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Australia and New Zealand Regional Science Association International (ANZRSai)

Submission to Regional Business Development Analysis

Introduction

Regional Australia is characterised by diversity. Just as inland regions are different to coastal regions, so are separate parts of regions different to each other. Each location within each region has a unique set of resources and opportunities, as well as different conditions for business establishment and development. For example, an inland regional centre on a major highway has a range of business development options which are quite different to an isolated inland community, or a coastal community relatively close to a large city.

For this reason, any action plans, policies and programs need to be flexible in their outlook to take into account this diversity. There is no 'one size fits all' approach for developing our regions.

Having said this, it is true that many development issues are common to a lot of regional locations. This submission attempts to bring attention to these common elements and to suggest solutions which may be applicable to a wide range of centres.

Growing Regional Businesses

There are a wide variety of organisations devoted fully or partly to growing business in regional Australia. These include Commonwealth, State and local economic development agencies, business advice services, town development corporations, service clubs and chambers of commerce.

These bodies are good at promoting the advantages of a regional business location. The factors normally promoted include:

- Cheaper land and housing than in cities;
- Lower labour costs, less absenteeism, and more stable workforces;
- Lifestyle advantages, open spaces, less pollution etc; and
- Incentives to relocate or initiate a business.

A recent ACCI survey of regional businesses (ACCI, 2001) found that the 5 most important factors in the decision to locate in a regional area related to lifestyle, family, labour force stability, access to good roads and proximity to markets.

With these advantages and all the effort put in by the many bodies, it is a legitimate question to ask why is regional business development still an issue. Partly it is because these organisations find that there are many problems in encouraging business development which tend to overshadow the advantages.

Barriers to Regional Business Development

The barriers to business growth in regions can be seen as related to: infrastructure; social capital; and business conditions.

Infrastructure

Transport infrastructure is crucial to regional growth. Fast efficient access to ports and markets is a simple fact of business development. Much of Australia's infrastructure budget goes into capital cities. While this helps to make the nation more competitive and efficient as a whole, the focus on metropolitan areas comes at the expense of regional centres.

The lack of investment in regional roads has been documented in recent years and will not be dwelt on in this submission. However, there are other areas of infrastructure which equally need attention. These are telecommunications, energy and social infrastructure.

Good **telecommunications** infrastructure and communities confident in its use are essential for regional communities to move into the information age. Technology based industries will not grow or be attracted to regional locations where skills and infrastructure are lacking. The ACCI survey found the top 3 problems for regional businesses related to telecommunications issues: mobile phone reception/quality, telecommunications service; and telecommunications costs.

At present, access to broadband telecommunications is prohibitively expensive outside of major cities. Affordable bandwidth is a major issue for technology based industries. Businesses in centres quite close to major cities often find that communications limits their development. For example, the owners of many small technology businesses in major cities show interest in relocating to regional locations for lifestyle reasons, but find the cost of bandwidth outside of the cities too high and the reliability of the infrastructure too low to be viable competitive locations.

All businesses in regional locations which rely on suppliers outside of their communities are faced with higher telecommunications costs than equivalent city businesses. A recent analysis of business telecommunications costs in south east Australia (C C Halton, personal communication) indicate that a small business in Bega has a disadvantage in telecommunications costs in the order of \$885 a year compared to an equivalent small business in Sydney. Even in Canberra, the disadvantage is around \$390 per year. Given that regional businesses tend to return lower incomes to their owners, this disadvantage becomes a more significant deterrent and neutralises the benefits of lower rents.

Most industries also need a reliable and consistent **energy supply**. Too many regional centres suffer from brown-outs, black-outs and reliability problems to the extent that business development is impeded.

CASE STUDY

A business owner wanted to relocate a technology based business from Canberra to Bungendore, a rural village about 30 minutes drive from Canberra. The owner found that fluctuations in the power supply and lack of telecommunications capacity meant it was not viable to relocate and still be competitive with city based firms. This is only 30 minutes drive from Australia's capital and largest inland city!

Social infrastructure is also very important. Potential business investors are as interested in schools, medical facilities and cultural facilities as much as land prices and wages. The ACCI survey of business issues found that quality of medical facilities and quality of education for children were the highest areas of concern after telecommunications issues.

Social Capital

The social capital relates to the human resource in a community – people's skills, attitudes, community cohesion and leadership. This aspect is particularly important for knowledge intensive activities.

Leadership needs to be seen as a key business development issue. Communities facing difficult business conditions are often suspicious of change and reluctant to take the actions necessary to their continued viability for fear of losing what little they have left. They need skilled and confident leaders who can articulate a vision for the future and who bring the community along with them in achieving it. Too often what is called leadership in regional communities is in reality being noisy and complaining, and squeezing a few concessions from reluctant governments is seen as progress in place of any real action plan to address the root cause of the community's issues. The traditional lobbying role by local leaders needs to be complemented with the development of self-help structures.

The McKinsey report observed that leadership was the most important ingredient in developing regions' potential. If regional communities are not prepared and willing to accept economic development, there is little point in committing resources in an attempt to attract new business to them.

Leadership development is often questioned as a viable strategy for economic development, but it can result in measurable returns. A quantitative assessment of the Advanced Agricultural Leadership Program (AALP) which operated in Ontario, Canada between 1987 and 1995 (Rowley, Brinkman, Pletsch and Mahone, 1996) indicated a benefit cost ration of 11:1 for the agricultural/rural sector arising from the leadership program.

Business skills may not be as developed as necessary. Regional small and micro-businesses attempting to expand their markets find that while they may be a successful local supplier, moving to a national or international marketplace requires considerable skills development in terms of marketing, product development and business management.

Yet, most of the business assistance provided by state and commonwealth government agencies is targeted at either start-up businesses or larger businesses with existing significant capacity and resources. The majority of regional businesses fall within these extremes.

Education levels and facilities in some regions impact on the uptake of technology and the ability to attract, develop and maintain technology based businesses, which are becoming more important to regional economic outcomes.

Business Conditions

Business conditions relate to a wide range of issues. One common impediment to business growth is a lack of suitably **zoned industrial land**. It is ironic that many communities which promote themselves as potential business locations have limited opportunities for new business due to limited industrial land supply.

Where there is land, businesses often face formidable **red tape and regulatory issues**. The difficulties in addressing these issues are amplified in regional areas where the approval office may be hundreds of kilometers away, especially when different agencies issuing approvals are based in different locations. Thus, to get a development project approved might not only involve multiple agencies, but also multiple locations remote from the area being considered. This adds time and costs to development approvals, disadvantaging more remote locations.

Many residents in regional areas have low disposable incomes, impacting on the market's ability to support local businesses.

Attracting and Retaining Skilled People

Regional locations have many factors attractive to skilled people and professionals. These include:

- Lifestyle advantages, including space, lack of pollution and traffic congestion;
- Ability to pursue interests;
- A sense of community not always present in cities; and
- A safer environment.

However, regional locations can present significant downsides, including:

- Quality of education for children;
- Satisfying employment for spouses;
- Access to and quality of services such as medical facilities;
- Ease of communications and travel;
- Lack of professional contacts; and
- Lower income than in city locations.

Some regional locations have focussed, with some success, on attracting professionals who can do much of their work from home and who need to occasionally travel to meet clients etc. These professionals are called 'lone eagles' in the American literature. Their success requires a few necessary preconditions: excellent telecommunications infrastructure; ready access to transport such as an airport; and a community support structure for their families.

Turnover of professionally skilled labour is a problem for regional communities. The attraction of better services and higher professional salaries in metropolitan areas means that it is unlikely that regions can "hold on" to people working with the community in health, education, legal services or advisory capacities. This could be seen as a barrier to the development as the region

could be seen as a training ground for professionals who take skills specific to regional areas into higher paid metropolitan jobs where these skills are not specifically needed. Regional Australia can ill afford the skills drain that occurs; small communities pay hidden costs in the form of decreased efficiency in the provision of skilled services.

A Way Ahead?

The way to enhance prospects for developing regional business involves turning the apparent advantages into real advantages and addressing the shortcomings of regional locations. This section made suggestions at the strategic and specific levels to do this.

A Co-ordinated National Approach

There are so many players involved in regional development that duplication and overlap of responsibilities is a real concern. The Regional Development Ministers meetings convened as a response to the Regional Australia Summit is a good start, and it is noted that it has identified coordination as a key issue.

However, regional development involves more than the three levels of government. Membership of the national coordinating body should be extended to include business and community leaders from regional locations. It should have a charter to identify appropriate responsibilities for each level of government, the business sector and the community sector. It should also be given sufficient resources to commission comprehensive studies and analyses of key regional issues such as transport and communications priorities.

The bodies involved in the group should develop a methodology for regional service delivery agreements. These could operate at several levels, but with the aim of defining an agreed service delivery approach for each region. In this way Commonwealth, State and local governments, as well as business and community groups, would have a clearly defined and workable regional plan for service delivery.

Recommendation: That a national council for regional development, based on the current Regional Development Ministers' group, but extended to include business and community members, be initiated. It should be resourced through contributions from all levels of government, and have the development of regional service delivery agreements as one of its initial aims.

Tackling the Infrastructure Issues

Telecommunications and road transport are major impediments to regional business development. A high priority should be assigned to improving these essential services, so that these disadvantages do not outweigh the advantages to businesses located in regional areas.

Regional centres are mostly still to benefit from a competitive telecommunications market. In reality, the move to a competitive market has reduced costs in the major cities much more than in regions, disadvantaging regional locations where there is little or no competition to the main telecommunications providers. Long distance calls are a business impost on every regional business where calls to larger centres are a necessary part of business.

Recommendation: Governments should consider incentives for telcos to establish regional long distance call zones, perhaps a single call zone for each state.

It is ironic that many regional towns are bypassed by high capacity fibre optic cables without any access to the cable. This is a wasted opportunity to provide the means of improving education, health and business opportunities in regional locations.

Recommendation: Telecommunications carriers, as a condition of approval, should plan fibre optic cable routes to pass close to regional centres and to provide a spur into regional towns to allow for use of the fibre when required.

An urgent review of national and regional road transport priorities is required. Methods of determining road transport improvements should include a weighting for regional business development opportunities created by road transport improvements, particularly for freight.

Recommendation: A review of regional road transport priorities, incorporating regional development opportunities as a potential benefit, should be commissioned, perhaps by the national council for regional development outlined above.

Community Capacity Building

The promotion of a self-help ethos and bottom up processes are accepted as key components of community development. While there are several programs to help communities develop strategies and action plans for growth, these often fail in the implementation stage. Effective leaders are essential to drive these processes past the inevitable hurdles and to maintain a focus on the bigger picture.

Many leadership programs are focused at the community level, others are aimed at industry sectors. An increasing number of communities, in Australia and internationally, are taking a cluster based approach to developing their local economies, firstly understanding their strengths, and then working as a public-private partnership to accelerate the development of their wealth-creating clusters. Such initiatives are effective, but there are also benefits of networking developing leaders across a broader range of industries and areas so that they gain a broader perspective of their local issues and learn how other communities address their issues and concerns. These networks become valuable development tools.

Recommendation: That comprehensive leadership programs be established to operate at community, industry and regional levels across Australia.

Linkages with Indigenous Organisations

In the more isolated regions of northern Australia, the largest landholders are often indigenous corporations. There is a large indigenous population that is sedentary within social boundaries. There is potential to provide training and business opportunities for indigenous youth in regional

rural communities. Some developments have been successful but there have been failures. Yet, there is much untapped potential.

Recommendation: That strong linkages are developed with indigenous corporations to develop regional community based employment and business opportunities.

Improving Business Conditions

It is essential that prospective industries are not discouraged from investing in regions by lack of suitably zoned land and unhelpful red tape and regulatory issues.

Recommendation: All local governments with a reasonable existing industry base should be required to develop and maintain an industrial land supply plan.

The problems of multiple agencies in diverse locations may be addressed by adopting a case management approach at a regional level. This is probably best coordinated by a state coordinating agency.

Recommendation: That State and territory governments appoint regional business development and coordination officers whose major responsibility is to case manage business development applications through the complexities of approvals processes. These case managers should be separate to the program delivery staff employed by state and local development departments.

Assisting business owners to extend markets for their products and services, as well as improve their business management skills, should be a high priority for governments and business organisations. The latter have little reach in regional areas outside of major towns.

Recommendation: The Commonwealth and States agree to implement a regional small business market expansion scheme which would provide subsidies for small businesses to attend trade shows, improve products, or increase their business skills.

References:

Australian Chamber of Commerce and Industry (ACCI) (2001) *“What Regional Business Needs: Results of a survey of regionally-based firms”* ACCI Review, October 2001 No. 80.

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