0
Previous occupation:				
- Student	20.6	30.9	20.2	23.4
- Manual worker/labourer	36.1	30.9	53.7	37.8
- Administrative/clerical or managerial	16.1	17.1	14.3	21.6
- Housewife	15.5	11.4	8.6	11.7
Total with only 1 or 2 previous jobs	58.7	59.4	50.9	58.5
Position relatively to entrepreneurial activity:				
- Parents were involved in owning a business/economic organisation	25.7	36.6	21.2	36.9
- Has attempted to start a business in the past	23.0	48.8	18.3	41.4
- Personally knows someone who owns or is starting a new business	50.2	56.9	55.5	62.1
- Would like to start a business in the future	8.8	14.6	19.2	19.7

Source: Population Survey (2001); 650 face-to-face interviews in each case-study area.

Entrepreneurial profiles in the most innovative firms

The surveys we carried out contain a block of questions relating to the main person in charge of the company or, if there was no such person, to someone of decisive importance in the management of the company. The analysis of responses to these questions enables us to define an outline profile of those in charge of innovative firms in each of the areas under study.

In general terms there is a marked preponderance of male entrepreneurs who live in the region and for whom the firm in question represents the main (and often the only) business in which interviewees have invested (Table 11.3).

Table 11.3 General description of main person in charge of companies surveyed

Characteristics of the entrepreneur	Bombarral/Cadaval districts ^a	Left Bank districts ^b
	(Oeste Region) (%)	(Baixo Alentejo Region) (%)
Main business with an ownership stake	84.0	81.6
Male	79.0	74.4
Living inside the region	94.0	95.6
Born in the region	70.0	66.7

^a n=100

^b n=90

Source: Entrepreneurial Survey (2001).

Most entrepreneurs are aged between 30 and 49 (62% in Bombarral/Cadaval, 56% in Left Bank), although in the Left Bank the 50 to 59 year age group is also very significant (22%). Most of them started out early in business: about half before the age of 30.

Qualification levels are considerably more favourable in the Left Bank. While 40% of entrepreneurs in the municipal districts of the Oeste region have only completed the basic level of schooling, the percentages of individuals in the Left Bank with secondary education (41.1%) and higher education (22.2%) are very positive by comparison with the regional average and even the national averages for those with secondary or higher education.

A little over 2/3 of entrepreneurs were born in the region, both in Bombarral/Cadaval and in the Left Bank. It is therefore not very surprising that the three main reasons governing location of firms are place of birth (32% in both areas), family reasons (23.0% in the municipal districts of the Oeste region and 13.3% in those of the Left Bank sub-region) and the prior existence of the firm (22.0 and 23.3% respectively), which in these areas is generally inherited and not acquired. Only some 20% of entrepreneurs give the existence of a business opportunity as a reason for locating their company here. Other factors, such as wage costs, local demand, good infrastructure, incentives or landscape and cultural heritage, are of residual significance.

In both areas entrepreneurial initiative is, accordingly, very much associated with place of birth/residence and has more to do with individual and family reasons than with market reasons or the availability of specific support mechanisms for local entrepreneurship. The fact of having had parents who were themselves entrepreneurs was a decisive factor for 25% of interviewees in Bombarral/Cadaval and for 16.7% of interviewees in the Left Bank also becoming entrepreneurs.

Of the approximately 30% of entrepreneurs who come from outside the area, over half were born in towns in other regions. There is a reasonably high proportion of foreigners (7% in Bombarral/Cadaval and 10% in the Left Bank). But the most significant result in connection with entrepreneurs born outside the areas under study is that they came to the region mainly because of their wife or

husband, or for family reasons. In fact, a large number of these cases are those of males who, on account of the death or incapacity of relatives on their wife's side (generally speaking the father-in-law), have been compelled to take care of an already existing business. It is therefore not just those who were born in the areas under study who do things for family reasons.

Over 70% of entrepreneurs interviewed have been in the position they currently occupy for over three years and a significant number (approximately 1/3) for over 10 years. But most of them had previous careers from which they derived certain benefits and advantages for their new life as entrepreneurs:

- information and specific knowledge of the sector of which the firm is a part and, to a far lesser extent, of financing and legal issues;
- general skills in the area of management, production and, to a much lesser extent, of marketing;
- contacts with customers, suppliers and, at a lower level, other firms in the sector.

By contrast, prior career experience does not seem to have had significant beneficial effects for their current business efforts in domains such as European Community programmes or institutional contacts, which means that those experiences basically take place in the context of strictly business-type contacts.

Regional entrepreneurial cultures

In both areas most entrepreneurs were born and live in the region, are relatively young (aged 30-49), often having no specific management training, and their involvement in entrepreneurial activity derives as often as not from family reasons rather than from a genuine vocation to be an entrepreneur. Entrepreneurship has however a distinct historical background in each region.

In the Left Bank region, the historical predominance of the large farm, which turned most of the labour force into wage earners, and the lack of any significant industrialization, explain the weakness of entrepreneurial initiative. On the other hand, the social inequalities associated with the large farm property contributed to perpetuating the idea that the employer is synonymous with social exploitation. In spite of the recent changes in the social structure, with more people having a better education and higher qualifications, and the growth of the region's economic base, with more initiatives of an urban nature, the word 'businessman' still has negative connotations, closely associated with old exploitative practices. At the same time, the low development level of this area together with the significant ageing of the population, account for the importance attached here to micro-initiatives and the social economy.

Although the entrepreneurial culture of the Bombarral and Cadaval districts is also weak, a more entrepreneurial and outside-oriented culture is to be found here.

A more entrepreneurial vision is expressed in different ways, as a primary commitment to increasing the economic scale of farms, to improving businesses through investment in development activities and to acquiring entrepreneurial capabilities in the areas of management and production. This vision is equally

present among the Left Bank interviewees, but they are in a minority position when compared to those which stress the virtues of small-scale initiatives and the relevance of the social dimension of entrepreneurship and employability.

The outside-oriented culture is expressed in the greater value attached to attracting national and foreign firms, and to factors that may favour that strategy, from better road and rail access to the availability of infra-structured quality land for the location of business activities. This vision is also to be found in the Left Bank, but several of the interviewees stressed that the presence of firms from outside, mainly of a medium to large size, may contribute to taking away the region's character.

In the municipal districts of the Left Bank there is no strong entrepreneurial tradition and not much local purchasing power. These facts explain the various aspects which are more specific to this sub-region: a more diversified entrepreneurial fabric, but one which is also more dependent on locally available resources; a more local and more informal labour market, with generally lower qualifications; a higher dependence on external and public funding; a stronger commitment to gain new clients and new markets, particularly internationally, a situation which has to do both with the closeness of the Spanish border and the sense of remoteness within the national market.

In the Bombarral/Cadaval sub-region, a better developed and more specialized entrepreneurial fabric and higher levels of consumption account for the higher levels of regional demand. The fact that the regional market is better developed helps to explain the existing dualistic pattern: on the one hand, there is more market-oriented behaviour; on the other hand, however, a greater acceptance of current circumstances is reflected in more conservative business strategies which seek to retain existing customers rather than to penetrate new markets.

The results for the two regions also differ in connection with the characteristics of more recently established firms (those less than 2 years old). In the Left Bank districts, although there are some significant changes (fewer agricultural businesses, greater relative presence of non-profit organizations or more women in charge of businesses, for example), the characteristics of recently established businesses do not seem to indicate any major change of direction in relation to currently prevailing trends. In the Bombarral and Cadaval districts these firms differ quite significantly from the average firm surveyed in the area. More recently established companies are more dynamic and market-oriented. This suggests that this area is likely to achieve more sustained regional competitiveness in the near future.

Innovation

Innovation behaviour

In investigating if a company is innovative in relation to the region in which it is located or the markets in which it operates we are adopting a context-based view of innovation: the same product may be innovative for a given less well-developed

social and economic context but not in a more sophisticated, demanding or competitive environment.

The relative nature of innovation, especially in peripheral and marginal rural areas, is an important factor to be taken into account. It would be difficult to find in these cases products, services, production processes or any other aspects which could be regarded as innovative from the point of view of global markets. Nevertheless, changes do take place which, from the point of view of the companies undertaking them, are truly innovative in the region where they are located and the markets in which they operate. The results now summarized should be looked at with these considerations in mind.

Table 11.4 Regional incidence of aspects of business innovation

Aspects of business innovation	Bombarral/Cadaval districts ^a (Oeste Region) (%)	Left Bank districts ^b (Baixo Alentejo Region) (%)
Firms under 2 years old	17.0	21.1
Firms which have 1 product	32.0	41.1
innovative 2 or more	10.0	28.9
products /services products		
for the region Total	42.0	70.0
Firms which have obtained new customers in the last 2 years	50.0	50.0
Firms intending to develop new markets in the future	58.0	77.8
Firms which have adopted new marketing methods in the last two years	9.0	24.4
Firms which have adopted new distribution processes in the last two years	0.0	14.4
Firms which have innovative processes /technologies for the region	10.0	16.7

^a n=100

^b n=90

Source: Entrepreneurial Survey (2001).

The incidence of the various different elements of innovation in the companies surveyed in each of the areas under study is summarized in

Table 11.4. The aspects covered include multiple elements, from the setting up of new companies to product and service innovation, penetration of new markets to innovative production techniques, new sales promotion methods to new systems of distribution. In overall terms, the information in Table 11.4 brings out five main aspects:

- the environment is not very innovative in either area. Even for a group of companies selected on the basis of innovation criteria only two of the aspects drew in more than half of the firms surveyed;
- the situation is more favourable, in overall terms, in the Left Bank districts;
- there is a predominance of product innovation at the expense of process innovation;
- strategies for increased market penetration are not accompanied by the corresponding changes needed in advertising/promotional methods and distribution processes;
- there is a strong future commitment to gaining new markets.

Innovation thus seems to be associated mainly with the launching of new products into the market which are the result of greater value added to local factors (natural resources, traditional know-how, etc.), and not so much deriving from strategies aimed at increasing product differentiation or at achieving economies of scale.

Product/service innovation occupies a key position in innovation processes in the two areas under study, and especially in the Left Bank. According to those interviewed, these new products/services stand out by reason of their quality and, to a lesser extent, because they are more sophisticated or better suited to the purpose for which they are intended. The fact that they are unique to the region or even to the country is important in some specific sectors, such as the food industry or certain handicraft businesses.

Strategies adopted over the last two years for penetrating new markets, which were mentioned by half of the companies surveyed in both areas, fall into one dominant pattern: obtaining customers on the same level or at a higher level, especially in the tertiary sector (services, family end-customer demand) and those located in the region. Fewer firms had active market penetration strategies for customers in the primary and secondary sectors or in other regions of the country. Only four firms in the municipal districts of Bombarral/Cadaval and five in the Left Bank mentioned that they intended to seek to penetrate export markets.

It is the predominance of rather limited market expansion strategies, the main aim of which is to achieve prominence at the local or regional level, which explains the extremely low level of adoption of new marketing and distribution methods. In fact, the prevalence of proximity markets means that even those firms with the strongest commitment to gaining new customers sometimes fail to pay due attention to the marketing and distribution aspects. At the same time it should be noted that of the 35 Bombarral/Cadaval area firms and 34 Left Bank firms which said that they had conquered new markets in the last two years, only 12 and 23, respectively, had tied this gain to innovation (and this was almost always in the area of product innovation).

Most firms, especially in the Left Bank, said they had plans for expanding into new markets in the future. Half of those firms had already invested in expansion and modernization to that end. Within the other half some have not taken any steps, others are still at the information-gathering stage to find out more about markets and new business opportunities, and a minority had already commissioned market research studies.

Half the companies surveyed stated that they had made no changes over the last two years in the area of process and technology. Of the other half, the majority had made changes which were significant for the firm but not sufficiently far-reaching to make them innovative at the regional level or in the markets in which they operate. Changes were made for a variety of reasons, in particular to try to win more customers, to launch new product lines and to improve product quality, and their impact was felt mainly in a greater ability to retain and satisfy a wider range of customers.

Finally it should be pointed out that only 10 firms in Bombarral/Cadaval and 15 in the Left Bank responded positively to that part of the survey which would enable us to classify them as technologically innovative in the regional context or in the context of the markets in which they operate. These results are in marked contrast with the spontaneous responses which entrepreneurs made to the earlier questions in the survey: 1/3 of interviewees in the municipal districts of Bombarral/Cadaval and 2/3 of those in the Left Bank assessed their own companies at that time as being innovative in terms of production processes!

Innovation, companies and entrepreneurs: an overall view

Innovations implemented in any given area naturally reflect the different entrepreneurial profiles in that area. Thus an overall view of how different innovation profiles, different firms and different entrepreneurs are interconnected is needed. To that end we constructed a typology where all variables which relate to innovation are regarded as active variables. Other variables, which describe companies and entrepreneurs, operate as illustrative variables.

The typology thus constructed brought together the companies surveyed in the following manner:¹¹⁶

- in overall terms, we arrived at 3 major groups, *basically* characterized by the inclusion of firms which, in the last two years: i) failed to acquire any new customers (Group A, with 33% of firms); ii) obtained new customers (Group B, with 47% of firms); iii) implemented product/service and production process innovations (Group C, with 19% of firms);
- a more detailed reading enables us to distinguish three sub-groups within Group B: firms which have expansion strategies not necessarily based on new production processes (B.1), firms which have expansion strategies not necessarily based on new products/services (B.2) and export-oriented firms (B.3);
- it is also possible to make out some diversity within Group C, although in a less structured way than in the previous group: for this group we will accordingly describe a core situation and two secondary variants.

We outline below, for each typical situation, the key characteristics which ensure the group's internal cohesiveness, and which at the same time maximize what differentiates that group from the rest.

¹¹⁶ Typology based on a Multiple Correspondence Analysis, with statistical classification and description of the resulting groups of firms.

Group A: Development in continuity: changing incrementally in order to retain customers (33% of companies surveyed) The basic characteristic of this group is that it includes firms which have no present or future intention of expanding their market by obtaining new customers (Table 11.5). They are not very innovative by comparison to the other companies surveyed, and a high proportion of them have not carried out any recent changes to their technology or processes. They favour incremental product innovation, and their main aim is to match it to trends in the expectations of existing customers.

This group contains firms and entrepreneurs with different characteristics. But there is a significant concentration here (between 50 and 70% of the total in question) of small firms with a stable turnover, managed by someone from the region, aged 60 or over and having the basic level of schooling.

Table 11.5 Group A: most over-represented possible answers

Innovation	Company	Entrepreneurs
<ul style="list-style-type: none"> • No intention of obtaining new customers (11.75) • No innovatory aspects by comparison to other firms in the region (5.42) • No changes to technology or processes (5.08) • Turnover and profits stabilized (3.28) 	<ul style="list-style-type: none"> • Primary sector (3.07) • Turnover: <75,000 EURO (2000) (2.93) • Only one place of business (2.70) • Sole trader business (2.70) • Exclusively local personnel (2.51) 	<ul style="list-style-type: none"> • Abroad (3.12) • 60 years and over (3.00) • Basic schooling (2.19)

Note: test values for each possible answer are in brackets (degree of over-representativeness of possible answer). Only variables with test values higher than 2.00 have been taken into account (greater than 95% probability of rejection of the null hypothesis).

Group B: Obtaining new customers with moderate innovation (47% of companies surveyed) This group includes three relatively distinct sub-groups:

- *Sub-group B.1:* Expansion with no significant change in production processes (23% of companies surveyed)

This sub-group includes firms which have not made any significant recent changes to their technology or processes (Table 11.6). This situation is due to two factors, which in some cases are mutually reinforcing: on the one hand, these firms favour growth strategies which are extensive and regional (obtaining more customers of the same type and within the region); on the other hand, there is a significant percentage here of firms which are less than 2 years old, which would explain why expansion strategies have not been matched by changes in production processes.

Given the variety of different situations included within this group, it is understandable that no particular entrepreneurial profile stands out here.

Table 11.6 Group B.1: most over-represented possible answers

Innovation	Company	Entrepreneurs
<ul style="list-style-type: none"> • No changes to technology or processes (7.69) • No innovatory aspects by comparison to other firms in the region (6.99) • Intends to obtain new customers in the same segment (5.03) • Intends to obtain new customers in the region (3.82) • Penetration of new markets allied to innovations (3.44) • Intends to obtain new customers in the secondary (2.52) and primary (2.19) sectors • No innovation in production processes (2.17) 	<ul style="list-style-type: none"> • Less than 2 years in business (3.50) • Turnover 2000: 150-400,000 Euro (2.30) • Does not employ seasonal labour (2.18) 	-

See note for Table 11.5.

- *Sub-group B.2:* Expansion with no significant changes to products/services (13% of companies surveyed)

Firms in this sub-group are different from those in the previous sub-groups because of their more active role in production innovation: this includes nearly all the firms which brought in changes in terms of processes and technologies which did not bring about any change in the product or service provided (Table 11.7). These changes, which would enable a firm, for example, to improve its performance by producing more efficiently, are part of a strategy involving moderate increases in sales and/or profits and involve a minimum threshold of entrepreneurial complexity (over half the firms have 2 managers). Nevertheless, and as in the previous sub-group, the strategy for obtaining new customers is biased towards the region and even the same market segment.

- *Sub-group B.3:* Innovate in order to penetrate new export markets (11% of companies surveyed)

Unlike the previous sub-groups, this sub-group includes firms which have adopted a clearly pro-active stance in terms of innovation (Table 11.8). Their major commitment over the last few years, and which is to be pursued and even intensified in the near future, is to penetrate new export markets, a strategy which involves gaining new and more sophisticated customers, particularly end-users. In this case obtaining new customers means adopting measures to improve product quality.

Firms in this sub-group are mainly associated with entrepreneurs aged between 40 and 49, who in the course of their prior professional careers have had access to information and knowledge on Community programmes and financing systems which have today taken on strategic significance. In fact, 75% of the firms in this sub-group benefited from some form of financial support in the last 5 years.

Table 11.7 Group B.2: most over-represented possible answers

Innovation	Company	Entrepreneurs
<ul style="list-style-type: none"> • Changes in processes /technologies but no change in product/service (7.69) • Changes in processes /technologies dictated by search for greater efficiency (5.00) • Intends to obtain new customers in the region (4.73) • No innovatory aspects by comparison to other firms in the region (4.01) • No product/service innovation (3.92) • Intends to obtain new customers in the same segment (3.23) • Limited strategy for increasing sales / profits (3.13) • No innovation in production processes (2.39) • Turnover increased by 10-20% in 1998-2000 	<ul style="list-style-type: none"> • Does not employ seasonal labour (3.40) • Two managers (2.44) • Located in Bombarral / Cadaval (2.23) 	<ul style="list-style-type: none"> • Prior professional career experience as significant source of contacts with customers (2.38)

See note for Table 11.5.

Table 11.8 Group B.3: most over-represented possible answers

Innovation	Company	Entrepreneurs
<ul style="list-style-type: none"> • Intending to obtain new customers abroad (5.42) • Intending to obtain new customers in a higher segment (5.27) • Intending to obtain new customers in the tertiary sector (4.90) • Penetrated new markets abroad in the last 2 years (3.92) • Penetration of new markets associated with innovation (better product quality) (2.67) • Implemented changes in processes / technologies to improve product quality (2.67) and to obtain customers in new segments (2.39) • Products are innovatory because they are more sophisticated (2.15) 	<ul style="list-style-type: none"> • Employs seasonal labour (2.36) • Had financial support in the last 5 years (2.25) 	<ul style="list-style-type: none"> • Prior professional career experience as significant source of information / knowledge on community programmes (2.67) and financing systems (2.40) • 40-49 years (2.31)

See note for Table 11.5.

Group C: Total innovation to secure the national market (20% of companies surveyed) In this group we find those firms which have committed to innovation in a stronger and more integrated manner (Table 11.9). The consolidation of existing strategies designed to increase sales and profits accounts for their simultaneous commitment to various elements of innovation: products/services

(half of them state that they have more than one innovative product/service), production processes (associated with the setting up of a new product line or, secondarily, with other factors such as the need to comply with community legislation) and, to a lesser extent, organizational solutions (new marketing and distribution methods, for example). The changes these firms have made have enabled them to supply more sophisticated and more suitable products/services, which are therefore better able to ensure customer satisfaction.

Larger firms with greater organizational complexity which have been in existence for 3 to 10 years, foreign entrepreneurs and entrepreneurs with higher educational qualifications are over-represented in this group.

Table 11.9 Group C: most over-represented possible answers

Innovation	Company	Entrepreneurs
<ul style="list-style-type: none"> Committed to innovation in the form of more sophisticated products (5.31) and more suitable products (2.09) Penetration of new markets tied to product innovation (5.24) Changes to processes /technologies through introduction of new product lines (5.08) Product/service innovation (4.87) Innovation in production processes (4.58) Has 2 or more innovative products /services (4.48) Penetrated new geographical markets as a result of changes to processes /technologies (4.14) Secured new markets within Portugal over the last 2 years (3.96) Made a significant commitment to strategies to increase sales/profits (3.93), with fairly positive results (3.85) Organizational innovation (3.63) Adopted new marketing techniques (2.79) Better able to satisfy client needs as a result of changes to processes/ technologies (2.44) 	<ul style="list-style-type: none"> Over 20 employees (2.78) Company with several places of business (2.34) 10-20 persons (2.27) In existence for 3-10 years (2.26) 	<ul style="list-style-type: none"> Foreign entrepreneurs (3.22) Higher education qualification (2.09)

See note for Table 11.5.

If we analyze this group in a bit more detail we can see two particular variants of this dominant profile. The first variant type focuses more closely on *marketing* strategies and market research studies. Foreign entrepreneurs, and/or those who acquired specific skills in this area during their earlier professional careers, are higher than the average here. The second variant type, in which there is a stronger commitment to automated production and material investment, is linked to larger firms with more specialized management teams (3 or more managers).

Although this typology only gives a broad outline of the major contrasts between firms in the sample surveyed, it confirms the overall paucity of innovation

in the entrepreneurial fabric of both areas under study. In fact, only the firms in sub-group B.3 and group C can be regarded as being truly innovative. For all other firms, by reason of their behaviours and expectations, the changes which have taken place and the innovating processes they have developed seem to be mainly reactive events in response to outside changes; there is accordingly a prevalence of survival strategies or of strategies for growth only at the regional level. By contrast, in firms in sub-group B.3 and group C there is a prevalence of pro-active strategies designed to conquer new, broader and more demanding markets.

The incidence of these various groups is uneven as between the two areas under study, even though the general profile of companies surveyed in each case is not very different (Table 11.10).

Table 11.10 Different types of firms, by case-study area

Types of firms	Bombarral/Cadaval districts (Oeste Region)	Left Bank districts (Baixo Alentejo Region)
Group A	39 %	26 %
Sub-group B.1	21 %	18 %
Sub-group B.2	20 %	8 %
Sub-group B.3	8 %	16 %
Group C	12 %	28 %

Learning processes and innovation: a final assessment

There are both common and distinctive aspects to the two case-study areas.

The two areas share the following characteristics:

- overall the business environment is not very innovative, even taking as a reference the region in which they are located or the markets in which firms are already operating;
- empirical learning mechanisms (learning-by-using and learning-by-doing) are very important, as are tacit forms of knowledge and informal socialization processes (important role of the family, friends and former colleagues as sources of advice, the importance of informal market research mechanisms, etc.);
- the predominance of incremental product innovations aimed at improving product quality, but without incorporating any significant amount of R&D;
- the importance of process innovations which amount to little more than the purchase of new equipment and new technology, a fact which explains the key role of suppliers and distributors as the main source of information and advice in this area (i.e. the importance of relatively standardized forms of codified knowledge and of processes of learning-by-interacting in the context of vertical inter-company relationships of both a formal and informal nature);
- not very extensive inter-company relationships, whether in terms of market (private-sector consultants) or of co-operation, aimed specifically at improving

individual and collective innovation capabilities (learning-by-communicating processes within the entrepreneurial system are weak);

- the almost complete absence of R&D activities within firms and of relations between firms and the Science and Technology and Teaching/Occupational Training systems (learning-by-searching processes are weak).

Given the non-existence of innovative milieus, or even of relevant innovation networks based on geographical proximity, firms in both regions find it difficult to take advantage of technological externalities which might help them to become more innovative. Institutional endowment in these areas is also at a very early stage. Innovation, in this context, derives basically from individual experiments by firms with more 'Schumpeterian' behaviour. This makes it difficult to share with other organizations in the region the costs and risks involved in innovation.

Against this common background, there are nonetheless some distinctive features to each of the regions.

The municipal districts of Bombarral/Cadaval are less innovative overall, but the innovations we detected are more recent, are the result of faster development processes (less time elapses between the emergence of the idea and its implementation) and are part of a more genuinely entrepreneurial approach which is less dependent on public sector entities or government funding mechanisms.

The municipal districts of the Left Bank have a greater propensity to innovation. But the innovations here are the result of longer and more complex development processes which depend on persons and entities outside the firm. Informal socialization mechanisms for obtaining information and knowledge, associations which provide an interface between the firm and outside bodies, and government funding are much more important in this region. At the same time, factors such as the closer links between innovation and traditional know-how, or the more occasional nature of firms' relations with their preferred advisers, suggest that these innovation processes are rather more fragile. It would therefore seem difficult to ensure that these processes will be transformed into sustained and dynamic competitiveness factors for firms in this region.

Territorially-based programmes, generally a European Community initiative (e.g. LEADER), have performed a significant role in the municipalities of the Left Bank region, but have not been much used in the Oeste region.

Among the sector-based programmes, there is also a relevant distinction between the two case-study areas: bigger resort to employment, training and social development programmes in the Left Bank, and to research and innovation support programmes in the Oeste.

The relative impact of the several types of programmes is consistent with the analysis derived from the results of the surveys carried out in the two case-study areas: the greater fragility of the social and economic fabric of the Left Bank region explains the preference for programmes designed for smaller, but socially relevant, business initiatives; the greater market orientation in the Oeste region has enabled businesses to successfully apply for more competitive programmes.

Three main lessons for policy formulation

In-depth interviews to the main local actors,¹¹⁷ together with the results of the population and the entrepreneurial surveys carried out in the two case-study areas, provide useful insights into three interrelated domains which seem crucial to adequately address local needs in peripheral and marginal rural areas.

Increasing policy sensitivity to rural diversity and contingent factors

In both regions rural location is mainly perceived as a factor which has a negative impact. But the answers we obtained point to distinct situations.

In the Bombarral and Cadaval districts, a peripheral rural area, rural location is not a major hindrance. However, in the Left Bank districts, a marginal rural area, rural location is regarded as a highly relevant issue.

It adversely affects economic performance mainly because this type of area is relatively underdeveloped, and so regional markets are limited, both in terms of intermediate and final demand. But being located in (poor) rural areas also has its advantages: the survival of traditional local know-how, the availability of natural resources, the persistence of the environmental and cultural heritage and, no less importantly, easier access to specific regional development funding programmes.

The fact that the region is marginally located in relation to the main markets of production and consumption represents a different problem, which also has its advantages and disadvantages. On the one hand, it protects regional firms from outside competition, leads to earlier investment in information and communications technologies, and encourages a stronger commitment to modern and effective marketing and distribution methods for products and services. At the same time, however, it increases production costs, so reducing gross profit margins.

The notion of the remote rural area therefore seems to be tied in with different aspects – dependence, remoteness, distinctiveness – representing both positive and negative factors affecting business performance.

Policy formulation and delivery must adequately address the diversity and complexity of rural areas. This is the reason why sectoral and regional programs should be more sensitive to particular contexts, explicitly tackling rural development actions as local development processes.

Fostering mobility as a source of learning and sustainable entrepreneurship

An analysis of the life narratives of many of the interviewees shows how social and professional contacts they established outside the region at a given point in their lives were essential to the current success of the organisation they head up. The contexts that afforded them these contacts are varied: study in a university in Lisbon, military service in one of the Portuguese ex-colonies, setting up as an emigrant in another country, employment in a transnational firm, participation in

¹¹⁷ About 20 in-depth interviews were carried out in each case-study area to businesses (most innovative entrepreneurs), public entities, co-operative and local development associations, and a bank with a vocation for the rural world.

international co-operation networks, etc. In all these cases, however, the contact with different socio-cultural realities constituted a source of new knowledge and relational capital which enabled them to break with a local culture with little disposition or capacity for change and innovation, and marked by the low presence of initiatives other than in agriculture, public administration, small business and building construction. This fact is all the more interesting in that it applies to persons with completely different levels of educational attainment, from the emigrant with no schooling to the top staff of a transnational firm.

The strengthening of contacts with the outside world is a fundamental element – maybe the most decisive element – in encouraging sustainable entrepreneurship in rural areas which do not have a strong entrepreneurial tradition, or have a poorly qualified entrepreneurial culture. This result obviously joins the theses of social networking, bridging capital and coping strategies put forward by scholars like Bourdieu, 1980; Granovetter, 1985; Putnam, 1993; and Baerenholdt and Aarsaether, 2002.

In fact, locally available qualifications and capabilities do not, in overall terms, encourage the development of dynamic entrepreneurial initiatives. On the one hand, the incidence of migratory movements has contributed to the departure of those assets who were better qualified and, possibly, those who were more willing to face change, to take risks and display initiative. On the other hand, the fact that there is not much of a professional entrepreneurial culture must be understood in the light of a history where the small family property (Bombarral/Cadaval) or the large farm (Left Bank) have contributed to the consolidation of particular values, behaviours and social ethics which have rationalities of action all of their own. These rationalities do not co-exist happily with the more professional nature of management (options based on criteria of a family nature persist) or with the very idea of entrepreneurial initiative.

Changing these conceptions is an essential element in stimulating and improving locally based entrepreneurship. This process of improvement will permit stronger and more selective linkages with entities outside the region, preventing both the simple fascination for any company which does make itself available to move to the region, or the rejection of any exogenous initiative which is seen as a threat to local character and stability.

Reshaping local rationalities of action towards social and regional openness and reflexivity

In several aspects, interviewees' opinions captured by the in-depth interviews to the main local actors seem to reflect the traditional opposition between the functionalist and territorialist paradigms of regional science.

For the former, the region's development essentially depends on the capacity to attract external resources (investments, know-how) which will help to modernize the region's economic base. This capability requires infrastructure, projects and businesses of considerable size, enabling the region to develop from a competitive position in the domestic and international markets.

For the latter, the region's development must be based on adding value to endogenous resources (amenities, heritage, traditional products and local tacit

knowledge). Those who advocate this point of view attach greater importance to small-scale, environmental and social aspects, and to the dynamics of local public and co-operative institutions and smaller private entities (micro-businesses and SMEs).

It is true that most interviewees explicitly deny the relevance of this opposition, acknowledging that is declining. [However, it is clear that, in practice, most of them adopt one or other of these positions.](#)

This opposition is found in both case-study areas, and causes intra-regional tensions and conflicts. But the relative incidence of the functionalist and territorialist perspectives differs regionally, the first being dominant in the Oeste districts and the second in the Left Bank area. This is consistent with the prevailing cultural attitudes to entrepreneurship and the role of the State in each case-study area.

The individualist point of view is very strong in the Oeste districts. This stance shows up in a very critical diagnosis of the region's current situation and of recent state intervention (some proudly ignore it while others feel it does not provide enough support). Paradoxically, this critical position is not reflected on proposals for action. Proposals to achieve greater co-operation between public and private entities in the region are not mentioned very often. Ideas on how to encourage entrepreneurship and improve the mechanisms of state support for business are rather vague. This is confirmation that the prevailing individualist culture is a serious barrier to developing regional collaborative solutions and that the image of dependence on state subsidies hinders the formulation of specific proposals on how to ensure that state intervention is more in line with the region's needs.

In the Left Bank districts there is a more favourable image of the performance of public and co-operative regional entities. Even when recent intervention by these entities is criticized, it is acknowledged that they perform an essential role in improving local development conditions. There is therefore greater consistency of thought on which types of initiative to encourage. There is also a far greater willingness to adopt territorially-based collaborative solutions. The definition of who should have a central position of power in this co-operation strategy depends, however, on whether the interviewee in question inclines more to the functionalist or to the territorialist position.

In both case-study areas there seems to be insufficient local dissemination of information and knowledge. Lack of local communication has high costs because it wastes time, effort and resources, because it gives rise to errors of incorrect stereotyping, and because opportunities are missed when capabilities and skills are required which are beyond the reach of small organizations and marginal or even peripheral rural areas. Lack of communication, more than conflicting social interests, is the main barrier to forming regional alliances and coalitions aimed at building shared notions of the region and a strong collective voice with a national and international presence.

Strengthening the ability to reach territorially-based strategic agreement is an essential element for giving meaning and relevance to most public initiatives specifically designed to foster development in peripheral and marginal rural areas. Local communication, community involvement and a collaborative social environment are therefore not only enabling factors, but also those which give

viability to many of the programmes and projects designed to address local needs. It undoubtedly seems that the persistence of strong individualistic values (Bombarral/Cadaval districts) or of a stance of territorial closure (Left Bank) requires a new cognitive framework, in which social and regional openness together with reflexive rationality with regard to intervention are actively desirable ends.

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Chapter 12

Poland: The Zary and Bialystok Regions

Bogdan Piasecki and Anna Rogut

Introduction

This chapter presents the main findings of research undertaken in the Polish CSAs of Bialystok and Zary, set in their national context.

The Polish Context

The main types of rural areas in Poland

Village and rural areas in Poland are defined for administrative purposes as settlement units outside the administrative boundaries of towns.¹¹⁸ They cover more than 90% of the total area and contain 40% of the Polish population, while those employed in agriculture represent about 26% of the entire Polish work force.

The character of the agrarian structure and the proportion of non-farming jobs has been used to distinguish between three types of rural areas (Wos, 1996; Ministerstwo Rolnictwa i Gospodarki Żywnościowej, 1999).

The first type comprises regions with fragmented farms (Podkarpackie, Malopolskie, Swietokrzyskie and Slaskie regions). In these regions, the average farm size is between 2.5 and 4 ha. and non farming activity provides the main source of income; approximately 75% of farms derive their income mainly from work outside agriculture, as well as from social benefits (retirement payments and pensions, including those of farmers). Despite the good soil and relatively favourable climate, agriculture in these regions is only a main source of income for 10-20% of the rural population. Some parts of these regions specialize in horticulture (e.g. producing fruit and vegetables and processing fruit). Nevertheless, at present these regions account for almost 30% of total registered unemployment in rural areas in Poland and approximately 40% of the hidden unemployment in agriculture.

The second type of rural region is characterized by a large proportion of rented land previously belonging to state-owned farms, or so-called PGRs (e.g. Warminsko-Mazurskie, Pomorskie, Zachodniopomorskie, Lubuskie, Dolnoslaskie and Opolskie regions). The population of these areas includes a large concentration of former PGR workers, who are now largely unemployed and characterized by

¹¹⁸ Although the criterion is different from that adopted by the European Union or the OECD, it results in a similar outcome to that based on a population density criterion.

lower educational levels than the rest of the population in rural areas. Unemployment has reduced family incomes and the resulting decrease in demand has inhibited both the establishment and profitability of local firms. In order to stimulate economic activity in these areas conditions must be created to encourage the inflow of capital, which includes a need to improve the technical and social infrastructure.

The third type of rural region is characterized by a lower density of enterprises in the agricultural and food sectors (e.g. Wielkopolskie, Kujawsko-Pomorskie, Mazowieckie, Podlaskie, Lubelskie and Lodzkie regions). These regions contain two thirds of all Polish farms. At least 400,000, mainly medium-sized, farms in these regions are estimated to have the capacity to adapt to changing market conditions. They are only waiting for encouragement from the state to initiate structural changes and move towards diversification.

This typology underlines the heterogeneity that exists in Polish rural areas resulting from historical factors, uneven economic development in the post-war period, and the lack of clear and consistent regional policy, particularly in the early period of transformation (Lodkowska *et al.*, 1996; Mierosławska, 1998).

These problems may be further exacerbated by integration into the European Union, which is likely to accelerate the processes of modernization and restructuring of industry and agriculture. This is likely to lead to an uneven distribution of job losses, which will be most severely felt in the eastern regions of Poland, particularly in agricultural provinces. It has been estimated that job losses may amount to 5% of total regional labour supply during the first 10-15 years of membership, resulting in increased unemployment and/or migration from these regions. Equally negative effects (over a 5% loss of jobs) will be experienced in the Swietokrzyskie region, which is dominated by agriculture and ageing industries. The northern-western regions may be in a better situation, with fewer job losses as a result of restructuring. The process of job loss will be accompanied by an equally uneven distribution of new jobs. Relatively few new jobs are likely to be created in Poland's Eastern provinces, which are the regions most strongly affected by a rise in unemployment due to modernization. Most new jobs will be created in the Mazowieckie region, in Pomerania, and in the western regions of Poland¹¹⁹ (Orłowski, 2000).

¹¹⁹ The conclusions are based on the regional effects model, which determines the distribution of the effects of increases or decreases in demand on production in particular sectors proportionally to the territorial location of production across the country, thereby allowing for the estimation of effects for the labour market in particular regions. Given the assumed elasticities of employment against production in particular sectors of the economy and the spatial structure of location of industries (according to 1996 data) changes in labour demand in particular non-agricultural sectors in different regions are generated, after also summing up the overall indices of pressure on labour markets of regions. Additionally, an outflow from employment in agriculture is assumed (on the basis of the expected trajectory of agricultural modernisation). Some reservations that may be put forward concern the facts that (i) in the case of large-scale investment the spatial structure of industries may undergo considerable changes within the coming several years; (ii) the situation of enterprises belonging to the same sector but localised in different regions may be varied, but these reservations do not change the usefulness of the presented results (Orłowski, 2000).

The main development issues for rural areas in Poland

Non-agricultural activity in rural areas is focused primarily on the development of food processing industries. Other types of activities include small-scale manufacturing, services (mainly engineering, joinery and construction) and agricultural services¹²⁰ (e.g. agricultural plant and transportation services, as well as services connected with the artificial insemination of animals). Warehouses and larger production units supplying towns are also located in rural areas, typically in larger villages and seats of local government situated on transportation routes.

Another form of entrepreneurship exists in villages consisting of joint investment projects between rural inhabitants and local authorities, directed mainly at the development of technical infrastructure. These are mainly initiated by the local community, supported by governmental and non-governmental institutions.

Entrepreneurship in rural areas is characterized by its small scale¹²¹ and relatively poor financial and economic standing. The motives of those entering self employment, or starting their own business, is typically to provide a stop gap until a 'proper job' can be found, rather than at building up a stable and long-term economic activity.

In addition, the level of non-agricultural entrepreneurial activity among rural inhabitants is low, with entrepreneurs and self-employed persons representing 11.3% of income-earning employed members of peasant families, and 10.8% in non-peasant families (Urban, 1999 and 2000).

In spite of some progress in the economic diversification of rural areas, major barriers still exist to the development of entrepreneurship in such areas, particularly in peripheral, traditional villages with small populations (EC, 1995; Kłodziński & Wilkin, 1997; Czykier-Wierzba, 1998; Dębniwska & Garbowski, 1998; Kłodziński, 1998; Rada Ministrow, 1998; Szymańska, 1998; Woś, 1998; Ostrowski, 1999; Ministerstwo Rolnictwa i Gospodarki Żywnościowej, 1999). Some of the most important barriers are:

Firstly, a low capacity for accumulation and investment resulting in a lack of capital. Estimates show that only 20-25% of farms, mainly the larger ones, generate sufficient income to invest in development. A survey of rural household budgets revealed that only about 75% of income accrues from agricultural production, and per capita incomes of farming households are approximately 13% lower than those of non-farming households. As a consequence, rural areas are characterized by a chronic lack of capital limiting the possibilities for self-financed development and modernization. Credit repayment takes precedence over the opportunities for investment that do exist and the low profit margins in agriculture make it unattractive to potential investors. The real estate market is poorly developed and there are legal and administrative barriers to the acquisition and management of land by foreign investors.

¹²⁰ Such activity is frequently seasonal, which is connected with the generally difficult economic situation of farmers and a strong demand barrier that hinders sales.

¹²¹ Over 80% of such entities can be classified as crafts and trade units not hiring any employees. Only about 15% of these entities can be classified among firms employing external labour permanently, but even in such cases the average employment level reaches only about 2.5 persons. Thus these are very small firms.

Secondly, a substantial proportion of farms lack both the capacity to adapt to changing market conditions and the ability to lobby in an organized way to influence them.

Thirdly, relationships between producers, wholesale firms and the food sector remain undeveloped. Few farms show interest in wholesaling and the dearth of producer and marketing groups is mirrored by a lack of co-operatives for utilizing plant and equipment. A quarter of the firms in the food processing sector are making losses, and while there is a minority of enterprises that are fully competitive in global markets, there are more poorly performing enterprises requiring substantial modernization and investment.

Fourthly, the educational level in the rural population is significantly lower than that of the urbanized population, which restricts their capacity to use new technologies in agriculture, as well as inhibiting economic aspirations. These factors form major barriers to the development of entrepreneurship in rural areas, diminishing the possibilities for diversifying into non-farming economic activity, as an alternative source of employment for the surplus labour force.

The need for Restructuring

The problems described above provide the context within which the restructuring of Poland's rural areas is taking place, which has the following requirements: The restructuring of villages and agriculture should be treated as an integral part of transforming the entire rural economy. The aim must be not just to achieve quantitative increases in production but also qualitative improvements in the effectiveness of labour and material investment, resulting in agricultural products better suited to the developing requirements of the wholesale market and consumers, as well as to ecological sensitivities.

The restructuring and modernization of agriculture goes beyond simple changes in the agrarian structure as traditionally understood (i.e. size of farms). Farm size per se is declining in importance, as the restructuring agriculture requires multiple adjustments in organizational structures, involving productive potential and choices of technology, which would allow farms to achieve and maintain sustainable long term development. The impetus of restructuring needs to shift towards selecting an appropriate structure of production and technologies which would allow for changes in the economic environment for agriculture (including market structures) in the long as well as the short term. It is necessary to upgrade farming know-how and management, stimulate diversified development in rural areas, and enhance the social structure of villages (including changes in the rural milieu, culture, and customs).

The most promising activities are those with the potential to enhance longer term transformations in agriculture. This implies devoting special attention to technical and social infrastructure in rural areas, market institutions, banking systems, institutions dealing with counselling and agricultural know-how, the introduction of new technologies and progressive biological techniques, and the multi-functional development of rural areas.

Radical changes in technology will be a major factor in restructuring agriculture. Contemporary developments in agriculture call for new knowledge and

experience emphasizing the need for the availability of counselling and know-how. This emphasizes the necessity of developing basic and applied research to lay the foundations of progress (particularly biological progress) in agriculture.

Entrepreneurship and contemporary rural policies in Poland

Entrepreneurship development is a key element in the 'Medium-Term Strategy for Agriculture and Rural Areas Development'. This strategy is supplemented and specified in greater detail in the 'Cohesive Structural Policy for Rural Areas and Agriculture Development', which contains plans detailing the structural aspects of the development of rural areas and agriculture over the next few years.

The most recent initiative (adopted by the Council of Ministers in July 1999) is the Pact for Agriculture and Rural Areas. Activities covered by the Pact are directed at the development of economic diversity in rural areas, with three main priorities:

1. support for agriculture and its environment;
2. development of entrepreneurship and the creation of jobs outside agriculture;
3. support for a comprehensive social policy concerning villages and agriculture and the cultural development of the environment in rural areas.

Support for entrepreneurship in rural areas was also one of the priorities of the 'Preliminary National Development Plan 2000-2002'. Within the framework of the economic development of rural areas the following measures are planned: the development and modernization of infrastructure in rural areas and small towns; the creation of new jobs outside agriculture allowing for the utilization of labour surpluses, which exist in most villages in the agricultural regions of Poland; and the promotion of professional skills in rural communities by providing rural youth with training opportunities and others with the chance to gain additional qualifications.

These programmes are supported by special pre-accession assistance policies, first within PHARE, then SAPARD and the Structural Funds.

The institutional framework for entrepreneurship in Poland

The launch of instruments aimed at the promotion of entrepreneurship has been accompanied by the establishment and development of a number of institutions. These are mainly government agencies for regional development, the restructuring and modernization of agriculture, and privatization, as well as institutions such as business incubators, regional investment funds, and economic and agricultural counselling.¹²²

Public, international, social and private foundations constitute a separate group whose work has assisted agriculture and rural development. Their operation was particularly important during the early transformation period, when bilateral assistance and PHARE programs made it possible to acquire the knowledge and

¹²² For more information on the role of governments and local self-government agencies, see, among others: Pochwała, 1993; Kowalski, 1997.

skills needed to operate in a market economy. Thousands of farmers, local government officials and administrative personnel have been retrained in this field. Concepts of work and legislation aimed at establishing European type institutions and public agencies have been developed, together with activity profiles of public administration appropriate to the new conditions. These foundations launched thousands of individual projects aimed at promoting entrepreneurship and developing village infrastructure or tourism in rural areas. They are still active today, although their role has tended to decline due to meagre funding via bilateral (foreign) assistance, and a growth in the importance of government agencies to overshadow them.

Regional Profiles

General characteristics of the Polish study regions

The provinces chosen for field studies (CSA), the Bialystok District and the Zary District, belong to two different types of the regions described in section 1 above. Zary is an example of a region characterized by a large share of rented land previously belonging to state-owned farms (i.e. type 2); Bialystok is an example of a region characterized by a lower density of enterprises in the agriculture and food sectors (i.e. type 3). Both districts are located in marginalized regions, reflecting the polarization processes occurring in Poland.

Both CSAs are characterized by:

- a low population density, amounting to 73 persons per square km in the Zary District and 47 persons per square km in the Bialystok District, compared with a national average of 124 persons per km²;
- a higher proportion of employment in agriculture, hunting, and forestry than the national average;
- a relative high level of unemployment, reaching 16.5% in the Zary District and 9.4% in the Bialystok District (including the town of Bialystok), compared with a national average;
- a lower level of educational infrastructure (e.g. number of schools) and social infrastructure (e.g. number of hospitals) than the country wide average;
- an inferior technical infrastructure (number of kilometres of common and local roads) than the average for Poland as a whole. For instance, the number of landline telephones per 1,000 inhabitants is 155.8 in the Zary District and 165.8 in the Bialystok District, compared with the national average of 219.6.

One peculiarity of the Zary District is the degree to which the work force is employed in the tertiary sector (both commercial and non-commercial services) connected with a well-developed border zone trade with Germany. This phenomenon is expected to diminish in importance in the future, as prices of services and products in Poland and Germany tend to converge.

Common to both CSAs is the potential for the advantages accruing from integration with the European Union being unevenly distributed as a result of their

border character and peripheral location (both with respect to the country and the province). At present both districts exploit their border location but when integration occurs the western district (Zary) will lose its border character, with a possible consequential loss of jobs in organizations presently specializing in servicing cross border activity. An increase in the penetration of German firms and intensification of competition, especially among SMEs, can also be anticipated. A secondary effect will be the gradual restructuring of its economy. Long term effects could include: (i) a redefinition of local economic centres; (ii) an increase in interregional differences in growth potential, causing migration from the less developed to the richer regions (and as a consequence, the underdevelopment of the former). The eastern district (Bialystok) will preserve its border character but the level of economic development will be variable, as will the production structure, the level of wages and social benefits, the unemployment rate, the prices of land, energy, water and tax levels.

The probability of such an uneven distribution of the benefits of integration is further increased by the core-periphery relationship, in which both CSAs are cast in the role of periphery. It has previously been assumed that economic development in Eastern Poland would benefit in the years up to 2010 from the increasing role of the eastern market. However, once integration occurs, these tendencies will be limited, as the locational advantages will transfer across to the eastern side of the border (Rykiel, 1997; Szlachta, 1997; Toczyski, 1997; Kolodziejski, 1999).

The socio-economic profile of Bialystok

The Bialystok District is located on the Polish-Belarus border (Map 1.4). It is part of the Podlaskie region, the area of natural and cultural values perfect for tourist purposes which was least affected by human activity. Precious wood complexes of the Bialowieska and Knyszynska primeval forests as well as the Narew and Bug valleys and the Biebrzanskie marshes unique across Europe are preserved there. The Bialystok district covers an area of 20,180 sq km, i.e. 7.3% of the country's total area. It has 2,239,000 inhabitants which accounts for 5.8% of the country's population and ranks it at the seventh place among Polish districts with that respect. The population density is only 61 persons per sq km. Despite unfavourable climate conditions and the worst soil across the country agriculture is dominant. Agriculture land accounts for 60% of the district's area, whilst forests cover another 30%. More than 40% of population lives in rural communities inhabited by less than 10,000 persons, and 44% of all working persons is employed in agriculture. This district is characterized by the country's lowest level of employment (only 33% of working-age persons work there), and earnings of population belong to the country's lowest.

The Bialystok district covers an area of 15 local administrative communities, with different economic potential and environmental situations. The most developed communities, which are characterized by an economic potential guaranteeing fairly stable development, lie adjacent to the main city of the Podlaskie region, forming the so-called Bialystok Agglomeration. A second group consists of communities whose proximity to transit communication routes enables

them to participate and benefit from investment related to servicing these routes in fields, such as hotel management, catering, passenger service and retail establishments. A third group is formed by agricultural communities with the least development potential, which stand to benefit from the development of agricultural and food products processing and services for agriculture and agro-tourism.

Climate and soil give agriculture an important role in the economy of the Bialystok district. There are expectations of shifting priorities in livestock farming towards the breeding of dairy cattle breeding, based on the stable nutrition provided by grasslands. It is assumed that village economies will diversify, exploiting a landscape, which is attractive for recreational activities and housing development. The Bialystok District is poorly industrialized. However, it is expected that the emergence of business activity outside agriculture will create new employment possibilities for inhabitants which should slow the process of rural depopulation. This multi-functional approach to the development of agriculture and rural resources will require changes in the patterns of ownership and the modernization of agriculture. It needs to be accompanied by economic development which, according to the assumptions of the long-term development programme will involve: development of agricultural-food processing; development of ecological farming; development of rural tourism; and raising the education level of inhabitants in rural areas.

The socio-economic profile of Zary

The Zary district is located on the Polish-German border (Map 1.4). It is a part of the Lubuskie region. At present, in the administrative sense the Lubuskie district consists of two urban counties: Gorzow Wielkopolski and Zielona Gora, 11 rural counties and 83 communities. On the west the region borders Germany (the German state of Brandenburg). The area of the district covers 13,984 sq km (13th place in the country). The district's population amounts to 1,022,500 people, which makes it Poland's lowest ranked. The population density is 73 persons per sq km (14th place in the country), whilst the country's average is 124 persons. The level of urbanization of the district is average; Lubuskie is the land of small towns like the entire western and northern lands.

The Zary district represents the Polish rural areas dominated by a large proportion of rented land previously belonging to state-owned farms, with large concentration of former PGR workers, who are now largely unemployed and characterized by lower educational levels than the rest of the population in rural areas. The district includes 10 local administrative communities and the economic engine room of the area is the thriving industrial centre of Zary itself. The differences in make-up and function between the urban district of Zary and the network of rural and urban-rural communities belonging to the Zary District leads to different approaches to development planning. About 40% of the population in the District live in the town of Zary itself, with a separate administrative structure from the remaining part of the district.

In line with its role within the district, the town of Zary has planned a number of future activities:

The economic priority is to diversify economic development, with a view to reducing unemployment and increasing prosperity. It is assumed that, in parallel with industrial development, tourism will become an important factor accelerating development, facilitated by the favourable location of the town and the richness of its cultural heritage (i.e. reconstruction and renovation of the Biberstein castle and the Promnitz palace located in the town). The proposed development of tourism will necessitate the construction of high-standard hotel facilities and the development of services connected with tourism.

Analysis of survey results

The propensity towards and the perception of entrepreneurship among the local population

There are marked differences in the incidence of entrepreneurship in the two case study areas, apparent from analysis of the survey data. Indeed, some 16.5% of the population in Zary district is involved in entrepreneurial activities in comparison to just 8.5% in Bialystok, although in both cases this percentage is well below that reported for Poland as a whole. It is understandable considering the fact that a decision to start a business activity is the result of three groups of factors: (i) antecedent factors related the entrepreneurship potential of individuals, such as creativity of a (would-be) entrepreneur, his personality, previous experience, education or family tradition; (ii) triggering factors which mean specific positive (e.g. an invention, an offer from a potential partner) or negative (e.g. a job loss) life occurrences that provide a stimulus to undertake a business activity, and (iii) enabling factors which mean access to specific resources necessary to run a business as well as an ability to identify a market opportunity that stimulates running business activity (Fry, 1993).

Both our CSAs (although for different reasons) represent areas characterized by a poor entrepreneurial tradition. On the one hand, Bialystok was dominated by fragmented agricultural farms generating low income, with a low level of market-driven mechanisms, and on the other hand, Zary was dominated by state-owned agricultural farms until the middle of the 1990s.

This suggests that differences in propensity towards entrepreneurship between our CSAs, is primarily on account of enabling factors, which are much better developed in Zary¹²³ (better communication availability and dynamically developing business environment).

¹²³ A similar relationship was observed in many earlier studies where a positive correlation between propensity towards entrepreneurship and the state of development of the rural space, i.e. the level of development of technical infrastructure, easiness of communication with the market environment and the size of the local market was identified. From this viewpoint, one of the latest studies (Chmiel, 2001) identifying a strong positive correlation between the potential for entrepreneurship and the economic strength of the region (measured as a gross value added per 1,000 inhabitants) and the level of market services (measured as the share of transport, financial and business services in the gross value added) is of interest. Among additional factors reinforcing propensity towards entrepreneurship are: a large market, a high level of educated and mobile labour force and R&D infrastructure, stronger represented in the Zary district.

A negative influence on the propensity towards entrepreneurship is exerted by the dominance of agriculture in the region's economy, which in the case of the Bialystok district is most frequently of a non-market nature and oriented towards the fulfilment of own consumption needs. In such conditions, there is lack of a considerable demand for production and services, which in turn poses a barrier for the reinforcement of the entrepreneurship potential.

Analysis of the perception of entrepreneurship among the local community was focused on the intention of starting a new enterprise. The results give cause for optimism, since in the case of the Bialystok district almost 28% of the surveyed respondents declared their intention to start a new business, and another 29.9% will perhaps start a new business in the future. Similar results emerged from the survey in the Zary district, with more than 18% of the surveyed declaring an intention to start a new business, and about 37% perhaps starting a new business in the future.

Thus the response to enterprise creation was very promising with 58% of those surveyed in the Bialystok district and about 56% in the Zary district declaring some kind of an intention to start a new business, surpassing the national average. One reason for this may be that with the marginalisation of some social groups, some people have no other choices than entrepreneurship or remaining unemployed. They are encouraged by examples of other peoples' success and faith in friends' help. The evidence is given by those results of our study which:

- Made an attempt to identify the extent to which people knew business owners in their locality, in order to see how widespread contact with entrepreneurs was. The results showed that both in Bialystok and Zary districts all respondents knew people who owned businesses. 41% of the respondents in Bialystok and 14.6% in Zary knew 1 or 2 entrepreneurs. 35% and 23.3% respectively knew 3-5 entrepreneurs, and 24% and 62.1% respectively knew more than six entrepreneurs.
- Made a diagnosis of the extent of support which can be obtained by a potential entrepreneur from his environment. Respondents were for example asked if they had offered financial support to people starting a business. The survey showed that 12% in the case of Bialystok and 11.7% in the case of Zary offered such support. 10.5% and 7.5% respectively did it from time to time, and about 1% occasionally.

The process of business start-up

The largest group of enterprises have been in operation for 3 to 10 years. These represent relatively young companies which nevertheless have managed to succeed in a given sector.

There were few firms that have operated for less than two years (6% in each case study area), confirming the decreasing rate of new start-ups indicated in the first part. This is understandable considering the fact that the majority of firms operating in both case study areas belonged to traditional industries, very small and small in most cases, most often oriented towards a narrow local market and

offering low-quality products based on simple technologies and therefore very sensitive to business cycle fluctuations.¹²⁴

It should be, however, admitted that the problem of diminishing the number of start-ups exerted its influence not only on our case study areas. It was observed throughout in whole Poland (starting from 1998), however, the Podlaskie and Lubuskie districts were among those most seriously affected by the drop in new start-ups.

The main reasons the respondents gave for business start-ups included: a desire to be independent, a desire to make more money, and a need to take advantage of their knowledge. It should be noted that none of them mentioned unemployment as a reason for starting a business activity. Therefore we can assume that either the local community does not view entrepreneurship as a way of coping with unemployment (which is in contradiction with the role ascribed to entrepreneurship in rural policies as indicated in the first part of this Chapter), or the barriers faced by the unemployed in starting a business are seen as severe enough to prevent success. In this case, however, unemployed persons suffer problems in common with all persons willing to start a new firm. But they perhaps experience more severe problems because of a much higher proportion of lowest educated persons among the unemployed (as compared with population at large) who can hardly cope to fill in forms correctly, get access to information, prepare a business plan etc.¹²⁵ Nevertheless, the most probable explanation for that is a low propensity of unemployed persons in general to start a business activity (only a few percent of unemployed declared their willingness to start their own firm).

The main barriers the companies encountered at the start-up stage were the limited access to financial resources, lack of efficient means of delivery, and problems with property rights. However, the respondents to the survey did not associate the location of the company with any of these constraints. It is not surprising bearing in mind that all Polish entrepreneurs point at similar barriers (Polish Agency for Enterprise Development, 2003).

Markets

The data analysis suggests that the primary market was local and for about 50% of the firms surveyed this was their sole outlet. Nevertheless, it is essential that companies located/established in remote areas with low local demand levels break into wider markets. While many of the firms surveyed saw no constraints in the

¹²⁴ And the time span of our study converged with the period of a successive deterioration of the economic situation that was felt particularly strongly in poorest regions of Poland (to which Bialystok and Zary districts belonged).

¹²⁵ The difficulties can be also deepened by an unequal distribution of start-ups supporting infrastructure, so called Advisory and Consulting Centres which are weakest in most marginalised regions. Advisory and Consulting Centres offer to future entrepreneurs simple advisory services (advice in the field of law, marketing, finance and taxes, production and others) and information on (i) an offer of external financing available on the market, including preferential loans; (ii) possibilities and principles of getting more complex and paid (or partly paid) services that require a larger time involvement from the specialist, available from the National Services Network and offered by institutions outside the National Services Network; (iii) auxiliary projects for SMEs (co)financed from domestic and foreign public resources; (iv) possibilities and principles of use of SME support instruments.

development of new markets, the most frequently mentioned barriers were the lack of financial resources and market know how.

Foreign markets were of some significance for some companies (especially in the case of Bialystok). However, export sales only accounted for a small part of total turnover with only 6 companies exporting more than 40% of sales. The small number of exporting companies and the even smaller percentage of exports in total sales, leads to the conclusion that companies have failed to exploit their border location.

Enterprises sought new customers mainly in the same or a higher market segment with customers coming mainly from the same sector and the same region. Among the geographical constraints met in developing new markets were remoteness of location and undeveloped infrastructure.

All this seems to indicate that the companies surveyed were not new-market oriented. They remained largely passive being mainly concerned with their current geographical markets and customers.

The basic methods of product promotion were advertising and direct marketing while 25% of enterprises did no promotion at all.

Most distribution occurred through enterprises' own retail outlets and self-delivery, characteristic of the SMEs which made up the majority of the survey.

The majority of entrepreneurs (nearly 90%) did not recognize the rural environment as a constraint in obtaining information about new markets or in the application of promotion and distribution methods.

Products and service innovation

The findings of our study show that a relatively low proportion of the surveyed firms (34% in the case of the Bialystok District and 30% in the case of the Zary District) offered products which could be considered innovative in the context of the regional market, and in most cases it was only one innovative product.

This low level of innovativeness is not a unique characteristic for the firms located in our case study areas. A similar low level of innovativeness (measured by the number of new products or technologies introduced during one year) is characteristic for all Polish enterprises (particularly smaller firms and firms located in traditional sectors), as evidenced by all studies conducted in the 1990s (Innovative activity of manufacturing enterprises, 1998; Grudzewski & Hejduk, 1998; Central Statistical Office, 1998; Bittnerowa, 1999).

One of the reasons explaining the low level of innovativeness of firms can be the lack of a strategic orientation of the surveyed firms (only for 17.7% of firms from the Bialystok District and 14.4% of firms from the Zary District innovations were inscribed in any formal or informal strategy of the firm). The prevalent majority of the firms (67.6% in the case of the Bialystok District and 50% in the case of the Zary District) have introduced innovations under a strong competitive pressure.

What is optimistic is the fact that the firms which decided to innovate introduced in most cases a product competitive with respect to quality, the level of technological advancement, usefulness, packaging, design, additional services offered to the client etc. (Table 12.1). This may be a symptom of positive changes

occurring in the mentality of part of Polish firms which begin to be aware of weaknesses of the existing strategies based on a price competition as compared with the extension of non-price activities.

Table 12.1 Characteristics of innovative product/service in comparison with those of competitors

Sources of advantages	Total (%)	Bialystok (%)	Zary (%)
Better quality	26,0	25,5	26,7
Lower price	15,1	9,8	21,1
More sophisticated	12,5	14,7	10,0
More convenient	4,2	4,9	3,3
Other (better packaging, uniqueness, better design, new fashion etc.)	5,7	4,0	7,7

However, in doing so entrepreneurs rely mainly on own resources and ideas (in the case of 65% of firms from the Bialystok District and almost 64% of firms from the Zary District an innovative product arose exclusively in the firm without any cooperation with other firms or R&D institutes or other institutions of the business environment) and lack external support – in a broadly understood local know-how. The evidence for the latter is provided not only by the very low proportion of firms (6% in the case of the Bialystok District and 5% in the case of the Zary District), which argued that they have taken advantage of some kind of local know-how, but also the minor importance of the region as first in order of priority source for information and advice on market, provision processes and financial resources.

Another barrier for broader involvement in innovation was also the poor access to external sources of venture finance, therefore most innovations were financed from companies' own resources. This was the case of nearly 80% of firms from Bialystok District and 63 from Zary District. Internal financing seems to be fully justified since the high risk connected with an innovative product may also deter financial support from investors. Therefore this probably explains the fact that even in the case of firms which used external sources of innovation financing this share was relatively low (mean 38% and median 30%). External financing involved mainly bank loans, often formalized, collateral loans, bringing enterprises up against the main barrier inhibiting the development of new products, i.e. financial constraints. Such a structure of external sources of financing is a consequence of the poor development of the Polish venture capital market with the simultaneous lack of active financial instruments from the government's policy (Głodek, 2002).

Contrary to the very low proportion of companies already providing innovative products or services, there was a significant group of enterprises with preparations in hand for launching innovative products (59% of such firms in the case of the Bialystok District and 73% in the case of the Zary District).

Many of them have already undertaken a number of activities aimed at the development of a new product, mainly in the form of new investments (such activities were undertaken by 10% of firms from the Bialystok District and 15% of firms from the Zary District) and search for information (13% and 18% of

firms in the Bialystok and Zary Districts respectively). However, these activities rarely assumed a more specific form, such as preparation of a business plan (such activities were undertaken by only 2% of firms from the Bialystok District and 9% of firms from the Zary District), research/pilot programmes or tests, or establishment of a contact with new customers. Such activities were indicated by merely from 2% to 5% of respondents in each our case study areas.

The main barrier for a more intensive development of innovations was lack of finance (10% of indications from the firms from the Bialystok District as compared with 16% of indications from the firms from the Zary District). Interestingly, among the barriers for development of a firm's innovative product the firms incidentally mentioned such factors as lack of knowledge about market, cost of intellectual property protection, risk of failure, lack of support, administrative restraints and so on. This may, however, result not from rich and strong business support infrastructure available for the surveyed firms, but rather from an existing profile of innovations with predominance of small improvements (and such innovations can be fully realized with an exclusive use of own resources) and not more basic changes in products or introduction of new technologies. However, in the long term (particularly in the context of near integration with the European Union) this can prove to be a of fundamental weakness limiting the capabilities of firms to enter into effective competition with EU firms in the served market segments.

Processes and use of technology

More than 65% of firms introduced certain changes in production processes during the last two years (this was more frequently mentioned by the firms from the Bialystok District). Nevertheless, these changes were so basic that in the opinion of the majority of the firms they did not contribute to an increase in the level of competitiveness of the firm. Indeed on the question of whether any aspect of firm's manufacturing or other processes that is considered to be innovative in comparison with other firms in the region 82% and 85% of the firms from the Bialystok and Zary Districts respectively responded negatively.

Most changes were financed by companies' own resources without the use of external advice or consulting and used such common sources of information on new technologies as newspapers, magazines, and trade fairs. It indicates that the rural environment does not constitute fertile ground for stimulating new processes, innovation capability and competitiveness of existing firms.

A somewhat brighter picture of competitiveness and innovativeness of the surveyed firms is created by responses to the question about the frequency of use of ICTs.

It can be said that the scope of ICT use by the surveyed firms will be a decisive factor in shaping their future competitiveness. Firms either already use ICT in business activity or intend to do that in the near future (Table 12.2).

However, the proportion is generally lower than those typical for other regions, which can be even more of concern when taking into account the fact that Polish enterprises, especially small and medium-sized (SMEs), are characterized by a relatively low – as compared with EU firms – intensity of ICT use. According to

the European Poll of Small and Medium-sized Enterprises, Poland belongs to the countries with the highest proportion of computer use by SMEs' employees, while having at the same time the lowest proportion of SMEs with access to an electronic mail.¹²⁶ The intensity of the Internet use for own website presentation looks better in this comparison. In this respect Poland was ranked at an average position with 30%-39% of SMEs having their own website¹²⁷ (Polska Fundacja Promocji i Rozwoju Małych i Średnich Przedsiębiorstw, 1999).

Table 12.2 Use information and communications technology

	Białystok (%)		Zary (%)	
	Current use of IT	Future use of IT	Current use of IT	Future use of IT
E-mail	26	37	38	50
Video conferencing	2	6	7	7
Website	21	26	35	51
On-line databases	10	19	32	24
Electronic data interchange	10	16	37	17
Computer Aided Design	8	14	19	3
Computer Aided Manufacture	18	13	25	11
Management information system	4	16	6	28

The findings from our case study areas reveal an interesting relationship between the size of the firm and the intensity of IT use. As many as 62% of smallest firms (0-20 employees) have no access to the Internet, while the corresponding proportion among firms with more than 20 employees was only 10%. In the smallest firms (up to 20 employees) the Internet was used most often to collect information on the market (87% of the surveyed firms) and suppliers (54%). 46% of the smallest firms also used the Internet for the purchase and sales of their goods and only 28% of the firms used it for the purpose of promotion. Also bigger firms (above 20 employees) used the Internet most frequently to collect information on the market (84%), but unlike the smallest firms they used it to a much larger extent to run their businesses (80% of the firms run e-commerce and 19% maintained contacts with their bank via the Internet). The larger firms also more often used the Internet to promote their firm (42% of firms employing more than 20 persons and 28% of firms employing less than 20 employees).

Generally, it can be said that among the surveyed firms, especially the larger ones, the importance and intensity of ICT use is growing, which provides an opportunity to overcome marginalisation connected with the localization on peripheries (which is indicated by 20% of the surveyed firms) and to acquire more sustainable competitive advantages.

¹²⁶ In 72% of the surveyed firms as compared with 95% of such firms in the Netherlands, Finland, Sweden and Norway, 90%-95% of such firms in Ireland, the UK, Italy, Spain and Malta, and 80%-89% in Belgium, Denmark, Greece, France and Germany. The similar proportion of SMEs, as in Poland, using an electronic mail had Austria, Portugal and Luxembourg.

¹²⁷ This placed Poland behind such countries as Italy, Finland, Ireland, Norway and Luxembourg. The larger proportion of SMEs having their own website had only Sweden, the UK, Denmark and the Netherlands.

Characteristics of the entrepreneurs

The surveyed entrepreneurs were mainly men aged 40-49 and 30-39. There was a greater percentage of male entrepreneurs than female one in both case study areas, though the differences are more profound in Białystok than in Zary district. Most entrepreneurs had a technical education may be because the majority of them were engineers or technicians who became unemployed after the collapse of industry in the region (though this percentage was higher in Zary than Białystok where university education was common). More than 50% of those surveyed mentioned that they gained sufficient experience and skills from their previous jobs, mainly by learning about the sector itself and getting qualifications in the areas of management, manufacturing, and marketing which they were using in their business activities.

Most entrepreneurs started up their businesses in their hometowns or areas from which they originated. Nevertheless local characteristics did not seem to have any influence on the choice of company location. There were no allowances for support programmes that would attract future entrepreneurs. Therefore we can assume that setting up a business in a rural area is not based on economic analysis. As a result local entrepreneurs dominated and few company owners were outsiders. The lack of benefits associated with location seems to be the main constraint limiting the influx of capital and entrepreneurs from outside the region suggesting that one as yet little exploited way of developing entrepreneurship in rural areas would be the creation of location benefits using local policy instruments.

Generally speaking, the entrepreneurs surveyed saw no particular benefits or constraints related to their rural environment. Only a few firms identified their rural location as a source of barriers in developing new markets, and still fewer considered them as serious. Perhaps the proximity of local economic centres (the towns of Białystok and Zary) with their infrastructure and intellectual potential was the reason why the entrepreneurs did not identify any specific characteristics associated with conducting a business activity in a rural area.

Policy support

The vast majority of entrepreneurs stated that they had neither asked for nor obtained any support from local, national, or European Union programmes in the past few years. The surveyed enterprises participated only in programmes catering for disabled persons (PFRON resources), which are not designed to provide assistance for the SME sector.

Only a few firms used external sources of information and advice concerning new markets. The information which was obtained came from traditional sources such as newspapers, magazines, and trade fairs. Two enterprises had conducted a market analysis and only one had used the Internet.

To sum up, the external support for SMEs in the surveyed area was minimal. Firstly, the companies had no access to assistance programmes and could not afford expensive support and advice from external advisors and consultants. Therefore they relied on their own knowledge and opinions for information about markets and marketing strategies. Moreover, the enterprises were reluctant to use

external financing resources. The SMEs in the survey demonstrated a lack of internal resources which they had little intention of overcoming by using external resources.

The poor use of the available instruments of support is not a unique feature which differentiates the surveyed firms from Polish firms in general, especially those smallest ones. Results from the latest survey carried out around Poland shows that only 13% of businesses have used support services for the last five years. The remaining firms either do not know at all about the existence of such programmes or do not make efforts to get support, or eventually they are threatened by too complicated procedures related to applying for assistance and the lack of programmes tailored to the firms' needs (Grabowski *et al.*, 2003).

Final comments

Entrepreneurship

The surveyed communities were characterized by a relatively low incidence of entrepreneurship, in relation to the national average. However, other surveys conducted in Poland indicate that entrepreneurship in rural areas, is still in the initial stages of development, and that the main barrier to further progress is often the poor access to enabling factors as technical infrastructure, ease of communication with the market environment, R&D and business support infrastructure.

The situation appears differently if we focus upon the propensity towards entrepreneurship, is perceived as a particular type of attitude and psychological readiness to run an independent business activity. Such attitudes were strongly reflected in our survey, something confirmed in other surveys carried out in Poland in the 1990s. This points to the crucial role of local authorities as an important promoter (animator, protector, representative of interests, and factor in creating an environment favourable to the development of business activity) of entrepreneurship development in rural areas.

The analyzed firms were linked with traditional economic sectors, very small and small in most cases, most often oriented towards a narrow local market and offering low-quality products based on simple technologies and therefore very sensitive to business cycle fluctuations.

Most of these firms were set up in the 1990s during the period of 'entrepreneurship explosion.'

While they were closely linked with the local economy they showed little openness in terms of demand and sales to the domestic market and even less to foreign markets, the proximity of which is of strategic importance.

The main development barriers were:

- lack of strategic orientation of the surveyed firms hampering introduction of innovations under strong competitive pressures. However, there are symptoms of positive changes occurring in the mentality of – at least – part of Polish firms which begin to be aware of weaknesses of the existing strategies behaviour;

- shortage of working capital and funds for investment. Despite the shortage of money for both purposes the enterprises surveyed seldom sought external sources of finance. The shortage of internal capital resources observed in these firms underlines the importance of obtaining a high proportion of external capital for the overall financing of changes. However, only seven of the firms surveyed were able to make use of such external capital, which covered over 60% of the total costs of implementing changes in production or some other activity. It should be emphasized that over-reliance on internal capital – especially in the case of small businesses – hampers their rapid development. Moreover, the implementation of change and injection of capital in conditions of intensifying competition, including foreign competition, is a prerequisite not only for development but also even for the survival. Conservative attitudes to the search for external sources of capital can, thus, become a major threat to the survival and future development of small firms in rural areas;
- relative low intensity of IT use, especially among smallest firms, which can be a decisive factor influencing their future competitiveness;
- insufficient external support for SMEs of the broadly understood local know-how, reflected in the minor importance of the region as first in order of priority source for information and advice on market, provision processes and financial resources, poor level of co-operation with local research centres, education institutions, and consultants. Even where such institutions exist (mainly in Bialystok as administrative capital of the province) and possess appropriate know-how, there is no effective mechanism for its dissemination among enterprises in rural areas;
- poor use of support from public funds for SMEs and lack of flexibility by commercial institutions in tailoring their services to the specific needs of small businesses located in rural areas. Most of firms either do not know at all about the existence of support programmes or do not make efforts to get support, or eventually they are threatened by too complicated procedures related to applying for assistance and the lack of programmes tailored to the firms' needs.

Relationships between firms were described as good in most analyzed firms. The experience of highly developed countries indicates that economic co-operation between firms, including those competing with each other, strengthens their economic potential considerably and is also an effective way of promoting the economic development of less developed regions.

The main contribution made by the firms in the survey was the mitigation of the effects of unemployment in the rural areas and small towns where they were located. Employment of persons from other parts of the country and from abroad was marginal. An analysis of employment showed that over 50% of firms employed persons exclusively from their locality. Some of the employees came from the capital city in the district and the others from the district itself.

Both theoretical analyses and the practice of developed countries show that SMEs require support to allow them to overcome size-related barriers. Hence, one of the important aspects of the surveys was to identify the scale of institutional support presently experienced by firms. The firms show insufficient participation

in assistance programmes. The Bialystok district, even in comparison with other peripheral regions in Poland, is very backward in this respect.

Current co-operation and assistance provided by the local authorities for existing firms or business start-ups is limited to facilitating their access to external funds, marketing and promotion activities, and the creation of business information networks.

The main objective of local authorities should be the creation of appropriate support instruments, as suggested by this survey, that would: overcome the main constraints to the development of entrepreneurship and create new possibilities, for example in the form of:

- expanding the tourist services sector in rural areas. Tourism has become a driving force of economic progress based on the attractiveness of district landscapes. It is necessary to expand high standard hotel facilities and develop various services connected with tourism;
- development of education programs which cater for the needs of future professions, and engagement in preparing the population for new professional roles together with promoting awareness that professional flexibility is necessary;
- facilitating access to external funds and devising programmes which release entrepreneurship at lower levels;
- access to information useful for entrepreneurs on the Internet (blueprints, terms of tenders, government programmes, institutions and agencies promoting the development of entrepreneurship);
- establishing institutions which would attract investors and lead to improved possibilities of finance and the stimulation of entrepreneurship and innovation
- improving infrastructure and access to information technologies;
- enabling people to improve their qualifications, mainly in the area of management.

Rurality

The Polish village was traditionally defined as a settlement inhabited by a population primarily associated with farming, which represented the only or the main source of income. However, due to the actual diversity of functions performed by rural areas, as well as for public statistical reasons, the village and rural areas are now defined primarily as settlement units remaining outside the administrative boundaries of towns.

There is a large diversity in Polish rural areas, which is the result of differences in historical development, uneven economic development in the post-war period, and the lack of clear and consistent regional policy, particularly in the early period of systemic transformation.

All these hinder the development of non-agricultural economic activity in rural areas and discourage economic investment. These problems may be aggravated at the point of integration with the European Union. The acceleration, associated with membership, of the processes of modernization and restructuring of industry and agriculture may lead to an asymmetric distribution of job losses, which will be felt

most severely in the eastern regions of Poland, particularly in agricultural provinces.

Policy

Polish agriculture is an integral part of the social and economic development of the country and is currently undergoing a process of structural change. Changes in the economics of the agricultural system that are supposed to lead to successful adjustment to a market economy are based, to a great extent, on entrepreneurship. Therefore there is a huge demand for SMEs operating in various industries to ensure that the substantial economic potential in various areas is realized.

However, due to some features indicated in the report (physical and business infrastructure, the quality of human capital) peripheral rural areas are characterized by relatively low competitiveness, which forms one of the main barriers to entrepreneurship development (including the competitiveness level of SMEs located in rural areas). Additionally, this competitiveness may be further prejudiced in the imminent integration with the European Union. As can be seen from the scenarios for regional development in Poland elaborated in this report, the beneficiaries of integration will be mainly regions with expansionist structures.¹²⁸ Regions outside the mainstream of these developments may fail to benefit and continue in critical decline.

In this context the quality of regional policy is paramount, inasmuch as it determines the character of regional structures and thus improves the level of competitiveness in areas actually belonging to the category of those with spatial 'challenges' and 'threats'.

As regards the prognosis for implementing regional policies, the situation in Poland is quite favourable; recent years have seen the reform of the political system and more autonomy given to regional/local bodies. However, more attention needs to be devoted to bottom-up initiatives which could create the most effective atmosphere for entrepreneurship development. This is underlined by results surveys showing¹²⁹ social mobility, understood as the readiness of the

¹²⁸ These areas would include the Warsaw agglomeration, some poles of socio-economic development having European importance; strips of potentially high innovation and socio-economic activity, running in accordance with the structure of international and domestic systems of technical infrastructure; vast areas of increased innovation and economic activity stimulated by the integration processes; recreation areas having environmental values that stimulate European demand, which is the main source of their potential activation.

¹²⁹ The surveys of the economic situation and social mobility in communities, which explored the strength of correlation between the increase in the number of firms in a given area (the number of firms adjusted by the difference between the number of new start-ups and deregistered in a given period) and: community policy (community's promotion and own proposal of allowances and incentives for investors), municipal infrastructure (the road network, the span of telephone network, waste treatment plant), social mobility (determined by a complex system of relationships between structural and cultural factors; empirical indices of mobility can be: the number of political parties and trade unions as well as the number of non-political organisations and associations functioning in a given community) and the level of education (the index of the education level was the number of persons with secondary education in a given community). In the latter case (due to difficulties in obtaining source data) the number of pupils in secondary schools preparing for the final certificate per one thousand persons was taken as a substitute for the index (Hryniewicz, 1996). See also: Surazska, 1999; Rykiel 2000.

population, supported by an appropriate education level, to actively participate in economic processes, is considered to be one of the strongest determinants of the 'entrepreneurship potential' of a country's particular regions. Since the influence of education and social mobility on the entrepreneurship potential in communities is subject to regulation by a social mechanism,¹³⁰ there exists a certain common area within which the influence of education and social mobility on stimulating entrepreneurship is of a subjective nature.¹³¹ (Hryniewicz, 1996)

Thus there is an urgent need to develop a multi-faceted strategy for intervention based on local self-government structures. This would enable local authorities to exert influence using easily accessible market and administrative instruments that would stimulate SME development and, apart from other activities, bring about long-term economic development for their communities/districts.¹³² The results of the survey show that in communities, especially rural ones, located in areas of spatial challenges and threats there is a far lower level of utilization of available instruments in support of entrepreneurship (Dziemianowicz *et al.*, 2000).

However, the degree of activity and effectiveness of local self-government interventionism depends on a number of 'soft factors', among which the crucial role seems to be played by:

- A local self-governmental and democratic community model (decentralization and delegation of competencies from the region level to the district and community levels, supplemented with adequate financial resources), which guarantees the possibility of autonomy in choosing directions and forms of local development. Such a model encourages innovation by local authorities and communities. It gives a community a spectrum of options for action in such areas as: the local labour market, raising administrative and psychological barriers to entrepreneurship, stimulating collaboration and development in the local business community, educational development including improvements in educational programs and vocational retraining, collaboration with organizations of entrepreneurs and other social partners. From this point of view, it is recommended that:
 - the division of authority in the area of regional development policy between the different levels of local government is clearly laid out so that only those activities which cannot be realized autonomously at a local level are left to the provincial authority;

¹³⁰ A relatively high education level is connected with open-mindedness and mental elasticity. This forms the basis to better understanding of the surrounding reality, improves orientation, stimulates new ideas about achieving life success, diminishes the sense of risk and reduces fear. The influence exerted by participation in organised forms of collective activity is likewise.

¹³¹ Although it should be realised that this substitutive role of education is limited and ends at the higher level of economic development. All the more so in that the factors determining the spatial differentiation of the rate of new firms' creation cannot be reduced to single variables (Storez, 1994; Piasecki, Rogut, Smallbone, 1997).

¹³² For more information on the concept of local self-government interventionism, see: Sztando, 2000. For examples of good practice in other countries, see: Belussi, 1999; Georgellis, Wall, 2000; Frenkel, 2000.

- the scope and authority for local authorities to generate revenue should be defined by law.
- The level of competence of local self-government authorities, particularly in the context of EU assistance. Up until now Poland has not managed to produce a sufficient number of highly skilled civil servants at both local and national levels to guarantee the efficient formulation and implementation of strategies for regional development and the utilization of EU assistance. According to the practice adopted by the European Commission with respect to PHARE funds, managers responsible for the realization of these programmes were independent of public administration and financed out of the budgets of these programmes. Since the government takeover of the administration of EU PHARE programmes in 1998, since when the costs of this service have been met from the State budget, levels of pay for persons previously employed in the EU service programmes have been considerably reduced resulting in an outflow of some employees to commercial firms (Koncepcja polityki rozwoju regionalnego, 2001). Therefore the following steps are recommended:
 - strongly stressing the merits of preparing all those involved, at every level of governmental and non-governmental organisation, to meet the challenges connected with the observance of procedures when applying for European Community resources;
 - promoting the creation of strong co-operation networks within and between particular regions (pacts for sustained regional development);
 - stimulating partnerships, understood as the close and permanent cooperation between appropriate authorities at the local level with social partners in the organizational preparation for the effective use of EU assistance funds.
- The level of activity and self-organisation of economic milieus. The task of entrepreneurs' organizations should be the articulation of the needs and problems which have to be faced for them to become actively involved in local development. These organizations constitute, along with other non-government organizations, a wider arena of social partnership with which local self-governments can cooperate in the decision making process. However, the milieu of entrepreneurs is highly dispersed and poorly resourced, both in personnel and money.¹³³ The work done since 1992 on the law on economic self-government has failed to improve the situation. However, despite the fact that (i) economic milieus came forward with an initiative for bottom-up integration;¹³⁴ and (ii) the issue of economic self-government is the subject of one of the chapters of *The Economic Activity*

¹³³ It is estimated that in Poland there are over 3000 different organisations of entrepreneurs, which represent only a small part of the entrepreneurs' milieu (20%).

¹³⁴ This concerns the various organisations of economic self-government at the voivodship level, which are based on voluntary agreements of entrepreneurs' organisations operating in the area of a given voivodship. (Górnik, 1999).

Law, all attempts to date to pass the new law have failed. Thus, it is advisable:

- to quickly finalize work on the law on the economic self-government;
 - to promote professional lobbying in favour of SMEs;
 - to encourage consolidation among organizations of economic self-government;
 - to stimulate the emergence of an organisation or organizations which could act as an authentic representative of SMEs as opposed to large, often state-owned, firms;
 - to promote the incorporation of Polish organizations in the work of international entrepreneurs' organizations.
- The level of skills available in the local labour market. Those areas eligible for the category of spatial challenges and threats do not provide conditions supportive to business activity, due to, among other factors, the relatively low skills of employees and the (potential) entrepreneurs themselves. This is particularly important bearing in mind the overarching importance of the quality of the educational system and the level of education it can provide. These affect both the form and scale of SME development by, among other factors, raising the potential for entrepreneurship, enabling the assessment of the quality and chances of success of new enterprises, and by increasing the supply of entrepreneurs, especially in the high technology sector. They also influence the competitiveness and development potential of SMEs and the scope and vigour of regional business infrastructure particularly with regard to technology transfer and innovation. From this viewpoint it is advisable:
 - to progressively increase the scale of educational investment to raise the number of people with secondary and, more particularly, tertiary levels of education;
 - to extend the scope and capability of the business infrastructure to effectively meet the training needs of SMEs so as to improve their market competitiveness at both national and international levels. Priority areas for the upgrading of skills include: marketing, preparing business plans, financial management, and the management of quality and innovation. The delivery of training will probably be handled mainly by the private sector, nevertheless the public sector may play a catalytic role, stimulating and supporting the range of services (for example, through subsidizing the costs of training, assistance in equipping training institutions etc.).

This is also exceptionally important in the context of the support that Poland has received and will receive from EU funds.¹³⁵ This support is channelled

¹³⁵ Access to the Structural Funds may be an important factor in imparting dynamism to economic development, which is reflected in the contents of the National Strategy of Integration (1997), according to which it is expected that aid funds of this kind will contribute to a rise in the level of competitiveness of those regions which experience permanent developmental difficulties and to the

through three pre-accession financial instruments: PHARE II, ISPA, and SAPARD. Substantial amounts of these funds will go to programmes and initiatives supporting SMEs. Although it is difficult to estimate even an approximate level of outlay, various estimates show that in countries qualified as Objective 1 of the Structural Funds (and Poland will be such a country) various undertakings involving SMEs may absorb up to 20% of the total funds allocated to regional policy (Piasecki & Rogut, 1999; Piasecki *et al.*, 2000)

This considerable pool of funds directed at increasing the role of SMEs in regional development raises questions about the capacity to utilize these funds fully and effectively.

This question is all the more pertinent because – as demonstrated by European Union experience – the scope and potential of instruments supporting SME development is rarely reflected in actual practice.

This underlines the importance of effectiveness in activities undertaken, something which relies both on the capacity of SMEs to seek out and use existing sources of assistance and, on the other hand, the ability of the statutory sector to formulate and coordinate appropriate policies.

In the first instance there is a need for:

- an analysis of SME access to, assistance programmes and the creation of a data base enabling the identification of actual participation of SMEs as well as the nature and parameters of the main barriers which hinder effective utilization of existing programmes in the SME sector;
- raising the knowledge and skill level of entrepreneurs to allow more active participation in EU assistance programmes. This should include broadening access to information, assistance and counselling, including training and assistance in using information technology to a level allowing access to the data bases of the institutions inviting them to apply for financial aid.

In the second instance there are some problems in the field of cooperation between the institutions and structures involved in policies designed to support SMEs. Despite the existence of the basic structures there is still a lack – particularly at the lowest community and district levels – of:

- sufficient coordination of initiatives focussed on SME development;
- a substantial simplification of legislation (including tax legislation) making compliance and use easier;
- a sufficiently robust and effective aid infrastructure, especially in the regions classified as areas of spatial challenges and threats;
- enhanced access by SMEs to sources of finance.

The problems are aggravated by the lack of systematic monitoring of SME's sensitivity to the nature and scope of the economic and financial measures being applied at local and regional levels. The resulting breakdown in developing

mobilisation of internal savings by means of a system of incentives designed to encourage investments with the participation of the private sector.

knowledge about the magnitude and direction of forces threatening regional economies makes it difficult to take effective countermeasures.

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Chapter 13

Entrepreneurship, Enterprise and Policy: Towards a Synthesis

Lois Labrianidis

Rurality and peripherality

The results of the empirical research suggest that national characteristics influence key aspects of rural regions in a significant way. Indeed, the role of the particular national context is probably greater than other analytical categories, such as spatial groups. Moreover, the national framework component prevails over rural diversity: i.e. the differences between the environments in which businesses operate are more significant between countries than between different degrees of rurality in the same country.

Economic action inevitably involves social action and hence depends for its successful implementation on a supportive social context. The institutional context of society has a major role to play in fostering either cooperation or self-interest, which are traits common to individuals. Within this context, firms realise that they can profit not only through competition but also through co-operation.¹³⁶ In addition, the wider environment of the firm (i.e. the social and political system in which it is embedded and with which it interacts) can play a vital role in facilitating or obstructing its learning capacity. Thus, the key issue is not the organizational form but what Cooke and Morgan (2000: 17) call the '*associational capacity*' i.e. the capacity to create and sustain a robust architecture for generating and using knowledge from a wide variety of sources, including employees, suppliers, customers and public bodies. As Cooke and Morgan (2000: 30) argue, *only a few social settings are wholly devoid of trust, hence it is best to speak of high-trust and low-trust relationships.*

However, it appears that, in this regard, there are quite significant differences between the countries of 'southern Europe' and those of 'Northern Europe', while developed transition economies (such as Poland) seem to stand between the two. Needless to say, this distinction is not clear-cut, *the argument is about degrees of*

¹³⁶ This contrasts with transaction cost economists (e.g. Williamson, 1985), who argue that firms are trying to find the optimal governance structure so as to minimize transaction costs. In particular, when transaction costs are high, such exchanges will be transferred from markets to alternative governance structures, principally to hierarchies (vertical integration) or to long term contracting. They assume that there are limits to what agents can know (*bounded rationality*) and that agents engage in self interest seeking and thus may lie, cheat, steal etc (*opportunism*). In other words, the central problem of the firm in transaction theory is how to find the optimal governance structure for transaction costs under the assumption that inputs, outputs and technology are given (Cooke & Morgan, 2000:14).

difference rather than a clear-cut divide, with 'niches' in all three groups. In particular, in the countries of Southern Europe, those with centralized state structures and/or a weak civil society lead to hierarchical clientelistic networks inhibiting the building of social capital. Hence, 'civil society' cannot function as the arbitrator of market and non-market rules of conduct, or act as the intermediary between the self-seeking individual and society. Thus in Southern Europe certain factors are more frequently noticeable, namely 'free rider' attitudes; a non-cooperative stance towards other companies; lack of willingness to participate in trade associations and similar organisations; a lack of willingness to 'invest' in their employees; an absence among entrepreneurs of long-term commitment and trust; a lack of trust/ acceptance of the social context; and a lack of professionalism.

In this context, an analytical framework is proposed, to understand the relationship between peripheral rural areas and economic development processes, involving a holistic approach capable of grasping the social, cultural and institutional foundations of economic development. Rurality and peripherality are treated as constitutive elements of each other in the sense that assessment of the rurality of a region necessarily takes into account the degree and the nature of its peripherality likewise; the peripherality of a region reflects its type of rurality. Furthermore, a multidimensional view of the concept of peripherality is presented (i.e. peripherality as distance, dependency, distinctiveness and discourse), which is capable of overcoming the limitations of the approaches that identify peripheral situations with remoteness i.e. in terms of geographical position.

In turn, the holistic approach to rurality and the multidimensional view of peripherality enable us to examine peripheral rural areas as contexts that condition in a specific way the processes of economic development. Each region's economic development is an expression of the interplay of factors of regional, national and international scope. In fact, national characteristics influence key areas of the rural regions in a significant way while the liberalisation of frontiers and the deregulation of markets imply that the peripheral nature of a region can no longer be solely defined at the national level. This means that many peripheral rural regions of the more developed countries are certainly less 'peripheral' than many central rural regions in peripheral countries.

Understanding rural entrepreneurship

Entrepreneurship is not an undifferentiated process. Instead, in rural areas we can identify a multiplicity of entrepreneurial processes at work; some of which are locality specific, whilst others appear in more than one national context. These processes are evolving through time (i.e. some are declining or disappearing altogether, whilst others are in the process of transformation and new forms are emerging) and are path dependent (i.e. they can not be readily transposed from one context to another). The influence of rural locational characteristics for entrepreneurship varies considerably between processes: i.e. whilst some entrepreneurial processes are distinctly rural, others simply occur more or less incidentally in the countryside. Thus, the degree of embeddedness of each process

within the local milieu varies significantly, with implications for the emerging enterprise strategies. Undoubtedly, specific environments can be associated with the emergence of particular entrepreneurial processes. For example, needs driven entrepreneurial processes are prevalent in the case of the two most hostile socio-economic regimes, namely Lesvos and Baixo Alentejo, while an element of opportunism is present in all the other CSAs, although varying in form and significance between them.

Overall, in-migration appears to be a significant source of entrepreneurial capacity in all regions, since a third (33.8%) of all business owners are in-migrants, while in some of the regions they spectacularly outnumber local business owners.¹³⁷ The impact of in-migration on business activity seems to create a rather distinct pattern, since in-migration appears of considerable importance in some cases, while in others its impact is marginal. In general, in the southern CSAs in-migrants are relatively few and they tend to engage less in business ownership than locals (e.g. 27.8% of in-migrants in Lesvos are engaged in business ownership, while the respective share for locals is 31.6%). In three CSAs (Nordwestmecklenburg, Bialystok and Cumbria) the rates of involvement of in-migrants is almost double that of locals. In the remaining CSAs the shares of in-migrants are slightly lower than those of locals. In Devon & Cornwall this might be attributed to a very high percentage of the retired among in-migrants.

The absence (due to out-migration) of individuals who can introduce discontinuity and change is particularly apparent in some – mainly Southern European – CSAs, in terms of the absence of corresponding entrepreneurial groupings. Whilst, in some areas (e.g. Kilkis, Oeste) this gap is filled by in-migrants who frequently perform entrepreneurial roles, more peripheral localities (e.g. Lesvos and Baixo Alentejo) lack young and well-educated entrepreneurs who pursue opportunities rather than reluctantly engaging in pre-existing family businesses.

In spite of these variations, *entrepreneurship can generally considered to be a major source of employment*. The mechanisms of employment creation seem to operate in two ways. In the less developed areas containing fewer urban centres, self-employment and the creation of micro firms is an important mechanism, while in the more developed areas, a dominant process is the creation of waged employment. The former communist regions seem to be converging towards the second category, even though the three ex-communist regions included in our study are part of two countries that may be seen as examples of success stories of transition. More generally, it may be suggested that most of the Eastern European regions to fall into the first category. More detailed investigation into specific entrepreneurial clusters suggests it is the 'marginal' entrepreneurial processes (e.g. female petty entrepreneurs, local needs-driven entrepreneurship in Lesvos) that impacts upon disadvantaged socio-economic strata.

¹³⁷ In a different respect, recent in-migrants (i.e. those who arrived within the last decade) appear to be the most intensively involved segment of the population in six of the ten CSAs. In Lesvos and Waldshut the two categories of in-migrants (recent and older) display the most contrasting behaviours. In the former, recent in-migrants are far more engaged in business-ownership than older ones, while in Waldshut the situation is reversed.

The physical presence of (entrepreneurial) human capital is vital for rural development. From the research undertaken, it may be concluded that some localities lack types of entrepreneurs who could act as engines of economic development. Whilst some emphasis has been placed on developing entrepreneurial skills, policies must be developed to secure sufficient levels of infrastructure (physical and social) in the countryside to stem the tendency for out-migration and where possible attract people into these areas.

Rural enterprise in context: development paths of enterprises

Drawing upon the findings of the literature review, the results of the population and enterprise surveys, as well as the interpretation of the key informant interviews, each national team identified a number of enterprise development paths specific to the CSAs of the country concerned. A synthesis of these enabled us to distinguish enterprise development paths that appear in more than one country (unity – FoU). These encapsulate the essence of the project: i.e. how entrepreneurs (from different groupings) were able to utilise the resources of a rural locality, in exploiting opportunities and addressing threats emanating from their regional, national and international operating environments. Innovation, the use of new technologies and the development of new markets, as well as attempts to compete on the basis of lower costs, are the defining elements of the enterprise development paths. The study distinguishes five development paths of unity (i.e. present in more than one CSA): female petty entrepreneurs, local artisans, in-migrant artisans, young entrepreneurs and opportunity seeking entrepreneurs. It also distinguishes six development paths of diversity (i.e. present in only one CSA): local needs driven entrepreneurs, opportunity driven, entrepreneurial professionals II, local and I need driven professionals and enterprising females.

These development paths must be qualified on two counts. Firstly, they are development paths associated with enterprise dynamism in the local context. Indeed, the enterprises which participated in our survey in each CSA were identified on account of their dynamism – either in terms of innovation or growth in employment and sales turnover. Thus, development paths associated with stagnation or even decline are not included here. Secondly, any attempts to generalise should be cautious, on account of the profound diversity of rurality we encountered.

Between the local and the global

The great majority of rural ‘dynamic’ enterprises are invariably well embedded in their context i.e. they derive the bulk of their inputs and send most of their outputs from/to the regional and national markets. Moreover, the incidence of establishments outside the CSA, and more importantly, the national context, is infrequent. The incidence of fully or extensively globalised enterprises among those surveyed (note: those most dynamic in their regional context) is relatively low. The only exceptions are those located in Kilikis and, to a lesser degree, Waldshut.

At the same time, it is unclear whether the incidence of fully or extensively globalised firms is the result of their location or of other factors. This is particularly the case given that the incidence of globalised enterprises is influenced mainly by the sector (manufacturing and transport) and size (medium and large) of the enterprise.

Despite their local embeddedness, enterprises may not be able to tap into competitive advantages conferred by their rural location beyond lower costs of production. Local enterprises do not appear to tap into local sources of know-how, whilst accessing sources of information located elsewhere in the country undoubtedly involves greater costs and commitment than those required by enterprises located in urban settings. Similarly the ability of local entrepreneurs to tap into the 'rural image' is limited, especially in certain contexts.

Information technologies as a means of facilitating development of rural enterprises and rural areas

The Internet offers virtually free access to huge amounts of information. It transcends geographical borders and speeds up global diffusion of information; and by overcoming distance and isolation it can revitalize rural communities. Almost 67.6% of the firms in our survey already using some ICTs feel that they help overcome the constraints of being located in a rural area. However, for all these benefits to be realised by rural areas there is a *basic prerequisite: that is the even distribution of ICTs across regions, which is certainly not the case*. The differences between our 10 CSAs were impressive, since in the German or English regions firms not using ICTs constituted a very small minority, while in the remaining regions almost half of the firms surveyed did not use any ICT application. The same is also true regarding the types of applications used, with the more technologically advanced applications being more intensely used in the same countries. Moreover, there are types of information and knowledge exchange that continue to require regular and direct face-to-face contact. Consequently it is only routinised activities (teleworking, call centres, etc) that have become increasingly footloose and relocate from city centres to suburban areas or to urban areas around the globe, while the move towards rural areas is rather limited. Interestingly, the evaluation of the impact of ICTs appears to be negatively correlated with the spread of ICTs. In other words, firms in the German and English regions are much more sceptical about the extent to which ICTs have helped them address the problems associated with their rural location than Greek and Portuguese firms. The Polish regions appear to stand out, as they are the ones with the lowest spread of ICTs and the most negative attitudes. Furthermore, the size of the firms is not associated with different evaluations.

The widespread use of ICTs can also pose a threat to rural areas in the sense that ICTs expose the weaknesses of rural business and make them more vulnerable to outside competition (internet auctions).

Local products can be a suitable means for the development of some rural areas and especially the peripheral ones.

In almost all rural areas there are firms producing 'local products', such as prepared food (jams, marmalades, etc) using 'grandmother's recipes'. What is

argued is that though such firms can be very important for local economic development, they will never be sufficient on their own. What is also needed is new, fresh ideas and know-how from outside the region, as well as the development of opportunities of selling in national and international markets. This is not an argument in favour of endogenous development. However, 'endogenous' development is not always a choice; it can simply be the only way forward.

A product's geographic association can also constitute a quality characteristic ('authentic', 'healthy', 'traditional'). Regional labelling can bring economic benefits since it can attract premium prices, making it potentially important for rural areas, particularly rural areas in Southern Europe. For peripheral areas, 'local' products can be crucial for their development.

The impact of firms producing 'local' products appears to be positive in the development of regions, as it implies the existence of backward and forward linkages with the local economy (i.e. holistic development). In this context, such activities can lead to the strengthening of a multitude of sectors in the local economy, including agriculture, cattle rearing, micro manufacturing, guesthouses, retailing, and implicitly encourage pluriactivity. At the same time, this does not imply that endogenous development is perceived as the only development course for rural areas. Moreover, powerful protagonists whose networks may stretch across continents threaten the development potential of firms producing 'local' products (e.g. Ouzo in Lesbos by Pernaud Ricard and Remy Martin).

However, development of local products is constrained by their own nature. Firstly they need local primary materials, flora and fauna of the area, tacit knowledge that are produced, reproduced and transferred within the family and the local society. As a result, as soon as production exceeds certain levels, there may be a lack of sufficient physical and human resources of the types described above. Secondly, in countries where civil society is not well developed, structural problems (such as a lack of trust and of cooperation) can be too strong to overcome, even in the case of local products that base their existence on the particularity of the locality.

A local product can either be a reality or a myth. A myth in the sense that *the notion of the 'local' product can be socially constructed*, which means that firms sell their product based on different connotations such as: they sell the locality / rurality / notion of 'island' – leisure. Large national companies or TNCs may sell 'local' products either by buying them ready made (buyer driven chains) or through global sourcing (e.g. Italian companies purchasing olive oil very cheaply in bulk from Lesbos, then bottling it and selling it very expensively in small bottles). Finally, a TNC (e.g. Pernaud Ricard) takes over an existing (e.g. ouzo producing) company, selling the product through its own extensive distribution network around the world

Firms producing local or 'local' products *are far from homogeneous*, which means that their impact on the local economy is extremely diverse (Labrianidis, 2003). In the Greek context, we identified three broad groups of firms producing such products (see Chapter 10, p. 238)

Our research indicates that rural enterprises which display a significant degree of dynamism place considerable weight upon product/service definition. These are enterprises, which have turned the perceived disadvantages of a rural location into

a source of competitive advantage through emphasising of the local character of products, or even overcoming them altogether through the development of collaborative arrangements. These collaborative arrangements involve either linkages with other enterprises or with higher education institutions. Empirically, however, these linkages were only identified in two of the countries under investigation (i.e. Germany and Poland).

Our findings are more equivocal regarding the impact of ICTs upon rural enterprises. More specifically, ICTs appear to have the potential to make a significant positive contribution to the development paths of rural enterprises, a potential realised in the CSAs of the UK and Germany. However, the realization of this potential is very low in other CSAs as a result of poor infrastructure, which in turn contributes to low ICT take-up rates among enterprises.

Policies for the development of entrepreneurship in rural areas in conjunction with policies for the development of rural areas

The importance of human capital to foster entrepreneurship

European countries are among the most economically developed of the world, suggesting that they have to aim for the high value added products in the international division of labour. This means that European rural peripheral areas have to compete on the basis of quality and value added rather than just on price, where less developed countries possess competitive advantages. In this context, *investment in human capital* (e.g. education, training) in rural areas is essential for expansion. The need for such investments is accentuated by the gradual diminution of the importance of agriculture and the concurrent turn towards more 'skill demanding' activities and pluriactivity (e.g. they can be farmers as well as hotel owners).

Young and educated human capital is crucial for the development of entrepreneurship in European rural peripheral areas to enable them to compete in the international division of labour. However, most European rural areas still suffer from an ageing population, combined with depopulation. Hence policies must be developed to secure not only the reduction of out migration but also the development of the opposite trend (counter urbanization), which already exists in certain countries (e.g. UK). A basic prerequisite for that is the provision of a sufficient level of infrastructure (physical and social) in the countryside.

Policies directly enhancing entrepreneurship

Potential sources of entrepreneurship There are several ways in which policy interventions can contribute to building-up the entrepreneurial capacity of remote rural regions such as:

- *Young people:* There is a clear need in most remote rural areas to find ways of developing entrepreneurial awareness and ambitions amongst young people if endogenous business development is to occur.

- *Role of in-migrants: In-migrants are an important source of entrepreneurship in some remote rural areas, particularly those that are perceived as environmentally attractive, such as the Devon & Cornwall and East Cumbria study areas in the UK and Nordwestmecklenburg in Germany.*
- *The role of leading figures (animators):* One of the main problems in developing the entrepreneurial capacity of the more underdeveloped rural regions is the absence of key people who can mobilize entrepreneurship. People in rural areas are often conservative and reluctant to take any initiative unless there is a high degree of certainty of a positive outcome. Moreover, they are often not well educated, usually older than the average population and have life experiences, which are limited by their rural environment. Thus, the presence of individuals capable of being animators (e.g. in-comers to the area, locals with experience outside the area) is extremely important for the development of a region. The existence of just one or two leading figures can play a catalytic role for a whole area.

As a consequence, it is easy to understand why the establishment of *Local Action Groups* by the LEADER initiative *were crucial in promoting the development of rural areas with weak social and entrepreneurial structures*. Such a role might also be played by ex-villagers who ‘weekend’ in the village, bringing with them their urban experiences; and/or by high ranking employees of an incoming large firm; or even by public employees who stay a few nights per week in the area.

Developing the infrastructure to support entrepreneurship Policy has a clear role to play in developing those regional infrastructures that are needed to underpin and support entrepreneurial activities in rural areas. Examples include:

- *Education and Training:* Need to invest in the enhancement of training through schemes tailored to the needs of rural areas.
- *Creation of business incubation centres:* Could stimulate the formation and growth of new rural enterprises especially in areas where there is a lack of local support and consulting services available to entrepreneurs (see Left Bank, Kilkis and Lesvos).

Actions to enhance the entrepreneurial capacity of rural areas This can be achieved through:

- *Enhancing the knowledge infrastructure* of the local economy through facilitating linkages with HEIs and other R & D providers;
- *Facilitating linkages with organizations not located in the area.* Especially in instances where the local knowledge infrastructure is weak or absent, business support providers can function as identifiers and facilitators of linkages with organizations outside the area;
- *Concentrating support on new enterprise formation;*

- *Fostering the endogenous potential of the region*: this includes implementing and the fostering co-operation between businesses as well as co-operation between businesses and local authorities.
- *A system of regional marketing* which promotes specific comparative advantages of the regions (e.g. tourism or agriculture) also seems to be a promising instrument to coordinate resources in developing an effective and efficient way of promoting the endogenous potential of individual regions.
- *Responding to the need for measures that foster entrepreneurial thinking in rural areas*. This can be done through several means including the existing education system. Examples of such measures include project workshops or voluntary working groups that deal with entrepreneurial issues, encouraging students to think about the possibilities of *why* and *how* to become an entrepreneur as an alternative to becoming an employee. There is also scope for vocational training and advanced training that develop and improve specialized know-how in terms of commercial, financial and legal aspects of entrepreneurship.

Policies indirectly enhancing rural entrepreneurship

There is a need to enhance the level of education in certain rural areas in Europe
 There are remarkable disparities in the level of educational attainment of the population in the various CSAs. Two distinct groupings of CSAs are distinguishable. *The four southern regions* (i.e. Lesvos, Kilkis, Oeste and Baixo Alentejo) are characterised by low educational qualifications, contrasting sharply with the two German and the two Polish regions. Although three of the regions (the two Polish regions and Nordwestmecklenburg) are among the poorest areas of the sample, the relatively high educational qualifications of the surveyed population is not surprising given the rigorous educational policies of the former socialist regimes.

The situation is more complex when one looks into the educational qualifications of the younger age groups (18-34 years). In southern regions, the situation appears much better than in the total population, since illiteracy seems to be nonexistent in all areas except Baixo Alentejo (where the figure is slightly less than 2%). All the ex-socialist regions (and especially the Polish regions) seem to have benefited from their socialist legacy. Unexpectedly, the situation is much more confused and problematic in the UK regions with both CSAs boasting the highest levels of people with no educational qualification, while Devon & Cornwall seems to be the only CSA where the young are less qualified than the total population. This reflects the attractiveness of the sub-region to in-migrants, which includes many retired and semi-retired in-migrants who are relatively well-educated professionals.

The relatively better educated would tend to be found in semi urban areas while at the other end of the spectrum, the less educated tend to be found in rural remote areas.

There is a need for improving physical and social infrastructure One of the main reasons for the depopulation of the countryside is the poor physical and social

infrastructure of rural settlements. Educational provision can be poor, and there are very few, if any, entertainment opportunities. Moreover, in small rural communities, the younger generation especially can resent the social control that may be present, wanting to escape to an urban centre where they can enjoy 'anonymity'. Young people leave the potential wealth of the countryside, migrating to large cities where they are willing to work in poorly paid jobs just to stay in the city.

It is of considerable importance to enhance the knowledge infrastructure of the rural economy: This can be done either by taking advantage of people that are already in the area (e.g. academic staff in Lesvos), or can be attracted to it and/or through the facilitation of links with organisations outside the two CSAs.

There is a need for the enhancement of the knowledge infrastructure and the institutions necessary for a shift to higher quality products. At the moment production and services are typically aimed to the lower end of the market. For example, some farmers can diversify into organic products. Some might be able to process and pack agricultural products so as to take advantage of 'added value'.

The social environment is crucial for the development of entrepreneurship in an area: A lack of trust can lead entrepreneurs to not cooperating with each other, even in cases where there are co-locations of firms belonging to the same sector. One cannot expect people to be willing to work under conditions that are 'outdated' and hence not conducive to their own social benefit. For example stock raisers and tobacco growers find their occupational aroma an impediment to their marriage prospects, so it is with reluctance that people accept such employment.

The need for an integrated perspective on towns and the countryside if local problems are to be solved in Europe In southern European countries rural areas are still suffering from the emigration of their populations, albeit less so in the last decade than previously. However, this is not the case in the Northern countries where rural areas are growing more rapidly than urban. There is a steady pattern of growth of population in rural areas and a matching pattern of decline in larger urban conurbations. This is attributed to commuting, retirement migration and second home purchase, all of which are determined mainly by 'lifestyle' choices. In other words, while urban dwellers in northern countries feel completely alienated from the rural areas and hence want to migrate there, in southern countries (e.g. Greece) the urban population has never ceased to have strong links with the countryside; for example a plot of land that they own or even cultivate themselves, close relatives in the countryside.

Historically, a concern to protect 'best quality' agricultural land was a fundamental consideration in planning systems, and this has influenced the development opportunities in rural areas. In an era of agricultural surpluses, with a globalised market of agricultural products, this concept is becoming less of an absolute constraint on rural development in its own right, but is perhaps being superseded by a more generalised concern for the protection of the countryside and a desire to resist the forces of urbanization. This desire is manifested in policies to limit the consumption of land, to protect an increasing area of 'valuable' countryside, and to limit development in the countryside to protect its character.

While improvements to road and rail infrastructure are often seen as significant enabling assets in facilitating urban and rural development (for example, by giving easier access to suppliers and markets), they are not an unalloyed benefit. The greater ease of access is also a greater ease of egress and improved communications can result in the 'export' of jobs and the increase of commuting flows. In addition to policies for the provision of road and rail infrastructure, pricing and scheduling policies for service provision are also of great significance in influencing the pattern of flows between localities.

The city and countryside are part of a single functional, spatial entity with diverse relationships and interdependencies (EC, 1999). The best possible conditions for development exist when towns and neighbouring rural areas complement each other. There is therefore a need for an integrated way of looking at towns and countryside, if local problems are to be solved.

A precondition for the development of the countryside is the retention of the younger generation. It seems that securing them an income although a necessity is insufficient on its own. Young people must also have good living conditions, together with employment prospects and social status. Hence, it seems that it is of *utmost importance to make sure that certain semi-urban areas in each region are made attractive by satisfactorily equipping them with physical and social infrastructure.*

Small to medium size urban centres located amidst otherwise rural areas can be of extreme importance (Tarling *et al.*, 1993). These essentially rural towns are instrumental in the provision of services to both enterprises and the population at large. It has been argued by influential policy-making bodies, such as the Countryside Agency, in the UK that such towns may significantly affect and enhance the developmental trajectories of their rural hinterlands. However, changes in agriculture and the ways that agricultural materials and equipment are supplied, and goods marketed have removed the economic purpose of several rural towns. The centralisation of some professions and services in larger conurbations, the development of out of town superstores and changes in the pattern of leisure activities have also contributed to the gradual demise of towns in some rural areas, particularly smaller market towns.

There is a need for a policy to support agriculture in certain rural areas

Shift from a productivist to a consumerist vision of the countryside Current EU policy priorities seem to have shifted from a productivist to a consumerist vision of the countryside, where consumption and leisure will be of more importance. However, *at this stage in countries like Poland, Greece and Portugal, it is difficult to imagine the development of the countryside without a prominent role for agriculture*, excepting perhaps certain regions (e.g. where tourism predominates). As a consequence, policies for the development of rural areas in such countries must include giving consideration to making agriculture more competitive.

There is a need for diversification into non-farm activities This involves on farm non-agricultural activities in the form of rural tourism services (e.g. serviced accommodation, self catering accommodation, open farms, farm house teas/café,

sports), manufacturing, preservation of the heritage of the countryside, protection of the environment. This is important for all rural areas in Europe (e.g. for northern Europe because of the decline of rurally based industries such as coal mining, defence industry).

European policies by type of area and type of enterprise

The main argument, which runs throughout this book, is that rural development is desirable and entrepreneurship is perhaps the most important means of achieving this since among other things it increases employment. In this context, *public support is more than crucial for development in European rural areas*. Rural areas are often most in need and usually there is an additional cost in delivering support there (e.g. in delivering training and business support to rural business), referred to as the 'rural premium'. The interplay between entrepreneurship (i.e. type of entrepreneurs, business strategies), the characteristics of rural regions (FoU, FoD, trajectories of regional development), together with national characteristics of the country that they operate within, gives rise to a whole range of policy responses.

More specifically, what is needed in policy terms is to know what are the needs of both entrepreneurs and of rural areas around Europe. Also, what are the impacts of each policy; in the case of failures, what were the reasons for failure and what lessons are there to be learnt; in the case of successes, what were the conditions that led to it, and how can it be replicated? Problems related to the implementation of policies. As far as policy implementation is concerned, what should public policy be doing to develop entrepreneurship and develop rural areas. At a strategic level, policy needs to consider key target groups, such as particular types of: regions, entrepreneurs and/or– activities, as well as clear policy priorities.

There already exist a large number of policies to encourage entrepreneurship in rural areas in Europe. However, these are often provided in a disjointed and fragmented pattern combined with a poor level of dissemination of information and knowledge on issues concerning rural enterprise development. Furthermore, some policies miss their targets because of a lack of understanding of the local context in which enterprises operate. As a consequence, there is a need for a more strategic and coordinated approach towards building the entrepreneurial capacity in peripheral rural areas.

Needless to say that there is quite a significant degree of difference between countries in relation to the number of policies, their provision, their adequacy for each country, with 'northern' countries appearing to be in the best position and Poland in the worst.

There is a distinction between northern, southern and transition countries in terms of both policy needs and policy delivery. Specifically, policy makers in 'northern' countries typically have a better knowledge of the policy issues, better evaluation of policies applied, which are better adapted to the needs, better administered, with a better delivery of support (i.e. a more proactive approach). In 'southern' countries *existing policies are not always the most suitable to help alleviate the problems*. In certain countries, governments simply apply the EU policies formulated by other country members, mainly due to their inability to

influence policy formulation, because of a lack of political power and/or a lack of know-how).

Moreover, *forms of policy delivery are often not adequate, because of* some combination of excessive bureaucracy, political clientelism, and ineffective policy support mechanisms). In some countries (e.g. Greece), this is because local authorities are very weak, particularly in small rural communities, where the authorities may lack the capacity to help the development of entrepreneurship in their area. Also in the same countries the institutions of civic society are very weakly developed (no important NGOs, trade associations), which again undermines their ability to promote and support for entrepreneurship.

As a consequence, it is argued that European policies are required to foster entrepreneurship in rural peripheral areas, which sensitively distinguish between groups of countries (southern/ northern/ transition) as well as by types of rural areas and types of enterprises *and not* by country (re-nationalisation of policies).

Although general principles emerge, our research demonstrates the importance of policies to foster entrepreneurship in rural areas being sensitive to local, regional and national conditions. This is because of the significance of institutional behaviour and national frameworks, as influences on the level of entrepreneurship, as well as reflecting differences in levels of economic development, social conditions and historical development paths. This is specifically reflected in differences between regions in the nature and extent of the development of local/regional markets for business services, which is a key issue affecting the case for public policy intervention.

A strategy to encourage and support entrepreneurship in peripheral rural areas must incorporate long- as well as a short term perspectives and must recognize the variety of ways in which public policy can impact on the nature and extent of entrepreneurship, rather than narrowly focusing on direct support measures. In this regard, the role of educational institutions in shaping attitudes towards business ownership and entrepreneurial behaviour appears critical. The study has revealed some good practice principles of rural enterprise and entrepreneurship policy, although the impact in practice is typically reliant on the effectiveness of institutions and delivery mechanisms, which are far from uniform.

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