

# The role of the private sector in regional economic recovery

## The case of a middling district in Middle England

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**Abstract:** *As the policies of the UK's new Coalition government unfold, it appears that the private sector will take the bulk of the responsibility for sustaining economic recovery. In order to understand the implications for local economies, this paper highlights areas of growth potential and the barriers that business owners are encountering. Based on a postal survey of businesses in the study area of Newark and Sherwood, a representative rural district in a middling region, research has identified that the majority of firms are still planning to grow, despite significant concerns over investment finance and working capital. Furthermore, 17% say that they will definitely recruit new full-time staff within two years, while a further 36% are considering doing so. This paper expands on these findings and also explores the skills needs and barriers that are preventing growth from being realized. The aim is to provide policy guidance to support the development of local economies emerging from recession and to consider the longer-term implications of the characteristics of local labour markets.*

**Keywords:** *economic recovery; small and medium-sized enterprises; business growth; employment; regional economies*

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The dynamics of local economies have attracted increasing attention as their place in spatial circuits of value is continually evolving in the face of ever changing global forces (Hudson, 2011). As businesses are increasingly linked into chains and networks of relationships that straddle regional and national divisions (Bosworth *et al*, 2011), a skilled and mobile workforce can provide a region with certain competitive advantages. Within such a dynamic region, the opportunity for entrepreneurs to start and grow businesses becomes apparent, but in a time of recession and post-recession, the structure of the local labour market is considered to be a critical factor in determining the future trajectory of the local economy

and its resilience and potential for recovery (Martin, 2011).

At the time of writing, public sector budgets in the UK are being cut by anything up to 40% in an attempt to control a national debt that has hit one trillion pounds (BBC News, 2012). At the same time, the rate of growth in the economy has remained perilously close to zero since 2010, with the highest quarterly growth in that year of 1.2% (in the second quarter) and still just a 0.6% increase in the third quarter of 2011 (ONS, 2010 and 2011). Furthermore, the Office for Budget Responsibility has forecast 490,000 job losses in the public sector by 2015, rising to 610,000 by 2016 (BBC News, 2010).

In such economic conditions, growth will depend largely on the private sector, and this raises specific questions concerning the contribution of regional economies, an issue recognized in the emergency budget in June 2010 with the proposal for a £1bn regional growth fund to support economic growth in parts of England hit by public sector cutbacks (*Daily Telegraph*, 2010). This has been followed by measures to free up planning, increase investment in high-speed rail and digital connectivity, provide support for knowledge-intensive sectors, along with a distinct rural growth fund and new enterprise zone policies, all announced in the government's Growth Review of November 2011 (HM Treasury, 2011).

This leads to questions about how the private sector can stimulate recovery, where jobs will be created and the ways in which businesses will develop. In particular, challenges for the small firm sector, which employs approximately 80% of people in the UK and is characterized as being flexible and dynamic (Anderson *et al*, 2010), must be addressed. For effective, targeted regional policy aims, awareness of the barriers to growth, financial constraints and skills needs will also be essential. These questions are tackled through the analysis of a questionnaire survey of business owners in the Newark and Sherwood district of England to develop existing knowledge of post-recession regional economies. Being an average performer on many socioeconomic indicators and reasonably well connected but with a mix of rural and urban areas, it is used as an example of an 'average' district. This is reinforced by research into the early impacts of recession, which ranked the East Midlands region as an average performer on a range of employment and income indicators (Campos *et al*, 2011). The experiences of this subregional case study are then used to make assertions on the importance of local labour markets and local enterprises that may be applied elsewhere in the developed world.

## **Regional economies in and out of recession**

The UK recessions of the early 1980s and 1990s have been reviewed by Audas and MacKay (1997). The former recession hit manufacturing and mining, whereas the latter affected the services sector, particularly financial services. The former affected the north and west of the UK disproportionately more, whereas the south and east were more exposed in the second recession. The second was classified as unusual, and some predicted the closing of the so-called north-south divide. Hardill *et al* (2006) provide an illuminating account of regional differences, with fragmentation in the north-west deepening the impact of recessions, while

the influence of the south-east continues to dominate economic policy.

The characteristics of those who became unemployed – either in the short or long term – during these periods have been considered. Indeed, of particular importance in unemployment since the first recession is the increasing number of non-employed (Beatty *et al*, 1997; Beatty *et al*, 2000; Fothergill, 2001; Green, 1997), which is a key focus of policy for the Department of Work and Pensions. Overall, immobile manual workers become structurally unemployed when the local industry collapses. Indeed, they become unskilled. Even in the second so-called services sector recession, manufacturing was still hit. Taylor and Bradley (1994) report that counties with a high proportion of manufacturing employment in small firms were disproportionately disadvantaged.

What emerged over two decades was a concentration of unskilled former manual workers, partially dependent on disability benefit, in cities in the north and the west of England. Relatively immobile, what skills they had atrophied with the collapse in demand for unskilled workers across the OECD (Nickell and Bell, 1995). These population centres will be particularly sensitive to any welfare reform. Webster (2000) points out that the concentration of worklessness in cities and in the mining areas following the first recession meant that the 'welfare-to-work' policies were inadequate. He argues that there is a link between male unemployment and female lone parenthood and between unemployment and workless households. Despite the protestations that Regional Development Agencies (RDAs) provide a boost to an ailing economy (Athey, 2009), given the winding down of quangos and other agencies such as RDAs, it is likely that the unemployed will be forced to rely more on their own mettle and that the local economy will look to the private sector.

Armstrong and Taylor (1985), Dixon (2007) and Turon (2003) consider unemployment inflows and outflows. Turon concludes that the scarring caused by long-term unemployment might be best avoided by active market policies in a recession. Armstrong and Taylor (1985) report the supply-side issues of the characteristics of males losing their jobs and remaining on the unemployment register. However, they also recognize demand. Those travel-to-work areas with high rates of male unemployment were dependent on cyclical industries or tourism. Dixon (2007) finds that rather than the outflows, it is the inflow rate that produces regional variations.

The nature of this nexus of disadvantage can be seen in studies by McCormick (1997) and Evans and McCormick (1994), highlighting the skills link to regional disparities and arguing that regional unem-

ployment is a manual worker problem. After an adverse shock to the local economy, manual workers remain while the non-manual worker migrates. As a result, non-manual spatial unemployment differentials are relatively slight compared with those of manual workers. Indeed, rather than migrating, the response to long-term job deprivation, particularly for the unskilled and aged, is to withdraw from the labour market (Collis and Mallier, 1996), lowering the unemployment and participation rates. This hysteretic event is an externality affecting the work ethic of the local community. Given that the more highly skilled workers are most likely to move (Overman *et al*, 2010), leaving a less skilled, less mobile residual, perhaps one is forced to conclude that upskilling is the only answer. Recognizing that human capital flight is a risk, the residual should still be better skilled and the local area will benefit from better extra-local links. The global labour market is becoming less friendly towards the expensive manual worker, and attitudes in the current Coalition government suggest that the welfare system will no longer be a source of a barely liveable income.

At the regional level, unemployment may be caused by real wages being too high (the neoclassical view), a lack of aggregate demand (the Keynesian view) or supply-side rigidities such as a mismatch of skills, demotivation or barriers to information and transportation (Turok, 2007). Past experiences demonstrate that post-recession labour markets suffer particular problems due to the combination of frictional and structural unemployment. For entrepreneurs seeking growth, the labour market can act as a barrier to realizing their ambitions, both in terms of people's willingness to work and the possibility of finding appropriate skills. As such, policies aimed at increasing skills levels can support a more enterprising and aspirational culture, and the residual population that does not move away should also have higher skills than before, along with greater opportunities to use those skills in the local labour market.

Martin (2011) examines the resilience of regional economies to recessionary shocks. He finds that, among regions, the East Midlands has been the most exposed to declines in productive industries, the key source of regional imbalance. However, employment appears to be relatively immune to downturns, with the declines in the 1979–83 and 1990–92 recessions, along with the current one, being less severe than the UK average.

Campos *et al* (2011) also indicate the East Midlands' resilience, despite the fall in employment in retail, wholesale and manufacturing jobs nationally, to which the region is most exposed. Household income has grown by as much as any region's in England in the

current recession, despite a bad year for employment in 2009. The East Midlands almost always features as a mid-table region, sandwiched between the favoured south and the disadvantaged north. It commonly mirrors the UK's performance.

Regional performance in 2011 may become a function of the relative size of the public sector. Buchanan *et al* (2009) examine job creation in the UK regions and, focusing on the role of the public sector, they estimate that 57% of all new jobs were state-dependent between 1998 and 2007. State dependence refers to traditional public sector activities, plus those in which the state provides a share of the income. The north-east's and West Midlands' state dependence account for 79% and 153% of job increases respectively. Job generation in the East Midlands was less reliant on the state, at 55%. With a significant retrenchment, fears about certain regions being severely affected led to the creation of a £1bn Regional Growth Fund to support economic growth in parts of England hit by public sector cutbacks. Announced in March 2010 by the Deputy Prime Minister, the focus is on creating the conditions for growth and enterprise in the regions by stimulating investment that will lead to sustainable private sector jobs. This is, however, less than the £1.4bn in the budgets of Regional Development Agencies.

Although extreme, emerging from a recession may be compared to emerging from a conflict zone, where research has found that the companies most likely to operate are typically smaller or less well established companies that follow a deliberate strategy of taking high risks in the hope of winning high returns (Bray, 2007). In an economy emerging from recession, financial constraints – especially in relation to the availability of investment finance – can require greater personal risks and entrepreneurial drive. To facilitate and encourage growth ambition, regional economies must be able to call upon a skilled and motivated workforce, strong trade networks and an entrepreneurial culture that facilitates new investments and business growth. Some of these features are explored in the remainder of this research.

## **Newark and Sherwood**

This study investigates a sample of firms in the Newark and Sherwood district of the UK. This district is in the East Midlands region, is principally rural and is home to some 4,045 businesses providing a total of 43,000 jobs, of which 27,200 are full-time (Nomis, 2011). The district is ranked 235 out of 379 districts in the UK Competitiveness Index 2010, with a gross value added (GVA) per capita of 16,032 (210th out of the UK

districts). The district also has a lower unemployment rate (1.6% versus 2.5% for the UK in 2008) and a lower deprivation index score (207.32) compared with both the county of Nottinghamshire and national averages (Newark and Sherwood District Council [NSDC], 2009). Newark and Sherwood has below average unemployment and above average participation compared with both the UK and the East Midlands. Between July 2009 and June 2010, the Office for National Statistics (ONS) estimated that economic activity rates for the three were 79.8%, 76.5% and 77.2%, and their unemployment rates were 4.9%, 7.9% and 7.3% respectively. The median wage in 2011 was £17,991, compared with £19,892 for Nottinghamshire and £20,338 in the East Midlands (ONS, 2012). It is primarily a commuter area, with the 2001 census showing that about 11% of the population commuted out of the district for work purposes.

Being neither a ‘high-flyer’ nor a badly lagging district, it presents a valuable case study for understanding the general concerns of businesses located outside the big cities and high-growth areas. Forecasts estimate that some 57,000 new jobs will be created in the region between 2010 and 2015, equating to a 2.7% growth rate (BBC News, 2010b). In 2008, almost 25% of the workforce was in the education, health or public administration sectors (Nomis, 2011), which was slightly lower than the percentage for the region (26.7%) and for England as a whole (27.0%), but the potential impact of public sector cuts is still apparent. Data also show that the district has a below average share of businesses in knowledge-driven sectors (24.3% compared with a UK average of 31.5%) (NSDC, 2009).

## Methodology

A postal survey, together with pre-paid return envelope, was sent out to 3,600 businesses at the end of April 2010. Names and addresses of businesses were drawn from Companies House records, meaning that very new or very small firms were likely to be excluded, but it enabled the widest coverage for the survey. In an attempt to balance this, questionnaires were also circulated through business networks known to the researchers and NSDC – although these provided a small minority of the responses. Prior to the full mailshot, a small pilot survey was carried out, which helped to fine-tune some of the questions and ensure that the nature of the data collected was compatible with SPSS. From the 3,280 valid addresses used, 319 questionnaires were returned unopened, no longer being valid business addresses. Nevertheless, 199 usable responses were received, giving a response rate, based

on the remaining 3,281 businesses, of 6%. Although a low percentage, this was a one-off postal survey, and the response reflects the nature of the addresses – which included many branch sites and organizations that might not consider themselves as businesses. The database provided was also somewhat outdated and, given the economic climate, we can assume that many more than the 319 unopened questionnaires reached businesses that had ceased trading.

Descriptive and comparative statistical analysis was carried out to provide initial findings from the data, after which more sophisticated cluster analysis was employed to understand more deeply the underlying features of the Newark and Sherwood economy. Cluster analysis entails assigning a set of attributes to groups or clusters. In essence, the attributes clustered should be more similar to each other than to those in other clusters. The preferred algorithm can select an appropriate number of clusters or place all into a cluster.

The TwoStep method, a bespoke method for SPSS, uses a ‘smallest distance’ criterion at each step. The Schwartz Bayesian Information Criterion is used to select the number of clusters to be used. Once the number of clusters is established, they are then generated. An outlier treatment is permitted where the number of cases falls below a threshold which is set at a fraction of the maximum cluster size. Output can then be structured to provide a  $\chi^2$ -based confidence interval threshold to ascertain whether the variables concerned make a significant contribution to the formation of the cluster under consideration.

## Findings

The responses cover a wide range of business sectors, as illustrated in Table 1, with professional services dominating. The majority of businesses are limited companies (63%), with 17% partnerships, 16% sole traders and a handful of charities, social enterprises and other organizations.

**Table 1. The business sector of survey respondents.**

Sector	Frequency	Percentage
Retail	35	17.6
Manufacturing	21	10.6
Business services	81	40.7
Other services <sup>a</sup>	25	12.5
Agriculture	22	11.1
Construction	15	7.5
<i>Total</i>	<i>199</i>	<i>100.0</i>

<sup>a</sup>‘Other services’ include education, health, tourism, recreation and transport services.

**Table 2. The growth intentions of businesses.**

Turnover	Number of firms	Two-year plan		
		Grow	Stay same	Smaller
<£68,000	44	50.0%	38.6%	11.4%
£68,000–199,999	53	56.6%	35.8%	7.5%
£200,000–999,999	43	60.5%	34.9%	4.7%
£1 million or more	36	69.4%	30.6%	0.0%

**Table 3. Anticipated directions of business growth.**

Growth option	Definitely (%)	If the opportunity arises (%)	No (%)
New full-time staff	25.6	40.2	34.2
New part-time staff	22.2	41.0	36.8
Expanding premises	8.5	29.9	61.5
New premises	7.7	25.6	66.7
New suppliers	27.4	31.6	41.0
New geographical markets	25.9	23.3	50.9
New product lines	37.6	22.2	40.2
Increasing output of same products	54.7	23.1	22.2

*Business growth aspirations*

Despite the timing of the survey (with the economy slowly emerging from recession and pre-election talk speculating about significant budgetary cuts), 59% of businesses are planning growth within two years, and a further 35% expect to stay the same (see Table 2). This may be slightly more positive than expected, but fits with the findings of Anderson *et al* (2010), who discovered that rural small firms were showing greater resilience in the face of the economic downturn.

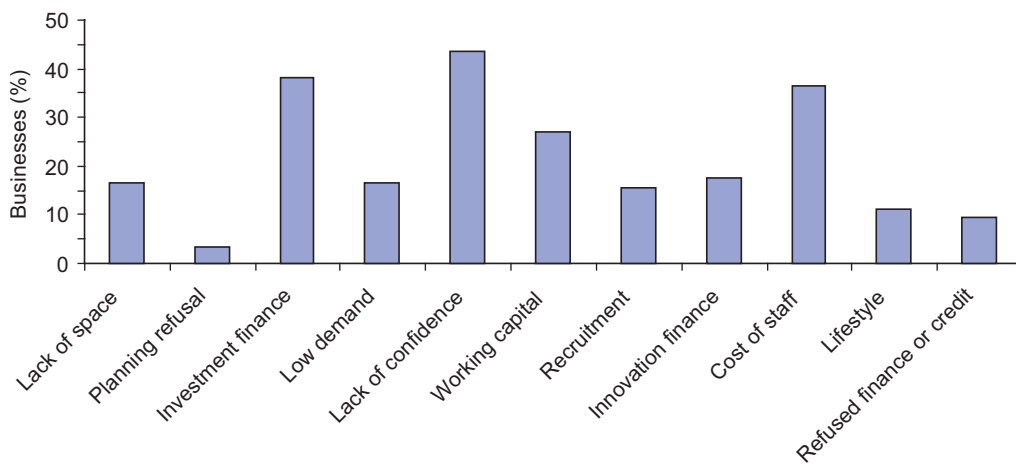
One of the key requirements of the private sector through a period of economic recovery is to provide jobs, and this is heightened in a period when public sector employment is predicted to fall dramatically. In

this survey, 17% of businesses were anticipating taking on new full-time staff within two years, and a further 36% will take on full-time staff ‘if the right opportunity arises’. This was not defined in any more detail on the questionnaire, although subsequent questions address some of the issues restricting both growth and recruitment. While these figures are promising, more meaningful analysis to understand the origins of future growth considers just the businesses that are planning for growth.

Of the 117 businesses seeking growth, Table 3 illustrates how they are anticipating growth to materialize, and it also shows that just over a quarter are definitely expecting to hire new full-time staff.

The majority of firms expect growth to come from increasing output of the same products, which suggests that innovation is low. A common proxy for innovation is the number of new products brought to market, and in the past two years, 47% of firms had introduced no new products and only 28 firms had introduced more than three new products. Excluding the 11 retailers, for whom selling a new product line is not necessarily an innovation, it appears that innovation-led growth is lacking in this district.

One possible source of growth highlighted by the research is in-migration. Some 52% of the business owners surveyed had moved into their local area during their adult lives. Furthermore, the survey indicated that incomers were slightly more likely than local business owners (61% compared with 52%) to be aiming for growth within two years. The figure increases to 63.6% for incomers who moved from beyond the East Midlands region. Interestingly, over 50% of incomers running businesses had a degree, compared with 16% of those who grew up locally. This confirms that the drivers of local economic growth are not necessarily originating from within the local economy and therefore both



**Figure 1.** The factors restricting growth.

businesses and employees need to engage in broader networks for trade, recruitment, information and innovation.

When asked about factors restricting growth, the biggest concerns were associated with the national economy, as illustrated in Figure 1. Lack of confidence in the economy and a lack of investment finance can both be attributed to the recession and credit crunch, supporting findings in the north-east, where ‘anxiety about the current economic climate’ came out top in a similar survey of businesses (Atterton and Affleck, 2010).

Concerns over the cost of staff might also be considered as a national problem, especially when a large part of that relates to regulations and non-salary costs, but taken with the 16% of firms who experience difficulties in attracting staff (the ‘recruitment’ bar in Figure 1), it is apparent that the local labour market is significant for firms in this case study area. Once again, this corresponds with findings in the north-east, where 30% of rural businesses cited problems in recruiting skilled staff locally as a constraint on growth (Bosworth, 2009).

Taken together, the low levels of innovation combined with greater concerns about the national economy demonstrate that firms are more reliant on an upswing in aggregate demand rather than innovating to grow themselves out of recession. Such a conclusion might also lead us to observe that many business owners have a stronger external locus of control (Rotter, 1966), lacking the entrepreneurial self-belief to overcome problems of circumstance.

These findings go some way towards confirming the view that regional differences are persistent (Overman, 2010), with businesses accepting that their regional context is part of the external environment that they cannot influence. A national upturn will not see them in a stronger position relative to other regions, but it will return them to the trading conditions in which they know that they can succeed. The regional picture is one that they know and they are able to work around the constraints and take advantages of any local competitive advantage.

Based on the findings that innovation and productivity are aligned with skills and education (Gambin *et al.*, 2009), a relationship that is stronger in rural areas (Webber *et al.*, 2007; Atherton *et al.*, 2010), the next phase of analysis explores the skills needs and growth restrictions of businesses in this district.

*Barriers to recruitment*

Further analysis of the issue of recruitment illustrates that there are greater concerns over core skills and motivation rather than over higher-level skills and those that can be learned on the job. When asked about factors

**Table 4. What factors most affect the ability to recruit staff?**

	Cluster						%
	1	2	3	4	5	6	
Written communication	1			4			26.5
Numeracy	2						25.0
Motivation		1			1	2	43.4
Teamworking		2					22.1
Affordability			1		2		42
Experience			2				31
Interest				1			30
Customer service				2		1	39.0
Manual/physical skills				3			20.6
Competition between employers					3		8
Technical skills							33.1
Problem solving							30.9
Oral communication							26.5
Qualifications							19
IT skills							11.8
Management							11.8
Project management							6.6

that make it difficult to recruit staff, we see in Table 4 that 30% of the business owners feel that people are not interested in their line of work and that 43% of respondents state that they struggle to find people who are motivated to work. Indeed, ‘experience’ outweighs ‘qualifications’, suggesting that firms perceive qualifications to be a poor reflection on the skills that they actually require from a new recruit. These concerns suggest that rather than specific training needs, the local economy is lacking a culture of entrepreneurship in which entrepreneurial endeavour is collectively embraced and encouraged to enable and encourage others to engage or participate in a more enterprising society (Atherton, 2004).

An analysis of more specific talent shortages suggests that technical and problem-solving skills are lacking, and softer skills such as customer service are in short supply. To see the extent to which these factors are grouped together, cluster analysis is used. Setting a 95% confidence interval threshold, five clusters are identified. In Table 4, these are reported in the following way. Those falling outside the confidence interval are reported in order of importance, 1 indicating the most important factor. In Cluster 1, basic skills of written communication and numeracy are linked. It is interesting that the combination does not include oral communication or qualifications.

Cluster 2 reveals an association between motivation and teamwork. The difficult trade-off between affordability and experience is captured by Cluster 4. Cluster 5 combines motivation with the issue of competition between employers for quality labour. Offering a wage that is affordable may not be sufficient to attract motivated staff.

Cluster 4 combines written communication with three factors also highlighted as constraints. Physical/manual

skills, customer service and people being interested in the job seem eclectic characteristics, but, in combination, may point to another dimension of the Newark and Sherwood labour market. If the cost of labour is an issue, combined with motivation and interest plus manual/physical skills, this could reflect the survey picking up characteristics of a low-wage, high-turnover labour market. One possible industry that may fit is healthcare work, a growing sector in which wages can be modest. Alternatively, a shelf stacker or other such retail worker would need these skills.

It appears that the firms in the survey are aiming at the less skilled end of the labour market where the value added is lower. Managerial skills such as problem solving, management and project management do not cluster. Other omissions include technical and IT skills and qualifications. However, motivation, manual/physical skills and affordability do. If the number of clusters were increased by one to include Cluster 6, the additional combination would entail motivation and customer service. This does not encompass any more of the higher-end skills, reinforcing the view that these entrepreneurs are interested in the lower end of the labour market.

We find that motivation among the target workforce is linked to many other factors associated with low-cost, high-turnover, poorly rewarded and disengaged labour. Despite concerns raised about qualifications and technical skills, these do not cluster with the other constraining factors. If the nature of work is such that labour employed to carry out tasks is unlikely to generate significant innovations or productivity increases, then the employment issue is likely to resonate with a model of a stoic neoclassical or Taylorist worker. Their reward is in the compensation, which is likely to be poor. Efficiency wage theory suggests that a more highly paid worker may be less demotivated, more loyal and more willing to engage. But cost is already an issue. A floor in wages is set by the minimum wage and the benefits system.

The focus of entrepreneurial studies is on innovation concerning the product or process. Perhaps the entrepreneur could be innovative in the means of motivating staff. If the job is currently less than satisfying, a lower turnover of staff will reduce recruitment costs. Being entrepreneurial in engaging staff both before they start and when they are employed is a message that should be sent out. Making the job interesting is a task for both parties.

The question of motivation among the workforce should be explored further through engagement with job-seekers to test the validity of these findings. It is possible that the results here reflect a lack of awareness among business owners rather than a problem with the

**Table 5. The skills most difficult to find among businesses in Newark and Sherwood.**

Skills needs	Percentage of all responses	Percentage of firms recruiting locally	Difference
Oral communication	26.5	12.9	-13.6
Problem solving	30.9	22.6	-8.3
Project management	6.6	3.2	-3.4
IT skills	11.8	9.7	-2.1
Management	11.8	12.9	1.1
Motivation	43.4	45.2	1.8
Manual	20.6	22.6	2
Teamworking	22.1	25.8	3.7
Numeracy	25	29	4
Technical	33.1	38.7	5.6
Customer service	39	45.2	6.2
Written communication	26.5	35.5	9

pool of labour available, but in either case there is a need for policy to address this dichotomy by bringing together potential employers and employees to increase understanding of the expectations and ambitions of each group.

To test this hypothesis, Table 5 shows responses from firms that concentrated their recruitment in the local market, relying on word of mouth and local newspapers rather than on websites, agencies or trade magazines. These data illustrate that this type of worker is attracted through local, informal routes that highly productive and remunerated workers are unlikely to consider. At the same time, higher-order skills such as IT, management and project management are less of a problem, which tends to indicate that either these skills are not required or that they are imported from a wider labour market when such vacancies arise. Each of these interpretations suggests that this is a peripheral district in economic terms, reliant on lower-skilled enterprises, which in turn suppresses the opportunities among the workforce.

The conclusion from these data is that while investment in improving some of these skills can help individuals within the labour market, it is unlikely to raise the economic dynamism unless the skills development is accompanied by simultaneous increases in the quality of employment available. Indeed, we can posit that investment in skills alone would displace local individuals with in-commuters, worsening the situation for the residual economy. If the investment comes from businesses within the region rather than the public sector, however, the results may be more positive. The survey identified that owners of businesses who expect growth are more likely to engage in some way with training opportunities, suggesting that this could be used as an indicator of a more enterprising culture. However, further research is required to understand the type and quality of training and its efficacy in addressing skills needs.

## **Regional implications of a shrinking public sector**

The aim of this paper was to use the evidence from this case study district to reflect on the potential implications of public sector cuts across the UK as the economy enters a slow recovery from recession. We saw in the 1980s and 1990s that the impact of recession on regional labour markets can leave a damaging legacy, one that needs to be avoided in the coming years.

The private sector, especially in more rural and peripheral regions, has significant growth potential. The Rural Advocate predicted that unfulfilled potential from rural firms might amount to some £236–347 billion per annum (CRC, 2008) and the findings of this survey indicate that a high proportion of businesses outside of the core city regions continue to experience and strive for business growth. As such, the key focus for policy must be overcoming restrictions to growth and identifying local opportunities for regional development. A move away from highly centralized ‘big government’ enables greater differentiation among local economies, but this can only be facilitated within an appropriate institutional and regulatory framework. If successful though, local firms can utilize local advantages and collaborate outside of the local area, both nationally and internationally, to strengthen local identity and local economic capacity. Within the EU, the potential for ‘symbiotic entrepreneurship’ to cross borders, developing new aspirations and skills and creating new economic opportunities is being increasingly recognized (Bosworth *et al.*, 2011).

While opportunities undoubtedly exist, the biggest problem identified from this survey is a perceived lack of motivation within the local labour market and a lack of interest in the nature of the work available. This is likely to reflect an area trapped in a low-wage, low-skill, poor-opportunity, high-turnover economy. Current UK policy seeks to employ the ‘stick’ approach by reviewing state benefits, but there are also opportunities to encourage greater engagement between employers and the local community, especially through the education sector, to dangle the ‘carrot’ of opportunity in front of current and future job-seekers. With a more streamlined set of public organizations and less money available for projects to develop local-level enterprise cultures, the responsibility is shifted further towards private enterprise and individuals. The incentive is clear, since businesses need more engaged and skilled people in the local labour market, but this problem may be resolved by public sector job losses filling the gap, at least in the short term. As many EU states are experiencing similar cuts at the national level at the same time as the wealthier states are receiving a lower proportion of

regional funding as new states enter the Union, growth that is embedded in local economies appears to be increasingly important.

Although the reduction in public sector employment is seen as a threat to economic recovery, it will release significant numbers of skilled workers across the regions. This research has indicated that a significant proportion of firms are looking to recruit and these firms can benefit from the influx of skilled workers into the labour market. Inadvertently, the retrenchment in the public sector could help these firms with their skills shortage. For the lower-skilled job-seekers, however, the additional competition for work creates a more serious structural problem. The test will be whether the public sector can initiate sustained growth that can accommodate both skilled and less-skilled employees as the economic recovery unravels.

At the regional level, there will be many areas where the public sector is more dominant in the labour market. In Newark and Sherwood, 17.73% (compared with 20.4% nationally) of the population works in the public sector (*Guardian*, 2011), making it slightly less reliant than other regions. Nevertheless, public sector cuts will still have a significant impact on the local labour market. As well as releasing skilled labour, the reduction in public services can create opportunities for new business start-ups to fill essential roles. For this dynamic to occur, there needs to be a culture of enterprise in the region, and this is perhaps the biggest concern highlighted by our research. If the lack of interest and motivation identified by potential employers is a symptom of a wider malaise, new economic activity may be slow to emerge.

## **Conclusions**

At a local or district level, the impact of any recession will vary depending upon the causes and the sectors that are most affected. In the 2008–11 recession in the UK, the problem of accessing credit has meant that, even though the causes were linked to the financial services sector, the lack of credit availability has had a knock-on effect throughout the economy. The combination of lower demand and lower availability of investment finance means that firms are at risk of negative growth and low profitability.

Despite this, our primary research demonstrated that firms continue to push for growth. For the development and resilience of the local economy, however, it appears that the anticipation was for this growth to derive from external factors rather than through the behaviour of local firms. This was in turn reflected in local employers’ attitudes towards skills needs. The most commonly cited problems concerned more generic skills rather than



the higher-level skills associated with dynamic innovation-led growth. This fits with regional data showing that the district has low rates of knowledge-intensive businesses. Where these do exist, they are in the areas most closely linked to the regional centre, Nottingham, which suggests significant implications for the potential of any rural or subregional development policies based around knowledge-intensive sectors.

If the private sector is expected to take up the slack from public sector job cuts in order to drive forward the recovery, this research suggests that the pace of recovery will not be uniform, raising concerns that less well performing economies will lag further behind the leading regions. If this occurs, it could have a detrimental effect on the aspirations of people in local labour markets, exacerbating the existing problem that employers in Newark and Sherwood are already observing – that is, a lack of motivation among workers and potential recruits. The sort of labour sought and the way it is attracted suggest that this is likely to reflect an area trapped in a low-wage, low-skill, poor-opportunity, high-turnover economy. The opportunities that do exist are not well paid or well advertised. The task for the entrepreneur is to be innovative in the way employees are managed.

One potential source of new dynamism comes from migration, with incomers to the district being more ambitious for growth and often having access to wider networks outside the local area. Evidence from other studies has demonstrated that in-migration, especially to more rural areas (Bosworth, 2010), can stimulate economic development through job creation, business growth and diversification. This added competition should stimulate a more enterprising culture throughout the business community, and incomers with greater experience of operating in a wider marketplace, with higher levels of education, will themselves demand higher skills and ambition from their business associates and employees.

The principal skills concerns of local businesses lead us to conclude that a combination of generic skills provision through formal education and more targeted offerings to employees will be important. In addressing the question of motivation, bringing together business owners and potential or future employees can help in the delivery of certain skills training; in raising awareness of the value of key skills and the opportunities available in local labour markets; and the means by which more modestly skilled workers are attracted and retained where rewards are limited. Moving forward, the creation of enterprise cultures in local areas requires employers to be *inspirational* if they are to create the necessary *aspirations* among future workers. The counterfactual, when employers believe the labour market to be lacking

skills and motivation, is detrimental to development as the hysteric cycle associated with a demotivated workforce can create far wider economic and social problems.

Looking at the wider national picture, if this relatively affluent district with a medium ranking in terms of productivity is experiencing problems in terms of the skills and motivation of its workforce, the prospects for other districts are concerning. Declining local economies will neither attract motivated staff nor generate motivation internally. Newark and Sherwood is not performing too badly and we might expect that the difficulty in attracting staff will be temporarily addressed by the public sector cuts supplying potential new recruits. However, in the longer term, regional growth potential is clearly dependent upon the vitality and skills levels of the local labour market and on the employers' willingness to engage in progressive human resource management techniques. Even in the low-skilled world, managing the worker's motivations is the key to success.

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