

# The Rural Enterprise Economy

Enterprises located in rural regions face various challenges in the globalised and digitised world. This book offers comprehensive answers to the question of what makes up the rural enterprise economy in the contemporary business world. It addresses the competitiveness and viability, strategic management and strategic change, and marketing issues for both incumbent and start-up companies in rural regions. The book presents new concepts that shed light on the rural enterprise economy with its entrepreneurs.

With a broad range of cases from European regions, the book provides theoretical insights for scholars, practical case-based evidence for lecturers and teachers, and practical knowledge for business practitioners and planning specialists. Academic experts from European universities and research institutes provide compelling answers to this under-researched topic in business studies and economics.

**Birgit Leick** is Professor in Innovation and Entrepreneurship in the School of Business, University of South-Eastern Norway. Her current research interests are entrepreneurship in the creative industries, digital entrepreneurs and the sharing economy, and regional economic development.

**Susanne Gretzinger** is Associate Professor at the University of Southern Denmark. Her research interests lie in studies of regional business development, business-to-business marketing, relationship development in business networks, and digitalisation.

**Teemu Makkonen** is Professor at the Karelian Institute, University of Eastern Finland (UEF). He holds a PhD and a Title of Docent in economic geography (University of Helsinki) as well as a Title of Docent in cross-border economic development (UEF). His research interests include regional and rural development, regional innovativeness, and cross-border regions.

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# **The Rural Enterprise Economy**

**Edited by Birgit Leick, Susanne  
Gretzinger, and Teemu Makkonen**

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**This book is dedicated to all rural entrepreneurs. We value your efforts and share your passion for rural economies.**

**Birgit Leick, Susanne Gretzinger, and Teemu Makkonen**



# Contents

<i>List of figures</i>	x
<i>List of tables</i>	xii
<i>List of contributors</i>	xiii
<i>Foreword: Return of the rural?</i>	xvii

## **PART I**

### **Introduction to the rural enterprise economy** 1

- |   |  |   |
|---|--|---|
| 1 | Introduction to the rural enterprise economy         | 3 |
|   | BIRGIT LEICK, SUSANNE GRETZINGER, AND TEEMU MAKKONEN |   |

## **PART II**

### **Rural enterprise development** 17

- |   |  |    |
|---|--|----|
| 2 | The hidden strength of rural enterprises: Why peripheries can be more than city centre's deficient complements | 19 |
|   | ANNE MARGARIAN   |    |
| 3 | Hidden champions in rural Germany: Innovation strategies to compete in global markets                          | 35 |
|   | LUKAS VONNAHME AND THILO LANG  |    |
| 4 | Adoption of digital innovations in rural enterprises during COVID-19   | 53 |
|   | JAANA RÄISÄNEN AND TERO TUOVINEN   |    |
| 5 | Competitive strategies of incumbent small regional banks in rural locations                                    | 72 |
|   | BIRGIT LEICK, GRIT LESSMANN, ALEXANDER STRÖHL, AND TIM PARGENT   |    |
| 6 | Reflections on tourism business viability and competitiveness in rural regions                                 | 88 |
|   | RUNOLFUR SMARI STEINTHORSSON   |    |

7	Tourism marketing in rural contexts – the potential of wine tourism in the Dão wine region	101
	MARIA LÚCIA PATO, ELISABETH KASTENHOLZ, CRISTINA BARROCO, AND ANDREIA PEREIRA	
8	Participation of micro-enterprises and public organisations in rural development projects: Balancing between collaboration and tensions	117
	SUSANNE GRETZINGER AND MADs BRUUN INGSTRUP	
9	Rural business support policy and rural enterprise economy: The neo-endogenous approach to entrepreneurship promotion of common agricultural policy	130
	PÄIVI KUJALA AND SEIJA VIRKKALA	
 <b>PART III</b>		
	<b>Rural entrepreneurship</b>	145
10	Opportunity- and necessity-driven entrepreneurship in urban <i>versus</i> rural locations	147
	MICHAELA BACKMAN AND CHARLIE KARLSSON	
11	Entrepreneurship in rural areas: Locational choices and embeddedness	162
	ESSI SAARINEN AND TEEMU MAKONEN	
12	Entrepreneurship in rural Sweden: The role of weak ties, strong ties, and ‘good enough’ internet access	178
	MARCIN RATAJ, MARCO EIMERMAN, AND RIKARD ERIKSSON	
13	Tourism micro-enterprises and entrepreneurship in rural Norway: Opportunities and constraints	193
	INGEBORG NORDBØ	
14	Entrepreneurial knowledge strategies in specialty food innovations	206
	GESINE TUITJER	
15	Combining local and international embeddedness in a rural context	219
	EVA JENNY B. JØRGENSEN	



**PART IV**

**The rural enterprise economy: Conclusions and implications 235**

16 The rural enterprise economy: Conclusions and implications 237

BIRGIT LEICK, SUSANNE GRETZINGER, AND TEEMU MAKKONEN

*Index* 245

# Figures

2.1	Industry response curves with respect to accessible population in German districts (2016)	22
2.2	Determinants of the probability to belong to a specific location type	23
2.3	Change in employee numbers in per cent between 2007 and 2016 by location type	24
2.4	Resource matrix for a comprehensive assessment of comparative advantages	25
2.5	Model for an enterprise's conditional creation of specific human resources and innovation capabilities	28
3.1	The spatial distribution of hidden champions in Germany	40
4.1	Rural and urban areas of Finland (Helminen <i>et al.</i> , 2013, p. 2)	55
4.2	Conceptual model by Lippert and Davis (2006, p. 436)	56
4.3	Cumulative increase in the number of COVID-19 cases in Finland (THL, 2020)	60
4.4	Industries of the participating enterprises and estimations of their current situation in percentages	61
4.5	Association of the enterprises' ICT skills with entrepreneurs' estimations of their enterprises' current situation	63
4.6	Association of the entrepreneurs' estimations of their enterprises' current situation with their belief that they would have implemented the same changes in the absence of COVID-19	64
4.7	Association of the entrepreneurs' estimations of the enterprises' current situation with the degree to which they found it difficult to make changes in their enterprises	64
4.8	Association of the entrepreneurs' estimations of their enterprises' current situation with their trust in the digital solutions used	65
4.9	Association of the entrepreneurs' estimations of their enterprises' current situation with the degree to which they believed their customers trusted them and their enterprises to operate effectively in a digital environment	65

4.10	Association of the entrepreneurs' estimations of their enterprises' current situation with their trust in their enterprises' partners	66
4.11	Association of the entrepreneurs' estimations of their enterprises' current situation with their trust in the futures of their enterprises	66
4.12	Association of the entrepreneurs' estimations of their enterprises' current situation with their trust in other people	66
4.13	Association of the entrepreneurs' estimations of their enterprises' current situation with their personal trust in the future	67
6.1	Conditions and elements of regional competitiveness and business viability – focus on rural tourism (adapted from Steinthorsson, 2010)	92
7.1	'Location of DWR. Source: CVRD, 2012' about here	106
8.1	Stakeholder participation matrix	120
8.2	Position of cases	123
9.1	Rural enterprise economy and entrepreneurship promotion interpreted by neo-endogenous approach	134
11.1	The case study locations: Lieksa, Outokumpu, and Rääkkylä. Source: Statistics Finland (2020)	166
12.1	Regional division (A), broadband access (B), and internet access (C) in Sweden 2012: Shares of broadband and internet access displays quartiles of each distribution. White represents the group of municipalities with lowest coverage and black the group with highest coverage. Case regions of Hagfors (north) and Munkfors (south) are marked with red borders. Source: Authors' calculations based on data from Statistics Sweden	181

# Tables

3.1	Main characteristics of the surveyed enterprises	41
3.2	Innovation and cooperation compared by location, n=119	43
3.3	Assessment of own location at the headquarters, n=119	43
4.1	Changes made by the participating enterprises	62
4.2	Survey question ‘What digital tools have you adopted in the past six months?’	63
5.1	Key quotations on relationship banking as a competitiveness factor	80
7.1	Brief characterisation of WTS	107
8.1	Cross-case comparison	125
10.1	Description of regional categories	154
10.2	Description of variables and summary statistics (N=290)	155
10.3	Average entrepreneurship level in different regional categories	155
10.4	Market potential and its relation to opportunity and necessity entrepreneurship, OLS	156
10.5	Market potential and its relation to opportunity and necessity entrepreneurship, OLS, along the urban–rural hierarchy	158
11.1	Information on the interviewed enterprises	168
11.2	Drivers and constraints for an enterprise to locate in a rural area in North Karelia, Finland	169
12.1	Multi-level models on the role of broadband access in regional start-ups 2007–2012	183
12.2	Multi-level models of the role of internet access in regional start-ups 2007–2012	185
13.1	Characteristics and development of the tourism micro-enterprises and entrepreneurs in 2003/2004 compared with 2019/2020.	197
15.1	Case companies and data sources	223
15.2	Combining local and international embeddedness	226

# Contributors

**Mikaela Backman** is an Associate Professor in Economics at Jönköping International Business School and is the co-director of Centre of Entrepreneurship and Spatial Economics (CEnSE). Her research focuses on entrepreneurship, ageing, and regional interdependencies.

**Cristina Barroco** has a PhD in Tourism. She is an Associate Professor at Polytechnic Institute of Viseu and integrates the Research Centre in Digital Services (CISeD). She is also member of the Centre for Tourism Research, Development and Innovation (CITUR) and integrates the research project TWINE.

**Marco Eimermann** is a Research Assistant Professor at Department of Geography, Umeå University, Sweden. His research interests include life-style migration, downshifting, and sustainable entrepreneurship in rural, remote, and sparsely populated areas. He has published widely on transient and strategically changing populations in Europe.

**Rikard Eriksson** is Professor of Economic Geography at the Department of Geography and Co-Director of the Centre for Regional Science (CERUM), Umeå University, Sweden. His research interests include uneven regional development, structural change, labour mobility, and the role of entrepreneurial efforts in regional development.

**Susanne Gretzinger** is Associate Professor at the University of Southern Denmark. Her research interests lie in studies of regional business development, business-to-business marketing, relationship development in business networks, and digitalisation.

**Mads Bruun Ingstrup** is Associate Professor at the University of Southern Denmark. His research covers the theory and empirics of industry clusters, business networks, systems of innovation, and policy actions for regional development.

**Eva Jenny B. Jørgensen** is Associate Professor at School of Business and Economics, UiT – The Arctic University of Norway. Her research interests are international entrepreneurship, rural entrepreneurship, academic

entrepreneurship, indigenous entrepreneurship, sustainable business models, context, proximity, entrepreneurial ecosystems.

**Charlie Karlsson** is Professor Emeritus in Economics at Jönköping International Business School and in Industrial Economics at Blekinge Institute of Technology. His research focuses on regional and urban economics, innovation, and entrepreneurship.

**Elisabeth Kastenholz** is Associate Professor at the University of Aveiro, where she teaches Tourism and Marketing related subjects, integrating the University's Research Unit GOVCOPP (Governance, Competitiveness and Public Policies). Her academic interests lie in tourist experience and destination marketing research, particularly within rural, nature-based, and accessible tourism, with a focus on sustainable development.

**Päivi Kujala**, Master of Science in Agriculture and Forestry, is a doctoral student of School of Management, University of Vaasa, Finland. She has extensive work experience in rural development assignments, in rural administration, and in a rural advisory.

**Thilo Lang** heads the Department of Regional Geography of Europe at the Leibniz Institute for Regional Geography in Leipzig (Germany) and is Lecturer at the Global and European Studies Institute at Leipzig University. His research interests include polarisation processes on multiple levels, innovation outside of agglomerations, regional change, and local and regional development.

**Birgit Leick** is Professor in Innovation and Entrepreneurship in the School of Business, University of South-Eastern Norway. Her current research interests are entrepreneurship in the creative industries, digital entrepreneurs and the sharing economy, and regional economic development.

**Grit Leßmann** is an economist and Full Professor in Business Administration with a specialisation in regional economic development in Ostfalia University of Applied Sciences in Germany. Her current research focuses on regional networks and innovation.

**Teemu Makkonen** is Professor at the Karelian Institute, University of Eastern Finland (UEF). He holds a PhD and a Title of Docent in economic geography (University of Helsinki) as well as a Title of Docent in cross-border economic development (UEF). His research interests include regional and rural development, regional innovativeness, and cross-border regions.

**Anne Margarian** holds a PhD in agricultural economics. She works at the Thünen Institute of Rural Studies in Braunschweig, Germany. She addresses questions of structural change, rural development, and policy assessment from the perspectives of institutional economics and of the capability approach to welfare analysis.

**Ingeborg Nordbø** holds a PhD in rural tourism/entrepreneurship and an MSc degree in International Economics and Business Administration from the University of Aalborg, Denmark. She has been conducting field work in Norway and in Chile. She has also worked as an advisor and manager of various projects within rural and local community development and in international settings (Denmark, Chile, Guatemala, Kyrgyzstan, China). Her research interests centre around tourism, entrepreneurship, alternative economies, and rural development.

**Tim Pargent** is a member of the regional parliament in the German state of Bavaria and a former master student in the Institute of Geography, University of Bayreuth.

**Maria Lúcia Pato** holds a PhD in Business and Management Studies and a PhD in Tourism. She is an Adjunct Professor in the Polytechnic Institute of Viseu and integrates the Research Centre for Natural Resources, Environment and Society (Cernas). Her academic interests lie in rural tourism and rural entrepreneurship, with a focus on rural and sustainable development.

**Andreia Pereira** is a PhD student in Tourism, Heritage and Territory at the Faculty of Arts and Humanities of the University of Coimbra. She holds a Master degree in Tourism Management from the Polytechnic Institute of Viseu and was a research fellow in the project TWINE.

**Jaana Räisänen** is a doctoral student in the Faculty of Information Technology in the University of Jyväskylä, Finland. The topic of her PhD study is trust in digital society and she is part of the Value Creation for Cyber-Physical Systems and Services research group.

**Marcin Rataj** is a Post-doc at Institute of Geography, Bern University, Switzerland. His research interests include entrepreneurship as an instrument to improve the circumstances of less advantaged regional economies as well as vulnerable social groups.

**Essi Saarinen** is working as Project Expert at the ELY Centre for South Savo, Finland. She graduated as MSocSc from the University of Eastern Finland in 2020. Her research interests focus on entrepreneurship and regional development.

**Runolfur Smari Steinthorsson** PhD is Professor of Strategy and Management at University of Iceland. His research and teaching area is Strategy, Organisation, and Competitiveness. He has served as Head of the School of Business and Director of the MBA program.

**Alexander Ströhl** has a PhD in economic geography from the University of Bayreuth, Germany. His research focuses on institutional change, shrinking regions, and regional resilience.

**Gesine Tuitjer**'s research interests cover Rurality, Rural development, Entrepreneurship & Innovation, and Gender Studies, alongside Practice

Theories. Her Doctorate Thesis explores the co-constituent practices in the social construction of Gender and Space.

**Tero Tuovinen** is researcher at School of Technology in JAMK University of Applied Sciences in Finland. He has a PhD in computational science and he is Adj. Prof. of Computational Science and its application in the University of Jyväskylä. His research is in the field of mathematical modelling and 3D additive manufacturing.

**Seija Virkkala** is Professor of Regional Studies at the School of Management, University of Vaasa, Finland. Her research interests are regional and rural development and development policies, spatial planning, innovation systems, transnational learning, smart specialisation, and green transformation.

**Lukas Vonnahme** is an economic geographer and researcher at the Leibniz Institute for Regional Geography (IfL) in Leipzig, Germany. His research focuses on innovation at the firm and the regional level. Currently, he is interested in the role of spatial imaginations for innovation and regional development.



# Foreword: Return of the rural?

The rural–urban dynamic sits at the centre of many of the current changes occurring in late modernity. Despite significant heterogeneity in rural and urban contexts, few deny that there are important differences in the economic circumstances and prospects of individuals in rural and urban settings. Extensive research documents the challenges faced by rural areas that provide a bleak outlook for many rural areas in terms of outmigration, diminishing service levels, institutional weaknesses, and decreasing economic development (Clausen, 2020; Iammarino, Rodríguez-Pose, and Storper, 2018). The ‘taken-for-grantedness’ of urbanisation as an inevitable dynamic, leading to depopulation in rural areas, has been supported by massive investments in building urban infrastructure to accommodate increasing agglomeration in major urban areas. And, indeed, the belief that cities form the pivot in solving the challenges of modern societies, be they economic growth, green transition, or healthy living, is dominant in most of the ideas that dominate the research and policy discourses – a notable current example being the notion of smart cities, promoted as a central feature of the green transition and historically continuing a line of thinking that emphasises agglomeration and urbanisation as necessary conditions for innovation and development.

This ‘taken-for-grantedness’ of urbanisation and agglomeration has led to a sense of depletion and having-been-left-behind in many rural areas. Some research suggests that this is part of the underlying dynamic leading to, *e.g.*, the rise of right-wing populism in the 2016 US election as well as several recent European elections, the Brexit vote, and the *gilets jaunes* movement in France, all containing a strong division between rural and urban experiences (Lee, Lipp, and Rodríguez-Pose, 2020; Rodríguez-Pose, 2018). The feeble response and general inability of urbanised left-wing parties in Europe to offer a vision for rural futures only serves to accentuate this unfortunate development.

Having been largely overlooked for major infrastructural investments, rural areas have resorted to endogenous strategies that build on local resources to create new ventures and business activities (Bosworth *et al.*, 2016; OECD, 2006, 2018). Such endogenous development patterns have certainly been successful in leveraging local resources in building new ventures that create social and environmental value (Müller, 2016). Examples of this can be found most

prominently in tourism, food production, and other experience-based industries. This line of inquiry has hitherto suggested at least three important mechanisms that enable endogenous rural entrepreneurship (Gaddefors, Korsgaard, and Ingstrup, 2019): (1) infusion of entrepreneurial agency, either endogenous or exogenous, to the local setting; (2) mobilisation and creative recombination of local resources, knowledge, and technologies; and (3) involvement of local communities in the development of new ventures and initiatives.

This points to the importance of seeing rural entrepreneurship and rural enterprise as an embedded activity, deeply influenced by and in intense exchange with the local spatial setting. Exploring further this dynamic of embeddedness is essential to our advancement of rural research in general as well as rural entrepreneurship specifically. Indeed, research of embeddedness, networks, and communities in rural settings has shown that these dynamics are highly complex, involving not solely entrepreneurs, locals, and non-locals, but also intermediaries, animators, *etc.* (Lang and Fink, 2018; McElwee, Smith, and Somerville, 2018) through multi-level interactions that are constantly shaping and reshaping rural places and rurality. The wonderful collection of contributions in this edited volume follows this line of research by offering rich accounts of rural entrepreneurship, and rural enterprise as embedded in socio-spatial contexts.

Yet, as has also become increasingly clear, while endogenous strategies can help rural areas survive and perhaps grow, it does not seem to be able to resist the increasing regional inequalities that see rural areas lag behind in income, jobs, service levels, health, education, and most other measures of well-being. Reversing this unequal development and the potential threats it poses to our democratic societies requires research to expand the perspective beyond endogenous strategies to the regional, national, and international structures that shape the flow of resources, capital, and people (Harvey, 2011; OECD, 2018). This effort involves at least two central elements. Firstly, it involves questioning and challenging the prevailing conceptualisations of rurality and urbanity. Despite oftentimes being overshadowed by the attention given to urban hotspots of innovation (Welter, Baker, and Wirsching, 2019), history is filled with rural entrepreneurs that have radically changed society and its patterns of production, consumption, and living. Examples include the agricultural cooperatives of the Danish *Andelsbevægelse* (Bager, 1976) and community-driven development of the windmill industry in Denmark (Garud & Karnøe, 2003). And indeed, much of the current innovation around modes of living draws heavily on rural imagery related to authenticity, closeness, and community (Hunt, Townsend, Korsgaard, and Naar, In press). Secondly, we need to address not just the ideological and ideological loadings of our political and research discourse but also the very real disparities in investments made in, *e.g.*, infrastructure, education, institutions, and business support across rural and urban settings – in particular, the oftentimes overlooked or seemingly invisible geographically distributive mechanisms of (de)regulation, centralisation, new public management, and other forms of policy instruments. Some of the much-needed early steps in this are also taken in this edited volume, thus, opening a broader investigation of

rural entrepreneurship and rural enterprise in a post COVID-19 era that needs to be a return of the rural.

Steffen Korsgaard  
Research Professor and Head of  
Department, University of Southern  
Denmark, Department of Entrepreneurship  
and Relationship Management

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## **Part I**

# **Introduction to the rural enterprise economy**



# 1 Introduction to the rural enterprise economy

*Birgit Leick, Susanne Gretzinger,  
and Teemu Makkonen*

## **Motivation for and background of this book**

The present book explores the rural enterprise from a business and economics perspective through the study of state-of-the-art cases from various European countries. The book is dedicated to providing answers to some unresolved questions about the rural enterprise in the business and economics literature. To start with, one of these questions is whether there is a rural enterprise in terms of a specific type of firm or company in rural locations, and, if so, how it can be described, characterised, and understood.

As a matter of fact, the rural enterprise does not represent a clearly defined concept in itself. Although the distinction between rural and urban locations of enterprises is made, and the implications of this distinction are discussed in the empirical literature (for example, Lyee and Cowling, 2015; Eliasson and Westlund, 2013; Wagner and Sternberg, 2004; Keeble and Tyler, 1995), whether there is a systematic difference between these enterprises has not been fully explored. We do not know if the enterprises located in rural regions actually represent a distinct enterprise type or model, or whether enterprises are the same everywhere, no matter where they operate from, and the differences lie only in the specific regional contexts. The same holds true for the factors influencing the locational choice of enterprises and the effects of these choices, particularly when it comes to newly founded businesses and start-ups. Questions arise about whether there are specific factors pushing or pulling entrepreneurs to locate with their enterprises in rural regions, or not, and influencing their operations, employment, production, and growth perspectives after the start-up period.

Simultaneously, we observe that the notion of ‘the rural’ changes as the world becomes increasingly globalised and globally integrated by means of digital technologies, which leads to a decrease in the actual and perceived differences between ‘the rural’ and ‘the urban’. In addition, it is unclear whether the representation of ‘the rural’ *versus* ‘the urban’, as two somewhat opposed poles, constitutes an appropriate conceptual approach with which to understand the characteristics of rural regions, or whether there exists a more finely grained spectrum of regional characteristics than the dichotomous urban–rural

poles upon which to rely. Altogether, these observations lead us to conclude that neither the notion of the ‘rural enterprise’ represents a well-defined concept, nor is there abundant and convincing evidence from empirical studies that might illuminate the specific factors that influence enterprise in the rural context and, hence, explain what constitutes the essence of a rural enterprise.

Indeed, defining the rural enterprise involves several challenges. Firstly, the term ‘rural enterprise’ has traditionally been associated, and, thus, often equated, with traditional sectors in rural regions, such as agriculture, farming, the extractive industries, and tourism, *i.e.*, those sectors that have developed and thrived for centuries in rural locations and have, thus, shaped the face of the rural region. Indeed, a major part of the discussions on rural enterprises deals with this traditional understanding of enterprises in rural contexts, *e.g.*, farmers, and tourist enterprises, or large extractive companies. While these sectors are still represented in many rural locations as of today (García-Cortijo *et al.*, 2019; Srholec *et al.*, 2019; OECD, 2006), it is important to acknowledge that rural locations have also become more attractive for the development of a more variegated structure of enterprises and industries. This is largely a result of the overarching global trends, such as post-industrial change to the service economies, globalisation, and digitisation (Räsänen and Tuovinen, 2020), the latter reducing the spatial distance between places through virtual and online communication opportunities, regardless of how far the actual distance and remoteness is. Secondly, what rurality represents and how we understand it needs to be defined. The questions concerning this challenge are as follows: Is rurality a specific and unavoidable condition for enterprises operating in rural locations, which they have to deal with, or is it rather an intentional lifestyle choice by the individual entrepreneur and owner-manager who settles and starts a business because of the amenities represented in the rural location? Hence, do we talk about enterprises in the rural context, or rural enterprises? Although scholars such as Murdoch and Marsden (2013) claim that the rural is being re-constructed nowadays and more positively connoted (see, also, De Noronha Vaz *et al.*, 2006), it is not clear how the understanding of rurality shapes the perception of challenges and opportunities by entrepreneurs in rural locations. Thirdly, another challenge about defining the rural enterprise is that we need to consider in more depth what makes the rural region special, compared to the non-rural ones, in order to avoid ‘black-and-white’ dichotomies about the opportunities and challenges for enterprises in rural *versus* urban regions (*cf.*, Leick and Lang, 2018).

Based upon this knowledge gap, and in the light of the unanswered questions, this book presents a broader understanding of what constitutes and drives the ‘rural enterprise’ in today’s global and digital marketplace. Its aim is to build connections between two only loosely connected research strands in the contemporary business and economics literature:

- ‘Rural enterprise development’, which we understand as the processes of business operations and development, mostly growth but also closure, of



the incumbent enterprises in rural areas. Established enterprises in rural regions and their managers and owner-managers, respectively, are challenged by or contested with their business models due to the changing economic landscape both regionally and globally, while they can, at the same time, exploit opportunities in the location or due to the location.

- ‘Rural entrepreneurship’, defined as newly established enterprises and start-ups that develop and start operating their new, and often innovative, business models in rural contexts and are based upon the self-employment of individuals who bear the risks of failure, but in return, if successful, also enjoy the fruits of their labour. This definition encompasses early start-ups after their initial months and years in operation (*cf.*, GEM Monitor, 2020) as well as entrepreneurial individuals who have been successful in the market after the initial months and years. Irrespective of the date of foundation, entrepreneurship is typically equated with self-employment as an alternative to wage-employment (*cf.*, Bögenhold, 2000); self-employment, in turn, may result from various motivations, such as the necessity to make a living in a given place, or the perception of opportunities in the regional, national, or global markets, operated from the rural location. Our understanding of rural entrepreneurship encompasses all these variants of entrepreneurial activities, which is in line with our wide definition, as provided above.

By combining these two perspectives, the book will provide new insights on the essence of rural enterprises, both understood through the lens of incumbent enterprises (enterprise development) and start-up enterprises (entrepreneurship) in rural contexts. Each of these debates will be addressed in its own section in the book, and the debates will be collected as a coherent knowledge repository for scholars and academics researching rural enterprises and entrepreneurs, lecturers and students studying enterprise development and entrepreneurship, as well as practitioners working with rural enterprises.

### **The representation of rural enterprises in the existing literature and emerging questions about rural enterprises**

Rural enterprises and entrepreneurs are, to some extent, and in a rather indirect fashion, discussed in the contemporary entrepreneurship and small business management literature (Berglund *et al.*, 2016; Reidolf, 2016; Anderson, 2000). However, this literature remains fragmented when it comes to understanding the essence of rural enterprises.

Small- and medium-sized enterprises (SMEs) are the backbone of many European economies, including Scandinavia, for instance (OECD, 2016). In some national contexts, SMEs and their locations, including rural regions, are discussed. One example is Germany with its ‘Mittelstand’, consisting of SMEs with a high degree of competitiveness on global markets (Pahnke and Welter, 2019). The debate on Germany’s ‘Mittelstand’ partly overlaps with that of the

'hidden champions' in the country (Audretsch *et al.*, 2018; Simon, 2009). The 'hidden champions' are characterised as enterprises operating in business-to-business or business-to-consumer markets which have been developing into the backbone of Germany's economy since the 1970s – at a time when the world markets had been dominated by large enterprises. Interestingly, these SMEs, including the 'hidden champions', are not necessarily located in Germany's urban hubs and seem to perform well in the country's non-urban locations as well because they focus on the development of a specific market segment or niche, for which they often turn into market leaders. Such enterprises have even been discussed as potential role models for SMEs with long-term growth potential and were under academic scrutiny nationally. Notwithstanding this, the conceptual underpinnings of these 'hidden champions' from the SME sector are clearly understudied.

Similarly, SMEs form the backbone of the UK economy (*e.g.*, Mawson and Brown, 2017). In the United Kingdom, several research organisations and universities address small business development, for example, the ERC (ERC, 2020) and the ISBE (<https://isbe.org.uk/>). However, their focus rests on SMEs and their contribution to economic growth and development in the UK, and less on specific rural market environments for SMEs. Most notably, these research initiatives do not provide a conceptual idea about enterprises in rural regions. Hence, scholars in the UK have been researching SMEs, entrepreneurs, and policies from the perspective of a centralised national system, for instance, the impact of national funding and support policies on enterprises in various regions, including rural, peripheral, and remote regions of the country, often compared to the capital city region as a central hub in the UK (Huggins and Williams, 2011; Anderson *et al.*, 2005; Bennett and Smith, 2002). Overlooking these scattered national debates from the SME management and entrepreneurship literature, it can be concluded that rurality is indirectly addressed as a condition in these debates, but its role for, and contribution to, the success of enterprises in the rural context as well as the influence of policy support (if any) remain clearly understudied.

By contrast, the topic of rural entrepreneurship (*cf.*, McElwee and Atherton, 2021) represents a more intensively studied subject in rural sociology and human geography (Andersen and Lent, 2017; De Haan *et al.*, 2017; Pato and Teixeira, 2016). However, beyond a few related exceptions (*e.g.*, Gretzinger *et al.*, 2018), it is not prominently represented in business and economics studies, although it has been acknowledged that context matters for the understanding of entrepreneurship (Welter, 2011). Moreover, it is quite common that rural areas, particularly in the Global South, are approached through theories developed in the Global North and for urban economies (Newbery *et al.*, 2017). Fortunato's (2014) comprehensive review on the representation of rural entrepreneurship in the literature from a business and economics perspective is a notable exception as an academic paper that provides insights into the conditions and factors influencing entrepreneurship and start-up processes in rural contexts. The topic of rurality is, nevertheless, one of the contexts discussed

in the entrepreneurship literature (Gaddefors and Andersson, 2019; Korsgaard *et al.*, 2015), following Welter's (2011) call for more contextualised entrepreneurship research. Various concepts are used to operationalise the meaning of contexts in this emerging stream of literature, such as embeddedness, networking, social capital, local culture, norms, and traditions.

Hence, both the topics, 'rural enterprise development' and 'rural entrepreneurship', seem to receive little direct attention outside these scattered research streams, although the topics are at the core of understanding the connections between rural enterprises and the economy. Some of the questions that deserve closer attention are, for instance, related to the competitiveness and viability of rural enterprises, the strategic change and turn-around situations affecting them, and their internationalisation and marketing plans. Moreover, questions arise as to how new business ventures are established in a rural market environment as a potential alternative to urban areas with their abundance of resources and amenities, and how incumbent enterprises gain and sustain competitive advantage in a rural location in terms of access to input factors and national–international connections. In this context, a related question is which factors influence the employment and investment decisions of large companies in rural regions in the light of the recent negative demographic and migration trends across rural Europe (population ageing and youth outmigration), and how such large employers address the need for the employment of the elderly, and diversity and gender issues. In a similar vein, digitisation might offer new opportunities for enterprises to grow and expand, irrespective of their location, and it would be interesting to learn about how rural enterprises use the opportunities that digital technologies provide. Concisely, the present book will adopt a business– and economics–centric approach to address some of these unresolved questions.

### **The rural enterprise economy as a metaphor to understand rural enterprise development and rural entrepreneurship**

This book uses the metaphor of the 'rural enterprise economy', which departs from the notion of rurality, a concept with various meanings and connotations (*cf.*, Woods, 2010; Halfacree, 1993; Hoggart, 1990). From a functional approach, Cloke (2006, p. 20) views rurality as a condition that is

dominated ... by extensive land use, notably agriculture and forestry; ... contain[ing] small, lower order settlements which demonstrate a strong relationship between buildings and extensive landscape, and which are thought of as rural by most of the residents; ... engender[ing] a way of life which is characterized by a cohesive identity based on respect for the environmental and behavioural qualities of living as part of an extensive landscape.

A social constructivist perspective, by contrast, highlights the specific cultural values and identities that shape the understanding of what constitutes the rural

(Cloke, 2006). Based upon this discussion, the question is how we understand rurality in the context of enterprises: Does rurality represent a specific condition for enterprises, one which makes up their local business and market environment, or is rurality in some way a lifestyle choice of the individual entrepreneur and owner-manager? Alternatively, does rurality represent a mix of both meanings and can it be considered as an amalgam of an intentional choice of entrepreneurs to locate in the rural area and a necessary condition for the growth and development of enterprises in the locality?

The term ‘rural enterprise economy’ serves as a useful metaphor here. Drawing from the notion of an ‘enterprise economy’, which was introduced by John Wigley and Carol Lipman in 1992, it denotes the interactions and interrelations of the individual entrepreneur with the economy surrounding the entrepreneur; here, in the context of rurality. Wigley and Lipman’s (1992) book focused on the United Kingdom and the British economy at a time when the country was considered as the ‘sick man’ of Europe. More specifically, according to the authors, the concept of ‘enterprise economy’ denotes an understanding of economic development that links back to the smallest *nucleus* in the economy, which is the individual enterprise with the entrepreneur as the key person of the enterprise, and emphasises its importance for the contribution of economic wealth and community development. If we apply the ‘enterprise economy’ metaphor, thus, to rurality and rural regions where enterprises and their entrepreneurs are operating, our understanding in this book is that it is the individual enterprise with its key persons, *i.e.*, the entrepreneur and owner-manager, that importantly contributes to the economic and social development in rural regions. By using this metaphor, we abstract from the specific organisation of the relationship between the enterprise and the economy, which has been discussed through various perspectives – capitalist economies, national and regional business systems, clusters and industry districts, innovation systems, and ecosystems. Ultimately, our focus rests on the nexus of the enterprise, the region, and the communities represented in the rural regions.

## Outlook on the chapters in this book

After this introduction (Chapter 1), the book subsequently presents the two main parts addressing the two key topics of this book (Chapters 2 to 15), and finishes with conclusions and implications (Chapter 16).

Part II will be devoted to topics addressing ‘rural enterprise development’, which is associated with the growth and development of enterprises in rural regions. Part II provides case-based knowledge on how rural enterprises build and maintain a competitive advantage, whilst facing multiple challenges, and how they can persist and grow through internal resources, as demonstrated with their strategies and practices, and external connections, including those within the policy arena.

The first two chapters of Part II scrutinise the innovation strategies of rural enterprises. Anne Margarian writes in her conceptual essay about *the hidden*

*strength of rural enterprises* (Chapter 2) and explores the question of *why rural regions and peripheries can be more than a city centre's deficient complements*. Drawing from a resource-based view, Anne Margarian challenges the common view of the urban areas with their abundances of resources as the primary *loci* that attract enterprises. Instead, her working hypothesis is that rural locations can develop competitive advantages because enterprises in rural regions are able to exploit and further develop firm-specific competencies and capabilities and, thus, strengthen enterprise development in line with regional development. Lukas Vonnahme and Thilo Lang (Chapter 3) confirm this working hypothesis with a case study on the *hidden champions in rural Germany and their innovation strategies to compete in global markets*. The authors find that the prevalence of larger and highly specialised enterprises is not primarily a phenomenon visible in urban agglomerations, but both rural and urban enterprises in Germany follow similar innovation practices and strategies. Thus, Lukas Vonnahme and Thilo Lang conclude for the German context, which is characterised by a co-existence of SMEs and large enterprises, that global knowledge sources are more important for innovation strategies than local contexts, irrespective of the location, which allows rural enterprises from this specific sector in Germany to achieve competitiveness through innovation. Chapters 2 and 3, therefore, critically reflect the often communicated, underlying hypothesis of the existence of an urban–rural divide that favours urban enterprises; notwithstanding this, these chapters illustrate an alternative explanation that is based upon opportunities for enterprise development through resource-based capabilities and innovation strategies in the rural regions.

It goes without saying that competitiveness issues matter for any enterprise, particularly in turn-around contexts, when enterprises need to adopt new strategies in a short period and in response to unforeseen events. This holds also for the rural enterprise. In Chapter 4 (*Adoption of digital innovations in rural enterprises during COVID-19*), Jaana Räisänen and Tero Tuovinen illustrate not only the struggles, but also the opportunities that the current COVID-19 pandemic brought about for rural enterprises in Finland during the spring of 2020. The authors show that these enterprises were especially vulnerable due to their *ex ante* lower adoption of digital technologies and tools when the pandemic started. However, these enterprises in rural Finland managed to establish digital solutions for the challenges faced and were able to exploit opportunities linked to these solutions, thereby reducing, if not overcoming, the commonly discussed digital divide. Chapter 5 (*Competitive strategies of incumbent small regional banks in rural locations*) by Birgit Leick, Grit Leßmann, Alexander Ströhl, and Tim Pargent explores strategic change with small regional banks in a rural region of Germany. The authors describe how the locally anchored banks with a traditional and seemingly outdated business model cope with the competitiveness challenges arising from the rural context (population decline, loss of younger customers) and global trends (e.g., online banking) and maintain their business model by adopting new strategies. A tight, long-term customer relationship and strong embeddedness in the rural region accompany their business model

change and secure their market position. Hence, Chapters 4 and 5 highlight the approaches for rural enterprises to achieve competitiveness: Through sudden moves and flexibility, by using emergent strategies, as the case of COVID-19 highlights, and more planned, medium- and long-term strategic adaption to respond to a dynamically evolving regional and global market environment.

The two subsequent chapters are devoted to tourism enterprises in rural regions, which form a traditional element of the rural enterprise economy. In Chapter 6, Runolfur Smari Steinthorsson provides *reflections on tourism business viability and competitiveness within rural regions* through the study of the inter-relatedness of rural tourism entrepreneurship and regional competitiveness. Based upon an Icelandic case, the author explores the main conditions and key elements at regional level that influence the survival and viability of tourism entrepreneurs in rural contexts, and, *vice versa*, analyses how the individual entrepreneurs shape regional competitiveness. Through the lens of a conceptual model, Runolfur Smari Steinthorsson presents key learning points, such as the hypothesis that rural enterprises need to see themselves as puzzles in a bigger setting in the rural regions in order to reap the opportunities for profitability and competitiveness development in their location. In Chapter 7, Maria Lúcia Pato, Elisabeth Kastenholz, Cristina Barroco, and Andreia Pereira study *tourism marketing in rural contexts and the potential of wine tourism in the Portuguese Dão wine region*. Wine tourism is considered a touristic activity that can improve the growth perspectives of rural regions, and the opening of wineries offering touristic services represents an important marketing tool for the diversification of rural entrepreneurs and their expansion through direct sales. In their study, the authors explore the case of a wine region in Portugal and the marketing strategies applied by the rural wineries; they find that such enterprises need to identify strategies aiming at successful management of rural wine businesses and destinations. Altogether, as the two chapters show, tourism represents a backbone of the rural enterprise economy, but it has found itself under pressure in the recent months and years due to the COVID-19 pandemic, and the connections between the entrepreneurs and other stakeholders with the rural enterprise economy to influence regional development seem crucial for the growth of the rural enterprises in the future.

The final two chapters in Part II integrate the policy arena as an important domain into the rural enterprise economy. In Chapter 8, Susanne Gretzinger and Mads Bruun Ingstrup investigate the *participation of micro-enterprises and public organisations in rural development projects and how collaboration and tensions are balanced in such projects*. The authors acknowledge that micro-enterprises in rural regions need access to networks and capital and, thus, often collaborate, but they also face tensions in multi-stakeholder collaboration projects with enterprises and actors from other domains such as the policy arena. By using the concept of stakeholder participation for rural development projects in Denmark and Germany, Susanne Gretzinger and Mads Bruun Ingstrup illustrate key factors for the success or failure of such projects involving micro-enterprises. They find it is not only the leadership abilities of and dialogue

initiated by project managers, but also their willingness to compromise that lead to the success of the projects, and that the project managers play a critical role in obtaining the participation of rural enterprises and their integration in such diverse project collaboration. In Chapter 9, Päivi Kujala and Seija Virkkala analyse *rural business support policy in the rural enterprise economy* and study *the neo-endogenous approach to entrepreneurship promotion of the Common Agricultural Policy*. The authors identify three elements that matter for a neo-endogenous policy approach: The local embeddedness of rural enterprises, consisting of the realisation of the indigenous potential, such as natural and human assets; knowledge exchange in local and extra-local networks; and the politico-administrative level, comprising the institutions of rural business support policy. With a case study of Finnish entrepreneurs who had received financial support from EU funds for their business activities, they illustrate the tensions between the local administrative bureaucracy in the rural region and the broad support of the entrepreneurship of the enterprises as a function of rural authorities. Their findings hint at the dependence of policy success on using the full potential of the neo-endogenous approach, including local amenities and emerging networks. Together, Chapters 8 and 9 illustrate that policy actions and initiatives require not only the participation of enterprises with their entrepreneurs and owner-managers but also fairness in how the entrepreneurs are treated by rural authorities in order to maintain the rural enterprise economy as a balanced system.

Part III focuses on ‘rural entrepreneurship’ by addressing topics related to commercial start-ups and enterprising individuals: Their motivation and embeddedness in rural regions, the opportunities and challenges faced by rural entrepreneurs, including the role of technology, and the internationalisation and expansion of rural entrepreneurs.

In Chapter 10, Mikaela Backman and Charlie Karlsson discuss *opportunity- and necessity-driven entrepreneurship in urban versus rural locations*. The authors start with the observation that, in comparison to urban areas, rural areas face systemic structural problems (lower levels of formal education, ageing populations, a low and shrinking market potential, *etc.*) and, thus, tend to offer a less fertile environment for entrepreneurship than urban areas provide. Based upon this observation, they explore how the volume of entrepreneurship varies in rural areas in Sweden depending upon the size of the local market potential and the development level of the local economic milieu. Mikaela Backman and Charlie Karlsson provide insights into the relative shares of distinct types of entrepreneurship and thereby illustrate the potential for opportunity- and necessity-driven entrepreneurship in rural regions. In Chapter 11 (*Entrepreneurship in rural areas: Locational choices and embeddedness*), Essi Saarinen and Teemu Makkonen examine the local milieu in the rural enterprise economy more closely by illustrating how embeddedness shapes the locational choices of entrepreneurs in rural North Karelia, Finland. The authors focus on the question of what the original locational choices of entrepreneurs were in the rural regions and how committed they felt to staying in the location, and why. Their results



highlight that the rural entrepreneurs founded their enterprises in the location mainly due to necessities related to structural changes, *i.e.*, the diminishing importance of agriculture as a source of livelihood and the limited availability of workplaces. Nevertheless, the entrepreneurs remain committed to their rural locations and do not relocate due to the prospective high cost of such a move and their personal ties and roots in the region. Chapters 10 and 11 show two important aspects of rural entrepreneurship and general entrepreneurship, respectively: Firstly, rural entrepreneurship refers to necessity-driven motives as well as the search for opportunities in rural locations, which are not mutually excluding categories with regard to rural contexts. Secondly, local embeddedness in the rural area keeps the entrepreneurs in the place where they founded their enterprise. In this regard, rural entrepreneurship does not appear to be very different from what the stylised facts about general entrepreneurship and locational decisions tell us. Co-operation is also important in cities, as are the lifestyles of entrepreneurs, and small innovative enterprises normally use networks regardless of whether they are located in an urban or rural place.

In spite of these overarching findings, the subsequent Chapters 12 to 16 complement this finding with more nuanced insights that shed light on specific factors influencing rural entrepreneurship, *i.e.*, the opportunities for rural entrepreneurs and the challenges they meet. In Chapter 12, Marcin Rataj, Marco Eimmermann, and Rikard Eriksson present a case study on *the role of weak ties, strong ties, and 'good enough' internet access for entrepreneurship in rural Sweden*. They assess to what extent broadband internet access and social capital influence entrepreneurship in rural Sweden. The chapter combines a quantitative assessment of the relation between broadband access and the start-up rates of micro-enterprises in Swedish municipalities 2007–2012 with a qualitative case study on Dutch lifestyle migrants. Their results show that broadband access is positively correlated with entrepreneurial efforts in rural Sweden compared to larger urban regions. Nevertheless, investments in broadband access may not be the optimal allocation of public resources. Instead, the results suggest that mixing various types of social embeddedness and technical connectivity on a satisfactory, but not necessarily high, level may allow entrepreneurs to take advantage of synergies and create resilient business strategies based upon local resources. In Chapter 13, Ingeborg Nordbø illustrates the *opportunities and constraints of tourism micro-businesses and entrepreneurship in rural Norway* by means of a case study of the rural lifestyle and migrant entrepreneurs in a rural village. The author realistically portrays the motivational mix of necessities and opportunities, the lifestyle orientation, and the factors associated with the survival and failure of the entrepreneurs. The chapter also describes the important impact that such entrepreneurs have on societal and community development and regional capacity building, and it becomes clear that this impact goes beyond mere economic goals. By this token, Ingeborg Nordbø also addresses the mismatch between what research shows about the needs of rural entrepreneurs and what public priorities and support schemes provide when it comes to rural micro-enterprises and entrepreneurship in the tourism sector.



Chapter 14 by Gesine Tuitjer focuses on *entrepreneurial knowledge strategies in speciality food innovations*. The chapter presents a regional case study from a rural and peripheral region of north-eastern Germany with a group of entrepreneurs who produce for niche markets in the field of speciality food production. The chapter analyses the development of these micro-enterprises from the start-up stage from a knowledge perspective. Since the specific regional setting has little to no food heritage, the rural food entrepreneurs face growth challenges and use global symbolic knowledge for product development and marketing to non-local customers. Through their embeddedness in specific niche segments of food production (such as vegetables or coffee), they access synthetic, industry-specific knowledge. In addition, the food entrepreneurs network intensively within small local niche-market producers to generate local knowledge exchange and a temporary buzz, which enhances their local networks and creates a local market for a wider range of consumers. The chapter highlights that innovative entrepreneurs in niche markets may smartly combine and mix local and extra-local knowledge resources to establish themselves with a niche product in a rural region, even if consumer markets are small and local co-operation seems limited. Finally, in Chapter 15, Eva Jenny B. Jørgensen describes another strategy to establish and expand a business as a rural entrepreneur, which is internationalisation, *combining local and international embeddedness in a rural context*. The author presents a case study of entrepreneurs from northern Norway with an internationalisation commitment to the northwest parts of Russia. The case study highlights how international SMEs with their entrepreneurs are embedded in their local and international contexts, and how these two forms of embeddedness are combined. The first way for the rural entrepreneurs is related to taking advantage of being dis-embedded, the second to balancing local and international embeddedness, and the third to using embeddedness to reinforce internationalisation further.

Lastly, Chapter 16 summarises the main lessons learnt from the book as conclusions and implications not only for managers but also for public policy, and provides an outlook for future research.

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## **Part II**

# **Rural enterprise development**



## 2 The hidden strength of rural enterprises

Why peripheries can be more than city centre's deficient complements

*Anne Margarian*

### Introduction

In economics, rural locations are regularly viewed as lagging, secondary locations and are hardly ever addressed explicitly. Instead, they are understood as places for enterprises that cannot afford the high costs of urban 'prime' locations, which are attractive to all kinds of firms due to their various agglomeration advantages (Combes and Gobillon, 2015; Puga, 2010). From this perspective, 'the periphery ... is implicitly treated as the laggard in a competition with urban areas that it can never win' (Wirth *et al.*, 2016, p. 63). Evolutionary economics tends to argue less mechanistically and deterministically (Castellacci, 2007), but it does not provide an explanation for rural–urban differences. Instead, it often attributes structural characteristics of economic peripheries primarily to institutional or social deficiencies (see, for example, Cooke and Leydesdorff, 2006). We do, however, observe vibrant economic developments even in locations with sparse labour markets and restricted (knowledge-)infrastructure endowments (Salder and Bryson, 2019). Deficiency-oriented perspectives, no matter from what school of thought, fall short of an adequate description of rural regions that might also offer specific opportunities for certain industries or enterprises (Virkkala, 2007). In order to overcome this conceptual gap, this paper proposes an integration of the theory of comparative advantage from mainstream economics, with ideas on competitive advantage from more evolutionary perspectives. The resulting scheme will support a better understanding of the large variety of differently performing rural locations. It thereby also delivers a workable analytical framework for the description and analysis of rural enterprises and their relation to regional development.

The theory of comparative advantages is of seminal importance for the explanation of regional specialisation and trade in economic theory. It says that industries locate where the factors they require most are relatively abundant (Dosi and Tranchero, 2019; Jones, 1956).<sup>1</sup> Agglomeration advantages that are at the core of spatial equilibrium models (Moretti, 2011) and models from the New Economic Geography (NEG, Krugman, 1998) can be subsumed as 'comparative advantages stemming from economies of scale and the market structure' (Dosi and Tranchero, 2019, p. 3) in a more general perspective. These

models explain the development of agglomerations and therein confirm that innovative, dynamic, and knowledge-intensive industries locate in those core regions or agglomerations, where capital, including human capital, is abundant. On the other hand, relatively land-intensive low-tech manufacturing industries tend to settle in the economic peripheries (*e.g.*, Desmet and Henderson, 2015). Rural locations in advanced economies have therefore been expected to be specifically negatively affected by structural change (Desmet and Henderson, 2015) as employment and expenditures in the service sector increase at the expense of agriculture and manufacturing (Bárány and Siegel, 2018). Rural locations would then be in danger of losing their comparative advantages within processes of deindustrialisation that result from labour-saving technological progress and globalisation (Rodrik, 2016).

The expected decline of rural locations and smaller cities in the course of deindustrialisation has partially been confirmed, for example, for the U.S. (Johnson and Lichter, 2019) or for the East of Germany, the former German Democratic Republic (Wiechmann and Pallagst, 2012). It has, however, also been shown for the European Union that not all rural locations are affected by deprivation simultaneously (Bernard, 2019). In the U.K., economic restructuring came along with economic growth in many rural regions at the beginning of the new millennium (Hoyos and Green, 2011). A high resilience of manufacturing enterprises all over Germany has been diagnosed and has, among other factors, been attributed to specific strategies of small- and medium-sized enterprises (SMEs) (Lehrer and Schmid, 2015; Massis *et al.*, 2018; Pahnke and Welter, 2019). ‘People and place attachment’ have been found to be among the characteristics of this German ‘Mittelstand’ (Pahnke and Welter, 2019).

Implicit in these arguments is an enterprise-focused perspective on growth and resilience. This perspective is in line with the resource-based view that attributes competitiveness to enterprise-specific resources whose exploitation is limited to a particular enterprise (Barney, 1991). It thereby relates enterprise performance to absolute competitive (enterprise-level) rather than to relative comparative (location-level) advantages. Due to absolute advantages (Dosi and Tranchero, 2019; Ricci, 1999), seemingly unfavourable changes in the terms of trade in the course of globalisation do not necessarily imply an affected industry’s loss in economic significance. That is why in Germany, some regions with a relatively high share of manufacturing can experience ‘anti-trend’ growth (Dauth and Suedekum, 2016). Empirical studies have, in fact, repeatedly confirmed that the characteristics of enterprises are of higher relevance for their performance than their location (Smit, Abreu, and Groot, 2015). More specifically, while localisation externalities in agglomerations have positive effects on innovation, these effects have been found to vary between enterprises (Hervas-Oliver *et al.*, 2018). Phillipson *et al.* (2019) as well as Deakins and Bensemann (2019) find that rural SMEs are not characterised by lower performance than their urban counterparts as long as they implement strategies that are tailored towards the specific challenges and opportunities they face. Porter (1998, 2010) addresses the question of why a spatial clustering of these successful enterprises



occurs independently of the endowment of locations with basic factors. He has proposed that co-located cooperating and competing enterprises mutually affect their strategies. Porter has, however, been heavily criticised by economists for having misunderstood the concept of comparative advantage and because of a presumably inadequate transfer of the idea of competitive advantage from the enterprise level to the national level (Davies and Ellis, 2000).

Against this background, this chapter proposes that enterprises' creation of (usually unobserved) enterprise-specific valuable resources depends on certain location advantages and simultaneously contributes to the further build-up of location advantages. The resulting evolutionary perspective attributes path-creating power to enterprises, including rural enterprises, and thereby contributes to an explanation of performance variations between, and to a non-deficiency-oriented understanding of, rural locations.

The paper starts out with a brief description of certain facts and empirical observations concerning rural locations. This part concentrates on the case of Germany. Here economically vibrant and deprived rural locations, as well as (rural) locations with relatively long-term undisturbed capitalist development, and (rural) locations that have only entered the global market more recently, exist in parallel. The consecutive main section develops the conceptual argument that certain enterprise-specific resources should be counted among those factors that potentially establish comparative advantages of (rural) locations. The ensuing conceptual scheme allows for a nuanced description and analysis of locations that differ in economic structure, density, and competitiveness. The third section begins to extend this static scheme by proposing a specific labour market-related mechanism that could explain the concentration of valuable locally specific advantages within rural locations. These ideas are illustrated with results from an explorative and location-sensitive analysis of data from food-processing firms. The final section presents a summary and conclusions.

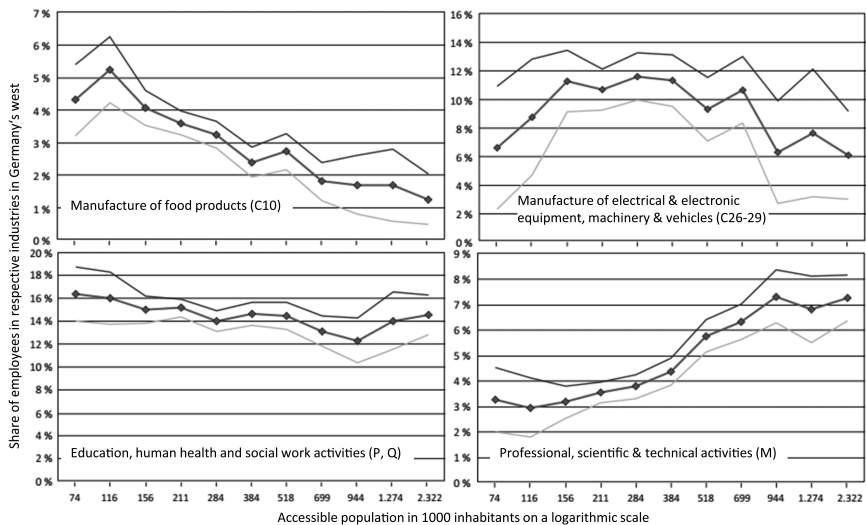
## **Structural characteristics and dynamics of rural locations**

The theory of comparative advantage and spatial equilibrium models anticipate unique optima or conditional convergence given a certain city size distribution. Compared to enterprises in agglomeration centres, enterprises in the periphery will then belong to less knowledge-intensive industries. These allow for the realisation of fewer innovation rents (see Pavitt, 1984) and are affected more negatively by structural change. If, instead, development additionally depends on absolute or competitive advantage, it relates less strictly to external location conditions. This implies a path-creating power of entrepreneurs and enterprises, and the co-existence of a multitude of possible development paths that might not all end up in (transient) economic optima (Saviotti, Pyka, and Jun, 2020).

Industry response curves (Margarian, 2013) show that different industries, indeed, have their specific pattern of spatial concentration along gradients of population density (Figure 2.1; Margarian, 2018) in line with the idea of

comparative advantages. While industries such as service industries that employ high shares of high-skilled employees tend to be concentrated in the most agglomerated locations, the opposite holds true for mature low-tech industries like the manufacture of food products. However, the observations do not consistently reflect a simple ‘strong agglomeration / high skill’ and ‘no agglomeration / low skill’ pattern. More innovative and technology-intensive manufacturing industries, such as the manufacture of machinery, show a concentration in intermediate locations, while general purpose services like education, human health, and social work activities are more equally distributed across space (see Figure 2.1). Industry-specific requirements in terms of factor demands (Pflüger and Tabuchi, 2019), restricted tradability or inter-industry interactions and scale externalities (Desmet and Henderson, 2015, p. 1494) can explain these more differentiated patterns.

While industry demands and the spatial distribution of basic production factors seem to explain the distribution of industries across space, their combined consideration does not possess satisfactory explanatory power with respect to regional development. At least in the German case, convergence in terms of structure and growth has not been achieved between rural regions in the East and the West, even more than 25 years after the German re-unification. According to Uhlig (2006, p. 384), it ‘appears that East Germany is slowly but surely aging and dying, except for a few vibrant core areas and big cities’. Figure 2.2 reflects the persistent differences between rural and urban locations in the East and West of Germany in qualitative terms. It presents marginal



Note: Displays estimated values with 95% confidence interval. Industry codes refer to the NACE 2008 industry classification scheme.  
Source: Own calculations based on data from INKAR 2016 by the Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR), Bonn and from the Federal Employment Agency on employment (within the scope of national insurance) for specified industry groups, Nuremberg 2017.

Figure 2.1 Industry response curves with respect to accessible population in German districts (2016).

	East		West	
	Rural	Urban	Urban	Rural
Industry concentration	-2	-28	-3	1
Share employees in large firms	13	63	41	-17
Exports from processing trade	-21	6	11	2
Business services	-92	81	57	31
Knowledge intensive production	-20	-18	-14	8
GVA per employee	-81	-80	68	5
GDP per inhabitant	-61	-72	-31	11
Primary sector share in GVA	-19	-47	-85	34
Secondary sector share in GVA	-15	-44	-5	9

Note: Cox-Snell Pseudo R-square of 0.7. Displayed are the marginal effects on the probability to belong to a location type. The values of the first and the third quartiles serve as levels for the calculation of differences in probabilities. The median serves as reference level. Grey shaded are the most positive marginal effects per line, which characterize cases.

Source: Own figure based on data from INKAR 2016 edited by the Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR), Bonn and on data from the Federal Employment Agency on employment (within the scope of national insurance) for specified industry groups, Nuremberg 2017.

Figure 2.2 Determinants of the probability to belong to a specific location type.

effects of economic fundamentals on the probabilities of districts belonging to a specific location (see Margarian and Hundt, 2019). According to the results, rural districts in Western Germany distinguish themselves from other locations by high income potentials in terms of Gross Domestic Product (GDP) per inhabitant, relatively high shares of Gross Value Added (GVA) from the primary and secondary sector and a relatively high share of employees in knowledge-intensive manufacturing. Rural locations in Germany's East, in contrast, do not show a specific strength in any dimension. While the rural East of the country thereby seems to comply with the deficiency-oriented characterisation of rural areas, the strength of rural locations in the West is apparently related to the production rather than to the service sectors, which is in line with what we know about prosperous rural regions in other countries (Bollman and Reimer, 2009; Hansen and Winther, 2011; Virkkala, 2007).

According to Dosi and Tranchero (2019, pp. 4–5), there is strong evidence of 'how the manufacturing sector constitutes the true engine of growth due to externalities, learning by doing and superior innovativeness'. Rattner (2011) largely agrees with specific reference to the German case. In the context of the financial crisis 2009/10, it was consistently recognised that while 'the service industry has been the main source of employment growth, the manufacturing industry is still the main driver of this growth in Germany due to the export industry's feedback effect on the service economy' (Reisenbichler and Morgan, 2012, p. 557). Figure 2.3 consistently demonstrates that employment growth in Germany's rural West has outperformed the growth of all other locations between 2007 and 2016. It also shows that there is a considerable gap

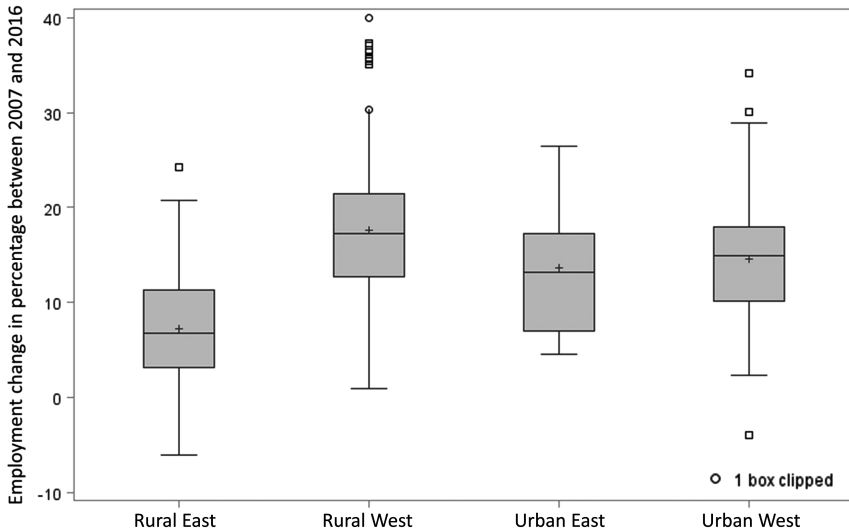


Figure 2.3 Change in employee numbers in per cent between 2007 and 2016 by location type.

in employment growth between the rural East and West within this period of time. However, in the West, there are also rural districts with zero growth as well as rural districts with employment growth of 30% and more during these nine years. Taken together, these observations concerning the relative strength of rural locations refute the idea that urban agglomerations alone serve as growth engines of modern economies or that mainly external location conditions explain the industry structure and development of locations. Quite the contrary, an ‘anti-trend’ growth (Dauth and Suedekum, 2016) that implies intra-industry and inter-enterprise heterogeneity seems to be a characteristic of Germany’s successful rural locations.

### Competitive advantages as comparative advantages

The concept of comparative advantages in its narrow interpretation only considers the most general factors of production in its attempt to explain regional specialisation and development: labour, capital, land, and other basic factors of production that have not been created in the production process themselves. Porter (1998), however, claims that production factors might have to be defined in more detail in order to explain differences in enterprise activities and performance. He proposes a differentiation between ‘basic’ factors such as climate and unskilled labour and ‘advanced’ factors which have to be created, for instance, computer scientists or telecommunications infrastructure. Comparative advantages could then relate to both basic and advanced factors. Additionally, Porter (1998) differentiates between ‘generalised’ factors which

Basic resources			Advanced resources		
<b>General resources</b>	Land, unskilled or semi-skilled labour, and debt capital	Peripheral	(Academically) Trained labour, Modern general infrastructure	Urban	
<i>Development regime</i>	<i>Efficiency based</i>		<i>(Human) Capital based</i>		
<i>Competitive advantage</i>	<i>Cost minimization</i>		<i>R&amp;D, business services</i>		
<b>Specialised resources</b>	Scarce natural resources and related production factors	Not specifiable	Know-how, market-specific technological solutions	Rural	
<i>Development regime</i>	<i>Factor based</i>		<i>Experience based</i>		
<i>Competitive advantage</i>	<i>Resource exploitation and cost minimisation</i>		<i>Differentiation and quality leadership in production</i>		

Figure 2.4 Resource matrix for a comprehensive assessment of comparative advantages

can be deployed in a wide range of industries and ‘specialised’ industry- or enterprise-specific factors (Figure 2.4).

Spatial equilibrium models from mainstream economics restrict their attention to those general advanced factors (top right quadrant in Figure 2.4) that are due to effects of scale and agglomeration, because these are well observable and homogenous across enterprises and cities. These models usually assume tradability of all other production factors. The simplistic deficiency-oriented characterisation of rural locations in these approaches is reflected by the upper half of Figure 2.4. If only general resources are considered, peripheral regions are defined by a relative abundance of basic resources such as land, unskilled and semi-skilled labour. Agglomerations or large cities, on the other hand, are then characterised by a relative abundance of advanced resources, *e.g.*, academically trained labour and knowledge infrastructure. Enterprises in locations that are adequately characterised by the quadrant in the upper left corner of Figure 2.4 belong to low-tech industries that are under fierce price competition. These enterprises lack access to advanced resources. They have to maximise technical efficiency and minimise production costs in order to survive globalisation and structural change. These conditions reflect what we observe in rural locations in Germany’s East (see Figures 2.2 and 2.3). The upper right quadrant in Figure 2.4 reflects conditions in agglomeration centres in the East and West of the country. The principal mobility of the general advanced resources that are characteristic for these locations can explain why successful agglomerations in the East have come close to agglomerations in the West in terms of structure and employment growth in the past 25 years (see Figures 2.2 and 2.3; Margarian, 2018).

The tradability assumption of spatial equilibrium models contradicts the resource-based view on firms and firm growth (Penrose, 1959; Wernerfelt, 1984). From this perspective, valuable, rare, imperfectly imitable, and non-substitutable (VRIN) resources create competitive advantages (Barney, 1991).

Complementarity between tacit skills or capabilities and enterprise-specific production capacities explains the partial immobility and restricted marketability of enterprise resources. Due to their restricted tradability, VRIN resources could give rise to specialisation in trade just like more general advanced and basic factors. VRIN resources can thereby be seen as an enterprise-level counterpart to location-level specialised advanced production factors (bottom right quadrant). From the competitive and absolute advantage perspective, enterprises with VRIN resources realise specific rents because they control a very specific market segment. From a comparative advantage perspective, these enterprises realise advantages from trade as they exploit factors or resources that do not exist elsewhere. The distinction between comparative and competitive advantages becomes a matter of perspective, and the differentiation between relative and absolute advantages becomes blurred. If the specialised advanced factors are subsumed among factors that constitute comparative advantages, the performance of rural locations is not determined by scarcity in certain general factors alone, but depends additionally on the existence of innovative enterprises that exploit their location-specific opportunities for the creation of locally specific, difficult-to-observe resources, which support further innovation and growth.

The bottom half of Figure 2.4 shows, accordingly, that locations that belong to the upper left quadrant lack not only advanced, but also specialised resources. They do not belong to those naturally favoured urban or rural locations that possibly benefit (but see Canel, Idemudia, and North, 2010) from an absolute or relative abundance of certain natural resources, which are needed in specific extractive industries such as mining (bottom left quadrant). A concentration of industries that exploit certain natural resources has been found to be characteristic for many rural regions, for example, in Northern Europe (Virkkala, 2007). From a global perspective, however, there are also many urban centres where the economy depends strongly on natural resource exploitation. The typical location type of regions with a relative abundance of specialised basic resources therefore remains unspecified in Figure 2.4.

Next to scarce natural resources, locations, including rural regions, that belong to the upper left quadrant in Figure 2.4 also lack specialised advanced (VRIN) resources (bottom right quadrant). This lack deprives enterprises from the ability to compete successfully on quality, specialise in specific, relatively protected, market segments, and exploit innovation rents. In a more dynamic interpretation, the upper left quadrant resembles the conditions of a rural economy that has not yet been successful in sustainable investment for the sake of resource upgrading. As the non-tradable VRIN resources that characterise the successful rural regions from the bottom right quadrant are being created by enterprises themselves, the initial trigger of rural development may be historically contingent or accidental (Maskell and Malmberg, 2007). This contingency contributes to the performance differences of locations that belong to the same location type (see Figure 2.3). If the first enterprises manage to generate and exploit valuable resources, their success might spill over locally as they grow

and generate spin-offs, subsidiaries, and labour with specific skills. This process takes decades rather than just years. In this case, it is true that ‘history matters’ and ‘externalities are dynamic and have a long lasting impact’ (Combes, Magnac, and Robin, 2004, p. 218). As the co-evolving, locally specific capacities and capabilities are crucial for successful rural locations, the contingent, slow, and non-transferable enterprise-driven development *via* the creation of VRIN resources is characteristic for rural development. It thereby contributes to the explanation of sustainable structural differences between rural locations with different starting conditions like those in Germany’s East and West (see Figures 2.2 and 2.2; Margarian, 2018).

Given these considerations, the neglect of difficult-to-observe specialised advanced resources in the assessment of the locations’ comparative advantages could result in a bias at the expense of rural locations. An abundance of advanced specialised resources at a location presupposes that location conditions relate positively to the creation of resources. As these location conditions might be better observable than the VRIN resources themselves, their theory-guided identification is expected to be crucial for further empirical analyses of rural development. The following section therefore discusses (rural) location conditions that possibly benefit the creation of specialised advanced resources.

### **Location-specific competitive advantages in rural regions**

Among those conditions that are possibly conducive to the creation of specialised advanced resources in rural locations is their strength in the manufacturing sector. In manufacturing, valuable resources are better protected from imitation than in the service sectors due to stronger complementarities between specific capabilities and production capacities, and due to stricter spatial separation between production and consumption. Therefore, enterprise-specific resources tend to be of higher relevance for the determination of competitiveness in manufacturing sectors than in service sectors (McGahan and Porter, 1997). Additionally, the competitiveness of those relatively mature low-tech industries which are often concentrated in rural locations relies not so much on formal research and development (R&D) activities or radical innovations. Instead, it relies more on tacit knowledge generated in the production process itself, the continuous improvement of products and production processes, and the development of customer-specific solutions (Hansen and Winther, 2015). In other words, innovation and growth here rests on the exploitation of specialised advanced resources. Consequently, the anticipated and observed relative strength of rural areas in manufacturing, especially low-tech industries, as compared to the service sector is among those location factors that encourage the creation of specialised advanced resources. It remains to be analysed whether certain rural conditions are specifically conducive to the creation of specialised advanced resources within manufacturing and other industries.

The creation and exploitation of those specialised advanced resources that support the dominant rural innovation modes of manufacturing enterprises require

an experienced workforce with intimate knowledge of local conditions and stable long-term employment relationships. Díaz-Fernández, López-Cabrales, and Valle-Cabrera (2014, p. 217) confirm that employees develop competencies that are adapted to their enterprise's strategies and that 'human resources management should be aimed at strengthening and promoting' these competencies. The willingness of enterprises to invest in their own employees might, however, depend on the local labour market situation. In dense urban labour markets, enterprises might be discouraged from investments in human resource management (HRM) by the higher risk that their competitors could poach employees (Panagiotakopoulos, 2012). High inter-enterprise mobility of labour might reduce the incentives for enterprises to invest in training (Croce *et al.*, 2017). With low labour mobility, in contrast, enterprises have higher incentives to support internal, functional flexibility and invest in the internal development of their own work force (Vergeer *et al.*, 2015). Smallbone, North, and Kalantaridis (1999) and Deakins and Bensemann (2019) confirm that rural SMEs respond to their difficulties to attract skilled workers on external labour markets by on-the-job or in-house training of local labour. Where labour markets are small and the chances for employers to improve their workforce by seeking better matches on external labour markets are relatively low, the incentive for employers to adopt high-commitment HRM could be specifically high (Phillipson *et al.*, 2019).

Figure 2.5 summarises the proposed relationship between location and labour market conditions, respectively, as external factor X, the ability of enterprises to create and exploit specialised advanced (VRIN) resources as mediating factor M, and the competitiveness of a location or its enterprises, as measured by their success in innovation and growth, as endogenous variable Y. This model further implies that the ability to create and exploit VRIN resources, including unobserved ones, depends on the HRM practices of the enterprises and the resulting observable quality of their workforce. The indicated backward arrow from M to X in Figure 2.5 implies that forming a workforce that matches an enterprise's demands is not only conditional on local labour market conditions; it has also an impact on the local labour market itself. This indicates that in sparse rural labour markets there might be a counterpart to those positive

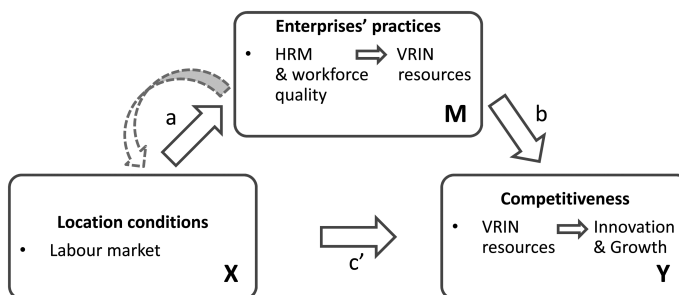


Figure 2.5 Model for an enterprise's conditional creation of specific human resources and innovation capabilities



external effects that define the advantage of agglomerations. If, for example, some enterprises prefer to engage and promote employees they have trained themselves, other enterprises may invest more into their own workforce as well because they do not have to fear labour poaching. In summary, according to Figure 2.5, rural enterprises contribute to the creation of valuable comparative advantages if they manage to establish stable employment relationships and strong internal labour markets.

Whether the model depicted in Figure 2.5 is empirically valid has been put to a first test in an explorative analysis of data from a survey among food-processing firms (Margarian, 2017). The food sector is typically representative of the mature low-tech manufacturing industries (Eisenhardt and Martin, 2000) that are concentrated in rural locations. The survey has been conducted in the German federal state of Lower Saxony. All 1,524 food-processing enterprises in the region were contacted, and 200 enterprises among them answered the survey, corresponding to a response rate of 13%. A total of 60% of all enterprises in the survey report having been active at their current location for more than 50 years.

According to the estimated mediation model (Iacobucci, 2012), the most negative direct or net effect of a rural location ( $c'$  in Figure 2.5)<sup>2</sup> in the sample relates to the propensity of enterprises for innovation. Simultaneously, rural locations relate strictly positively to the probability that the enterprises invest in HRM practices. High-commitment HRM practices (Arthur, 1994), in turn, relate positively to innovation in our sample. As a consequence, the negative direct effect of a rural location on the enterprises' probability to innovate is counteracted by the positive indirect effect via HRM practices. Moreover, in our sample, the positive link from high-commitment HRM practices to sales growth is stronger than that from innovation, while there is no significant direct link between location and sales growth. The results would, therefore, be in line with the idea that enterprises benefit from specific labour market conditions in rural locations if they exploit their opportunities for the establishment of stable labour relationships and specific skills in their workforce. Regional development would then be contingent on the initial, possibly random, establishment and growth of capable enterprises, which could take a long time. Along the way, these capable enterprises are expected to create and exploit specialised advanced (VRIN) resources and support the implementation of similar practices in neighbouring enterprises.

## **Conclusion**

In the context of the theory of comparative advantage, rural locations have usually been characterised from a deficiency-oriented perspective. According to related spatial equilibrium models, the advantages of urban regions over rural regions evolve from positive agglomeration externalities. These models consider only general resources, which can in principle be accessed by all industries and enterprises. We propose that a consideration of enterprise-specific

VRIN resources (Barney, 1991) among the production factors that define comparative advantages could support a more differentiated characterisation of rural locations. VRIN resources lay the foundation for the competitiveness of enterprises and could constitute advanced specialised factors on the locational level, where they could contribute to comparative advantages as implied by Porter (1998). As VRIN resources are created by enterprises within the production process itself, the proposed approach introduces aspects of contingency into the discussion of rural development. This contingency could explain the large observed variation in rural performance. The long-term processes that are required for the creation of specialised advanced resources could explain the lasting differences between rural locations with different starting conditions.

The neglect of specialised advanced resources in the definition of comparative advantages could induce a biased perception of the strengths and weaknesses of rural locations. Two reasons have been proposed for why rural locations might be relatively rich in specialised advanced resources. First, their development is supported by their relative strength in particularly low-tech manufacturing, where factor immobility due to complementarities between firm-specific capacities and capabilities is more prevalent than in the service sector. Second, rural locations might be specifically beneficial for the development of VRIN resources even within given industries due to specific labour market characteristics. Low labour turnover and sparse labour markets could encourage enterprises to invest in long-term labour relations and the development of skills within their own workforce. These are important pre-conditions for the creation and exploitation of VRIN resources. The resulting commitment to the internal labour market could, in turn, reduce labour poaching and labour fluctuation on the external labour market. This external effect could ultimately encourage neighbouring firms to invest more into the long-term development of their own workforce as well. This self-enforcing mechanism can explain why specialised advanced resources might concentrate at specific rural locations, just like agglomeration externalities explain why general advanced resources concentrate in urban centres.

The chapter has shown that rural locations should not be conceptualised as underdeveloped agglomerations. Rural development cannot be induced with ever more investment into infrastructure or other general advanced resources alone. As the crucially specialised advanced resources are being created within the production process in rural areas, policies that aim at rural development should rather focus on rural enterprises and their specific demands. Given the specific relevance that long-term employment relationships possibly have for the competitive advantages of rural enterprises, it is, for example, possible that certain labour market regulations could be among the most effective measures in support of rural economic development. The institutions of the coordinated market economy in Germany, for instance, might not only have benefited the private sector generally (Carlin and Soskice, 2008), but have possibly been of specific advantage for those German rural locations that are particularly strong

in manufacturing and that have experienced above-average employment growth in the past decade.

## Notes

- 1 The idea of comparative advantages is usually employed today in the form of the Heckscher–Ohlin Theorem (Dosi and Tranchero, 2019): ‘A country exports those commodities produced with relatively large quantities of the country’s relatively abundant factor’ (Jones, 1956, p.1).
- 2  $c'$  represents the net effect given that the mediator  $M$  is controlled for. The coefficient  $c$ , in contrast, would represent the gross effect, *i.e.*, the estimated relationship between  $X$  and  $Y$  if  $M$  is not controlled for.

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### 3 Hidden champions in rural Germany

#### Innovation strategies to compete in global markets

*Lukas Vonnahme and Thilo Lang*

#### Introduction

The economy of rural areas is often associated with traditional fields such as handicrafts and local services, agrifood industries, tourism, extractive industries, or (renewable) energy. In opposition to this perspective, we focus in this chapter on particularly innovative hidden champions in rural Germany. These are mainly industrial firms producing highly specialised machinery and products, which, due to their knowledge intensity, would be expected rather to be located in city-regions that are equipped with a dense knowledge-based infrastructure. However, as the example of hidden champions in Germany illustrates, enterprises successfully competing in global markets equally exist in rural areas outside of the large agglomerations.

How do such firms organise their innovation activities despite the absence of dense regional innovation systems? And how do they secure their leading position in global markets in this context? Moreover, to what extent do they potentially act differently as compared to their urban counterparts? To answer these research questions, we draw on an emerging field of literature around the geography of innovation, focussing on processes of knowledge creation and the innovation of enterprises from a peripheral perspective. This literature builds on the argument that interactive knowledge creation and geographical proximity in cities and clusters is not as closely intertwined as assumed (Fitjar and Rodríguez-Pose, 2017). Yet, the strong urban bias of the field is evident: Until recently, scholars have paid only little attention to innovation appearing outside of agglomerations, and a deficit-based perspective on rural innovators dominates as compared to enterprises in agglomerations (Shearmur, 2017; Eder, 2019).

Empirically, we analyse strategies and practices of rural enterprises towards innovation in a comparative perspective with similar enterprises in urban contexts. Our contribution is based on an ongoing research project that studies processes of spatialisation under the global condition using the example of hidden champions. These highly specialised, innovative, and globally active enterprises are quite evenly distributed across space in Germany. Within that project, we analysed a database of about 1,700 enterprises towards their innovation



activities in a comparative perspective and in a mixed-method design incorporating quantitative statistical analysis as well as qualitative analysis of interviews. With this approach, we aim to fill the gap of comparative perspectives in the field. So far, the urban bias dominates theorising, and empirical studies focusing on the innovation of enterprises outside of agglomerations often lack a comparison with similar enterprises in urban locations.

This chapter is structured as follows: In the next section, we summarise current debates around innovation outside of agglomerations questioning the role of knowledge as a sticky resource and potential differences in the innovation of enterprises, based on recent empirical research. Secondly, we introduce the concept of hidden champions, show the spatial distribution of these enterprises in Germany, and discuss the major characteristics of this type of enterprise. In the third section, we present results from qualitative interviews with representatives of these enterprises in urban and rural locations in Germany by focusing on their innovation strategies in rural regions and analysing how far they differ from the strategies used by enterprises located in agglomerations. In the concluding section, we discuss how these findings add to the current debate about innovation outside of agglomerations and how this could advance thinking in the geography of innovation research.

## **Theoretical background**

Cities are often proclaimed as hotspots of innovation or ‘innovation machines’ (Florida *et al.*, 2017). It is the concentration of innovative actors in dense urban environments which is said to best facilitate knowledge exchange and interactive learning, ultimately leading to the creation of innovations. The mix of regional specialisation and diversity in cities would lead to multiple options for formal and informal interaction and support creativity and the generation of new ideas for innovation. Following this logic, being located in dense urban environments is undoubtedly beneficial for many enterprises to innovate. What we want to challenge in this chapter, however, is the – often implicit – assumption that the contrast is evenly true, *i.e.*, that being located outside of agglomerations as an enterprises represents a disadvantage when it comes to innovation (Fitjar and Rodríguez-Pose, 2020).

In this section, we refer to multiple approaches and empirical evidence, which altogether underline that this simplifying dichotomy on the interconnection between innovation and space for enterprises is outdated (Shearmur *et al.*, 2016). We focus on actor-centred approaches questioning the role of knowledge as a sticky resource being confined to agglomerations. Further, we explore recent empirical research on the innovation of enterprises in rural areas to identify potential specificities and differences compared to innovation in city-regions.

### ***Innovation as a knowledge-driven, interactive, and multi-local process***

Following the open innovation paradigm, contemporary conceptualisations of the innovation of enterprises highlight the importance of external knowledge



(Chesbrough, 2003). A main mechanism for enterprises to acquire external knowledge is interaction with suppliers, customers, and research institutions. While the co-location of actors might ease interactive knowledge creation and collaborative innovation activities, numerous approaches in economic geography demonstrate that permanent geographical proximity is not a precondition for the creation of new knowledge and might even be harmful when actors become locked-in in mutual relationships (Boschma and Frenken, 2010). Settings which provide for temporary proximity between actors have been identified as effective substitutes for co-location to organise knowledge exchange and interaction (*e.g.*, Torre, 2008).

Modes or mechanisms to organise the temporary proximity of actors range from short meetings connected to corporate travel (Faulconbridge *et al.*, 2009), conferences and trade fairs (Bathelt and Gibson, 2015), temporarily gathered project teams, to long-term research stays (Hautala, 2018). Thus, interactive knowledge creation might involve different scales (from local to global) as well as different ways of organising: permanently, temporarily, or virtually. Moreover, temporary events such as trade fairs or congresses function as knowledge platforms and arenas for field production where participants from related contexts can interact and network (Henn and Bathelt, 2015). Events additionally function as platforms for non-interactive types of learning such as observation and monitoring of competitors.

Hence, such findings allow us to question the straightforward link between location and innovation. Geographical distance to knowledge sources does not necessarily restrict access to knowledge. It might be even beneficial as it might help to tap into new knowledge pools. The potential specifics of innovation in rural areas outside of agglomerations have been unclear for a long time, and it remains an open question in how far strategies and practices of rural enterprises towards knowledge creation differ from those of their urban counterparts.

### ***Knowledge creation for innovation outside of agglomerations***

Since peripheral or rural regions are usually organisationally thin, intense local interaction is not a viable option in such regional contexts (Tödtling and Trippel, 2005). Enterprises need to align more strategic efforts towards innovation and often build on the formation of a strong internal knowledge base (Eder and Trippel, 2019). This includes the recruitment of talented personnel and constant in-house training in order to provide for a broad mix of internal competences, and facilitate the creation of tacit knowledge and the rise of innovation capabilities (Flåten *et al.*, 2015).

Several studies emphasise the specificities of the collaboration of enterprises and their innovation networks in peripheral and rural regions, for instance, that such enterprises tend to collaborate more than enterprises located in larger agglomerations (Grillitsch and Nilsson, 2015) and that their interactions are more diverse, *i.e.*, they target a broader variety of partners (Jakobsen and Lorentzen, 2015). It is argued that collaboration with extra-local partners can

be considered a mechanism by which enterprises compensate for a lack of local knowledge-sourcing opportunities. It has also been found that innovators located outside of agglomerations tend to target their collaboration partners more strategically because they cannot rely much on informal, local exchange. Such purposefully built collaborations have been identified as dominant arrangements of partnerships operating at a distance (Fitjar and Rodríguez-Pose, 2017).

High levels of mobility are seen as a central means to engage in trans-local knowledge dynamics, *e.g.*, by travelling to access information and to meet partners. Recent studies suggest various formats by which trans-local knowledge can be accessed, exchanged, and generated. Enterprise participation in trade fairs, conferences and industry/community gatherings, frequent business travels, trans-local communities, digital networks and associations operate as effective elements of knowledge creation and provide opportunities to establish new or strengthen existing linkages (Bathelt and Henn, 2014; Grabher and Ibert, 2014).

While in most studies, the focus is on how enterprises deal with the disadvantages of peripheral or rural contexts, few studies point towards specific resources and qualities that areas outside of agglomerations provide for: A certain 'slowness' of processes, for instance, regarding direct market demands and product development, but also lower interaction frequencies with external partners, and making use of options of non-interactive learning (Glückler, 2013), might qualify peripheral or rural regions as experimentation sites for ideas, which can gradually mature in the absence of immediate commercialisation pressures (Shearmur and Doloreux, 2016). Other aspects refer to the protective environments such regions might account for: There is a reduced risk of knowledge leakage to competitors (Grillitsch and Nilsson, 2017). Rural enterprises can also rely on a more stable workforce and a close connection to local authorities and policy-makers (Eder and Trippel, 2019; Meili and Shearmur, 2019).

Two main arguments arise from this short review of the literature on the geographies of innovation that addresses knowledge creation and innovation. First, regional contexts and local options of interactive knowledge creation clearly differ between urban and rural contexts. Second, and more importantly, the role of local collaboration for innovation has to be critically engaged with for both rural *and* urban innovators. Temporary proximity, options of knowledge transfer over distance, and strategies of rural innovators underline that today local collaboration is only one out of many options for enterprises to gain knowledge.

### **Hidden champions in rural Germany**

By focussing our research on hidden champions in Germany, we aim to challenge the dichotomous representation of innovative urban *versus* less innovative rural settings. Hidden champions were found to be exceptionally successful on

the world market (Simon, 1990), while their locations are fairly equally distributed across Germany. Simon (2012) defines three criteria to determine the notion of hidden champions. Enterprises must (1) be amongst the three leading players on the world market or be the market leader on one continent, (2) not exceed a turnover of 5 billion euros, and (3) exhibit only a low level of visibility and public awareness. Several studies emphasise that these enterprises are frequent innovators (*e.g.*, Simon, 2012; Kaudela-Baum *et al.*, 2014; Venohr *et al.*, 2015). Due to their rather small size, hidden champions operate with a high degree of flexibility and have the capacity to swiftly adapt to technological changes and market requirements. One major feature that explains the market success of hidden champions is, therefore, their excellence in innovation which often enables them to be not only the market leader, but also the technological leader in their respective field (Simon, 2012, p. 259; Venohr *et al.*, 2015, p. 17).

## Data and methods

Based on private research identifying hidden champions in Germany, we established an aggregated database in line with the criteria developed by Simon (2012). It contains 1,691 enterprises with the official municipal identification code of their headquarters in Germany and additional company data.<sup>1</sup> For the differentiation between urban and rural enterprises, we mobilise a functional, population-based and a geographical, distance-based differentiation regarding types of towns and municipalities and their location (BBSR, 2012): Excluding the larger cities, we approximate medium-sized cities, small towns, and rural municipalities in (very) peripheral locations as being predominantly rural. Accordingly, more than half of all hidden champions are located outside of large cities. Moreover, about 20% of these enterprises are rural enterprises according to our definition (see Figure 3.1). This distribution is roughly in line with the distribution of the population as well as the employees across the different types of towns and municipalities and their location. Thus, a clear preference of these firms for larger cities and agglomerations cannot be observed.

The empirical analysis draws on 15 in-depth semi-structured interviews with representatives of hidden champions, both in urban (seven interviews) and rural (eight interviews) locations (see Table 3.1). For the selection of interview partners, we used data of a survey similar to the Community Innovation Survey among all hidden champions of our database which was carried out between August 2017 and January 2018 with 129 responses in total (90 urban and 39 rural enterprises). To identify the most similar, innovative enterprises for the interviews, we conducted a cluster analysis considering the size, knowledge intensity, diversification, internationality, and innovation output of the enterprises, amongst others. All interviews were conducted between October 2018 and April 2019 and lasted 68 minutes on average, with a minimum of 41 and a maximum of 100 minutes. They were conducted face-to-face at the headquarters of the enterprises, most often with the owners or directors, and in

The spatial distribution of Hidden Champions in Germany

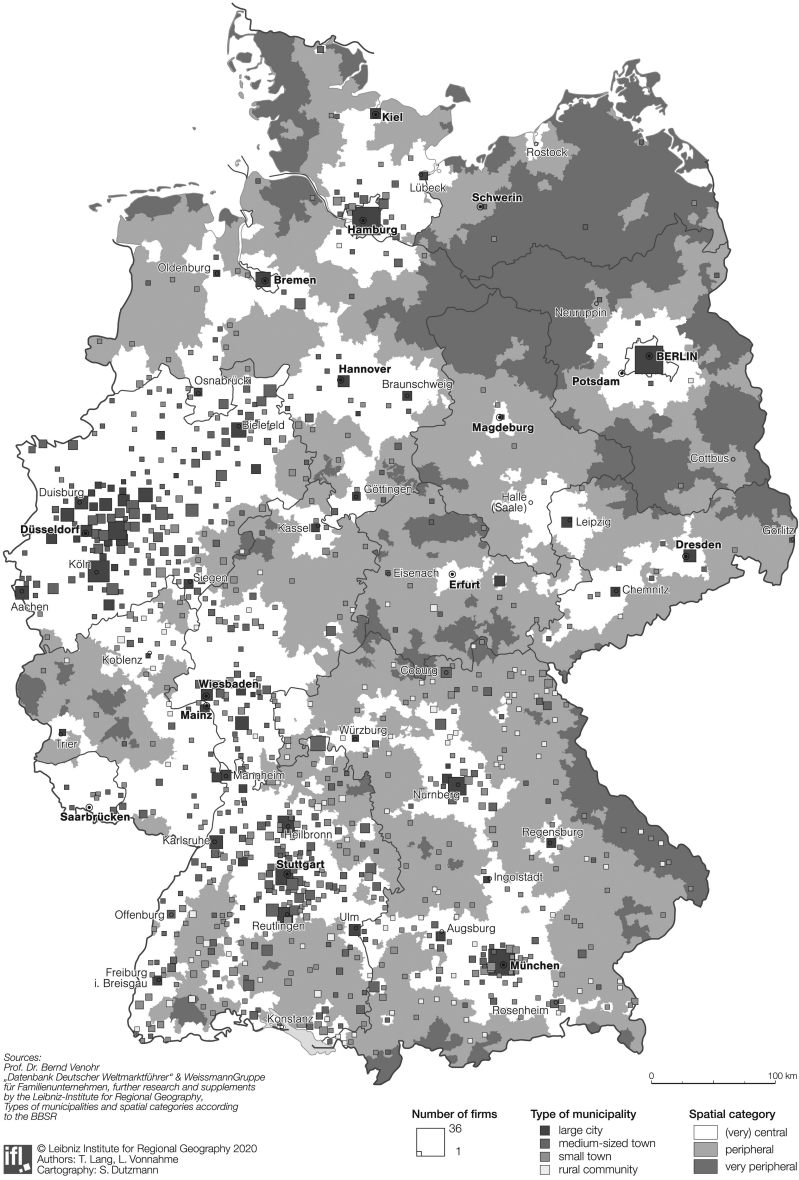


Figure 3.1 The spatial distribution of hidden champions in Germany

Table 3.1 Main characteristics of the surveyed enterprises

<i>Firm</i>	<i>Industry/ products</i>	<i>Year of foundation</i>	<i>Employees (at headquarters)</i>	<i>... with a university degree (in %)</i>	<i>No. of establishments</i>
<b>Urban firms</b>					
UF3	Engineering of thermal waste treatment plants	1925	250 (220)	70	6
UF4	Educational equipment for the natural sciences	1913	150 (150)	47	1
UF5	Medical technology	1986	43 (43)	50	1
UF6	Fixed and mobile systems for fire detection and firefighting	1997	120 (n/a)	80	6
UF7	Surveying technology	1933	n/a (300)	50	15
UF9	Medical technology	2002	ca. 80 (75)	50	4
UF10	Optoelectronics	1999	64 (12)	50	8
<b>Rural firms</b>					
RF1	Fastening technology	1922	3,000 (1,000)	n/a	33
RF2	Elastic products for sports, construction, and transport	1954	700 (500)	15	11
RF8	Grinding machines	1909	850 (ca. 750)	30	15
RF11	Aseptic bottlepack machines	1964	2,000 (1,600)	30	> 20
RF12	Agricultural technology	1969	400 (330)	5	8
RF13	Chemicals	1994	516 (ca. 500)	5	6
RF14	Measuring machines	1968	650 (ca. 325)	15	19
RF15	Welding and plasma cutting technologies	1921	505 (500)	25	3

some cases with their deputies or heads of departments (such as R&D or product management). At the core of the interviews were the enterprises' strategies towards innovation, related practices of knowledge creation, as well as the role and perception of the own location.

### The characteristics, innovation activities, and collaboration patterns of enterprises

In this section, we use quantitative results from the standardised survey among all hidden champions to point out major enterprise characteristics and their innovation performance. We put special emphasis on a comparison of enterprises according to their location.

The surveyed enterprises are almost exclusively research-intensive industrial enterprises that operate in economic sectors such as mechanical engineering. About half of them (46%) were founded before 1945, whereas only a small proportion of the enterprises (13%) were founded after 1989. The enterprises differ greatly in terms of the number of employees: 38% of them are comparatively small with less than 250 employees. In contrast, every fourth enterprise

counts 1,000 employees and more. Almost half of them, moreover, are incorporated in a multi-national group of enterprises, being 95% headquartered in Germany. While 85% of the enterprises have more than one establishment and the average number of establishments worldwide is around 11, the figures are significantly lower for establishments with innovation activities: More than a third of enterprises (35%) concentrate their innovation activities at one establishment (*i.e.*, the headquarters), 69% of the enterprises carry out their innovation activities at up to three establishments, and only one in four of the enterprises surveyed includes more than three locations in its innovation activities. These results underline the importance of the headquarters for hidden champions (Simon, 2012).

Overall, and compared with the German economy as a whole (Rammer, 2018), our data confirms that hidden champions show above-average export orientation and market position. In the period from 2014 to 2016, an average of 62.9% of the products and services were sold on international markets. Only 4.3% of sales were made within the direct regional environments of the enterprises. Many of the enterprises focus on one product or product group and dominate the market in the respective segment. On average, they hold a market share of 40% with their main product. The majority of the enterprises surveyed introduced noticeably improved products or services (93%) and/or new or noticeably improved processes (72%) in the years 2014 to 2016. At 98%, the innovator rate is significantly above the average of the German economy (37%) and is even above the average for highly innovative industries such as the chemical or pharmaceutical industries (75%), mechanical engineering (67%), or the electrical industry (64%) (Rammer *et al.*, 2016).

The comparison of hidden champions by location shows only minor differences in terms of the individual characteristics of the enterprises such as their size and age. The only significant difference is connected to knowledge intensity (calculated in terms of the number of graduates employed). Urban enterprises employ significantly more graduates (26%) compared to rural enterprises (16%). One explanation for this could be that enterprises have better access to universities and highly qualified personnel if located in agglomerations (Puga, 2010). For all other indicators, there are no significant differences according to location, *i.e.*, rural enterprises in our sample show the same characteristics as urban enterprises, and also the same rates of innovation, despite the lower formal qualification of the workforce (see also Vonnahme and Lang, 2019). Further, the level of international collaboration is high for both groups (see Table 3.2). Especially for highly specialised, globally operating enterprises, it can be assumed that collaboration is rather the result of targeted partnerships that are not necessarily formed at the regional scale (Fitjar and Rodríguez-Pose, 2017).

Regardless of their location, the enterprises rate their own location predominantly positively. While rural enterprises rate the location attractiveness significantly more negatively, they value aspects such as the tradition at the location highly. Regarding other aspects such as the enterprises' integration into

Table 3.2 Innovation and cooperation compared by location, n=119

	Total (%)	Location		Significance*
		Urban (%)	Rural (%)	
Product innovations	94.87	93.83	94.87	n.s.
... only internal	41.96	45.33	35.14	n.s.
Process innovations	73.73	70.89	79.49	n.s.
... only internal	38.64	38.60	38.71	n.s.
Innovation activities at establishments abroad	47.46	48.10	46.15	n.s.
Cooperation for innovation	69.75	68.75	71.79	n.s.
... regional	21.69	21.82	21.43	n.s.
... national	85.5	81.8	92.9	n.s.
... EU	51.8	54.6	46.4	n.s.
... other countries	39.8	45.5	28.6	n.s.

\* Chi-square-test

Table 3.3 Assessment of own location at the headquarters, n=119

Characteristics of the location (1 strongly agree to 4 strongly disagree)	Total (Ø)	Location		Significance*
		Urban (Ø)	Rural (Ø)	
We have difficulties to fill job vacancies	2.02	2.09	1.87	n.s.
We are well connected to relevant initiatives and networks	1.81	1.80	1.79	n.s.
We rarely profit from informal contacts within the region	2.52	2.47	2.62	n.s.
International networking is difficult	3.04	3.13	2.87	n.s.
We are not sufficiently supported by local politics	2.70	2.62	2.87	n.s.
The attractiveness of the environment is high	1.99	1.89	2.21	<0.01
We profit from the tradition at the location	2.16	2.29	1.87	<0.05

\* Mann-Whitney-U-test

relevant networks, however, no significant differences exist between urban and rural enterprises (see Table 3.3). Taken together, the results of the survey support critical positions towards the overemphasis of the local or regional level in the context of the innovation of enterprises, especially regarding the access to innovation-relevant knowledge.

## Empirical findings

In this section, we present results from our interviews with representatives of hidden champions focusing on their innovation strategies. Typically for hidden

champions, all respondents see their enterprises as one of the top global players in their respective technology areas and market segments. None of the produced goods is offered to private customers. The technical equipment, machines, and materials produced are sold to other enterprises and institutions worldwide.

### ***Internal capacities and secrecy***

Being among the top technological players in their respective fields is part of the self-perception of the enterprises and is frequently communicated internally and externally. That such visions and goals may turn into practices, *i.e.*, by influencing daily routines of individuals and formalised interactions at the organisational level (Fenton and Langley, 2011), is echoed by many statements of the informants. They stress that the workforces' entrepreneurial mentality and willingness to constantly improve products is at the core of the enterprises' strong internal capacities to innovate.

If there is something better available on the market than we can do ourselves, we buy it. But I also say we do everything ourselves ... So if there is anything not available as we need it, we build it ourselves. We have built engines and everything. So we do not shy away from anything.

(Rural enterprise (RE)11)

Most enterprises build on a strong internal knowledge base, which is also reflected by the high annual spending on R&D (up to 10% of total sales) and associated activities. Apart from R&D, internal competence building and knowledge creation also rest on other units. Larger enterprises, especially, which also have large-scale production facilities, report about valuable knowledge stemming from the daily experiences of well-trained employees in production. On several occasions, the special role of service technicians has been emphasised in this regard. Engineering technicians who maintain and repair machinery and equipment at the customers' site often return with valuable ideas for the improvement of products.

When we have prototypes in the R&D unit, our colleagues are out in the field [at the customer's site] from time to time, looking at things that are in use and playing back [their experience gained]. In the same way, the customer service technicians are on-site internationally and then bring their knowledge back into play.

(RE12)

Thus, both scientific knowledge stemming from R&D and the practice-based knowledge from technicians working either in production or service are valued as key internal drivers of innovation. A main reason for the strong focus on internal capacities is frequently connected to the technological leadership of the enterprises. Since there are only a few competitors and other relevant actors from which to learn, the enterprises need to develop their own solutions



and thereby set standards themselves. While this position limits the options for interactive learning with externals, it is also highly relevant for considerations of protecting know-how and strategies connected to secrecy. Issues of secrecy and the protection of know-how are frequently considered when reaching out for external knowledge and introducing innovations. Some informants report that they actively hide innovations and avoid collaboration with externals. RE13, a producer of chemical base materials, for example, in some cases does not report major product improvements as this is not appreciated by customers who themselves fear the knowledge leakage about their own innovation activities.

what is the market share of your products younger than five years? [referring to a typical question in innovation surveys] We come off very modestly. Because the modifications we make are reflected internally, but we have different product variants, some of them for different customers. But they appear to the outside world as one and the same product. Because that is not desired at all. Because that is not really desired by the transparency of the market. If, for example, we make a certain adjustment for one customer because he has a certain problem with processing, we do not necessarily want this to go to all customers.

(RE13)

This example demonstrates that not all enterprises follow open innovation or seek interaction to the same extent. Rather, strong internal capacities, the need for secrecy, and the protection of know-how guides considerations of whether to reach out for external sources of knowledge. Importantly, this is true for both rural and urban enterprises. This does not imply that the enterprises are not open to external inputs, but that there is a need to differentiate between different kinds of external knowledge sourcing from the perspective of the individual enterprise.

### **Reaching out to external sources of knowledge**

In general, informants reported about manifold strategies to gain external knowledge, which are pursued in parallel. They can be differentiated between *non-interactive* forms of knowledge sourcing and *interactive* modes of knowledge creation, both being formal and informal.

Non-interactive forms of knowledge sourcing are mainly based on the permanent observation of technological and market trends as well as competitors. Observation is necessary not only to secure the own competitive advantage but also to generate ideas for innovation. Non-interactive forms of observation include desk research via the internet, patent monitoring, and to some extent also reverse engineering.

Another option for monitoring relevant to all enterprises studied is the participation in trade fairs, congresses, and workshops. Such events are attended

all over the world, mostly in Europe, Asia, and the U.S. Due to high costs, however, the enterprises send more employees to participate in these events when they take place in Germany. They are strategically planned and used for observation and generating ideas.

The Schweißen & Schneiden [fair for joining, cutting, and surfacing technology] in Essen is a world fair that only takes place every four years, and the whole world really does meet there. We are there with man and mouse, and everyone gets an assignment, what they have to look at more closely, that is an important point. The Schweißen & Schneiden Essen is becoming international, there is now a Schweißen & Schneiden Beijing, a Schweißen & Schneiden Moscow and so on.

(RE15)

Trade fairs and congresses have both a non-interactive and interactive dimension and, thus, serve multiple goals. Many informants emphasise that next to options for monitoring, the most important functions of attending international fairs are marketing and networking. Obtaining information from otherwise dispersed and different actors is seen as vital to gain insights about trends in industry standards or potential markets for products and technologies that are otherwise less easily accessible by any other source or channel. These findings are in line with research highlighting the rich information flows or 'global buzz' of trade fairs (Maskell *et al.*, 2006) facilitated by the temporary proximity of otherwise dispersed actors enabling networking opportunities and face-to-face contacts (Bathelt and Schuldt, 2010).

Next to such rather loose, informal modes of interactive knowledge creation, which usually serve no particular goal in terms of innovation activities, all enterprises are also engaged in rather formalised collaborations with suppliers and customers as well as universities and research institutes. For rural *and* urban enterprises, geographical aspects only play a minor role in strategic considerations of partner selection. Apart from enterprise UE9, which is a spin-off from a university, none of the representatives of enterprises interviewed mentions the regional scale as particularly relevant in terms of interactive knowledge creation.

There is actually little cooperation. The supplies we get from the region are rather simple products. Let me put it this way: The development of the company is relatively independent of the region.

(RE15)

Yet, informants report that partnerships mainly focus on Germany. Aspects such as the common language, shared cognitive frames, and institutional contexts are decisive for this pattern. This does not mean, however, that the enterprises do not benefit from their internationality. They use both their temporary (*e.g.*, customer visits and trade fairs) and permanent (*i.e.*, subsidiaries) international presence to foster innovation. Through these channels, the enterprises

are frequently confronted with different needs, tastes, regulations, *etc.*, which push their innovation activities.

For these highly specialised, globally active enterprises, the access to knowledge sources and the implementation of collaborative projects are not affected or inhibited by their locations in any particular way. In fact, urban and rural enterprises share the same patterns. The relevance and use of certain knowledge sources rather depend on the industry affiliation and to some extent also on the size of the enterprises, *i.e.*, the resources they have to engage with externals.

Apart from non-interactive modes of knowledge sourcing, three main external sources of knowledge have been identified: customers, universities and research institutions, and trade fairs and conferences. The interplay of trans-local, formal connections and the participation in the global buzz of international community gatherings confirm the findings of other studies which point towards the increasing importance of mobility and temporary co-presence for interactive knowledge creation (Bathelt and Henn, 2014).

Interviews revealed that the external dimension of innovation activities often only becomes relevant in terms of ideas and impulses to innovate, for instance, gained from customer feedback or trade fairs. The implementation of innovations based on external ideas remains rather in-house. Some informants clearly state that due to issues of secrecy, the enterprises try to restrict intense collaborations to the absolute minimum, especially with market-based partners like suppliers.

We have made contacts here and there, but we did not get so far as to enter into a contractual cooperation. Because, of course, we also want to try to ensure that the know-how surrounding this entire topic remains with us in the company. So open innovation is something that what we are doing not yet.

(RE1)

They only engage in collaborative projects if alternatives to gain knowledge are not available and the assumed benefits outweigh costs, risks, and uncertainties. Thus, for the enterprises at focus, collaboration for innovation is a very selective activity based on strategic considerations and partner selection. The establishment and implementation of collaborations with key partners depend on trust, prior ties at the organisational level, as well as on personal networks. For collaborations towards long-term basic research, especially, geographical distance to partners appears not to be of relevance. Specific expertise and cognitive proximity are more relevant than the 'convenience of co-location' (Meili and Shearmur, 2019, p. 500). Altogether, the results reveal that co-presence rather than co-location is the decisive element of interactive knowledge creation. Independent from their location, enterprises make use of various channels to connect to their globally dispersed knowledge sources which comprise virtual communication, frequent visits of partners, and participation in events.

### **The role of regional contexts**

The headquarters is the central organisational hub where major meetings, workshops, and in-house training are frequently organised, not only with employees from all over the world but also with partners such as customers and distributors. Here again, representatives of rural enterprises do not see decisive disadvantages in terms of their location. For visitors from overseas, one or two extra hours of travelling from major transport infrastructures such as airports to the headquarters are seen as insignificant.

All service technicians, whether from the distributors or subsidiaries, always come here for training. This means that they are brought up to the level of knowledge and therefore know the headquarters, visit the production facilities and see how we work and what we do. And they are actually relatively well connected.

(RE12)

The level of reflexivity towards the enterprises' activities, their embeddedness, and needs connected to their regional contexts vary greatly between interview partners of urban and rural enterprises. Rural enterprises more often actively engage in issues connected to their regional contexts, while urban enterprises rather act passively and take the local and regional conditions for granted.

When asked about the relevance of the regional contexts for the enterprises, most interviewees first referred to the high importance of their location, as this is where their employees as their most important resource reside. As internal capabilities play a crucial role, a well-educated and experienced local workforce is valued very highly, which is especially emphasised by interview partners of rural enterprises and confirms previous findings (Flåten *et al.*, 2015). All rural enterprises undertake great efforts to ensure that there is a sufficient number of well-qualified junior staff and provide for an attractive work environment for current employees. Several interviewees report that the thin regional labour market makes it necessary for the enterprises to be proactive and engage in the education and vocational training of students and apprentices, for example, by school visits, offering internship positions, and collaborating closely with regional vocational education institutions and universities of applied sciences. In turn, attracting students or highly qualified young employees from outside the region is seen as being very difficult due to young people's attitudes towards 'the countryside'. More specifically, the interviewees argue that especially for young people, it is hard to imagine a move to the countryside if they have not grown up in such an environment.

With the young graduates it is more difficult. If we didn't have them here to write their bachelor's or master's thesis, then many of them want to go out into the world first. Except those who want to stay here because they

are rooted here ... Because in the end it is about the rural exodus. They want more action. That doesn't work so well.

(RE14)

In turn, urban enterprises less often face difficulties in recruiting students from universities or young employees and are, accordingly, hardly engaged in any recruitment activities. Apart from the fierce competition for talent with bigger and often well-known enterprises in cities, urban respondents are mainly satisfied with their situation.

While it is difficult for rural enterprises to recruit young employees, they profit from their good regional visibility and reputation, often being one of the main employers in the region. Confirming the findings of Eder and Trippel (2019), activities towards employer branding and raising awareness for the enterprises within the region are seen as mandatory, especially when it comes to recruiting school graduates and motivating employees. Such activities are diverse and include the provision of technical equipment and own machines for regional schools and vocational education institutions, organising social events, and the sponsoring of sports clubs and social initiatives, *etc.*

This very strategic engagement of rural enterprises is seen as the cornerstone of successful enterprise development at the headquarters. This does not mean that urban enterprises put a lower value on the role of their employees, but interviews reveal that urban enterprises face less pressure to actively engage in activities towards employee recruitment and training.

## **Conclusions**

This chapter has aimed to contribute to a more differentiated understanding of the link between innovation and space and challenge the dichotomous representation of innovative urban versus less innovative rural contexts and their actors. While research on the geographies of innovation has demonstrated that local collaboration is only one out of many options for enterprises to engage in processes of interactive knowledge creation, rural enterprises are frequently portrayed as disadvantaged and having a need to develop compensation strategies to account for fewer options of local knowledge creation.

By focussing our research on hidden champions in Germany, we have shown that a clear preference of these highly innovative, globally active enterprises for larger cities and agglomerations cannot be observed. Drawing on 15 interviews with representatives of hidden champions in urban and rural locations, we demonstrate that strategies and practices of rural enterprises towards knowledge creation and innovation do not differ from those in urban environments. While both rural and urban enterprises deploy a broad mix of non-interactive forms of knowledge sourcing and interactive modes of knowledge creation spanning different spatial scales, regional knowledge sourcing and collaboration rarely plays a role. Rather, strong internal capacities and issues of secrecy guide careful partner selection. These results confirm findings of

previous studies on high-tech enterprises such as in life-sciences (Moodysson, 2008) and IT (Huber, 2012) that even if located in buzzing cities or clusters, enterprises do not engage in local knowledge networks – simply because they see no real benefits.

Based on the comparative perspective applied, results indicate that rural enterprises can be equally innovative to their urban counterparts. Supporting policies, however, need to be aligned to their needs and differing regional pre-conditions and requirements (Graffenberger *et al.*, 2020). In such regional contexts, economic and sectoral structures are diverse, and local actor networks only exist to a limited extent. Policy approaches should consider the internal capacities of enterprises and foster their trans-regional or even international networks. For enterprises from the manufacturing industries such as hidden champions, a stable, well-educated, and experienced workforce is of high importance. Thus, for regions with a strong manufacturing sector, vocational education institutions which align their activities with the needs of employers are crucial. Also, further supportive measures enabling enterprises to constantly re- and up-skill employees could be a promising avenue. In this regard, policy tools such as outreach-and-return schemes to foster professional mobility have been proposed (Schmidt *et al.*, 2018). Such mobility schemes not only relate to individuals but can also help to ‘unlock’ regional enterprises, for instance, in supporting their membership in industry associations and the participation in respective events to access relevant knowledge.

A final remark concerns a major shortcoming of our research. It is important to point out that the empirical results are based on qualitative research on mostly high-tech enterprises which are all operating successfully in global markets. More comparative research, including a broader set of enterprises, industries, national contexts, *etc.*, is needed to draw generalisations and further balance urban-biased perspectives on the innovation of enterprises.

## Note

- 1 We used and edited lists provided by Bernd Venohr (Venohr *et al.*, 2015, <http://www.berndvenohr.de/>) and the WeissmannGruppe für Familienunternehmen (<https://www.weissman.de/>). Additional information has been added from the MARKUS-database, a firm database by Bureau von Dijk (<https://www.bvdinfo.com/en-gb/our-products/data/national/markus>).

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## 4 Adoption of digital innovations in rural enterprises during COVID-19

*Jaana Räisänen and Tero Tuovinen*

### Introduction

Compared to urban enterprises, rural enterprises are in a disadvantaged position with respect to digitalisation. In some areas, rural enterprises have inferior data infrastructures (Salemin, Strijker and Bosworth, 2017) and may have fewer options for broadband services (Ashmore, Farrington, and Skerratt, 2017). Rural enterprises also have less experience with digital tools and are less likely to adopt new digital technologies than urban enterprises (Krumina, Krumins and Rozentale, 2015; Townsend *et al.*, 2016). From this weaker starting point, rural enterprises may experience more difficulties due to the COVID-19 pandemic because this crisis has pushed enterprises to digitalise their operations at an accelerated pace. This chapter will examine how Finnish enterprises in rural areas have coped with the changing situation and how the COVID-19 pandemic has affected the adoption of digital innovations in the spring of 2020.

The COVID-19 pandemic has challenged the livelihoods of many entrepreneurs, for example, by reducing the number of customers and the amount of cash flow. The pandemic has also affected the poverty rate, employment, and the nature of work (Mofijur *et al.*, 2021). Rural economies, which tend to involve high self-employment and more small and micro-enterprises, have had particular difficulty adjusting to these sudden changes. In addition, those who have part-time, irregular, or seasonal work are more likely to have been ill-prepared for this situation (Phillipson *et al.*, 2020). The pandemic has created uncertainty because we do not yet know when the situation will be over, even though several vaccines have been created and vaccination started in December 2020. Among other things, COVID-19 has limited the number of physical contacts, and digitalisation could potentially offer a solution to this challenge.

Historically, the COVID-19 pandemic is not a once-in-a-lifetime crisis. Before COVID-19, there were other large-scale crises, such as the outbreak of foot-and-mouth disease in the United Kingdom in 2001 and the financial crisis and recession in 2007–2008 (Phillipson *et al.*, 2020). It is likely that similar crises will occur in the future. Therefore, it is important to understand how to deal with these crises, how to prepare for them and how to support enterprises through them. Phillipson *et al.* (2020) suggest that COVID-19 may stimulate

innovative responses and the adoption of new solutions by enterprises, also in rural areas, and attempts should be made to learn from this situation.

The present study explored how enterprises in a rural context have adjusted their operations to cope with the changing situation of the COVID-19 outbreak, with a specific focus on the means of digitalisation that enterprises have adopted or have planned to adopt. In addition, this study explored the participants' trust in technology as well as their interpersonal trust because both of these factors affect technology adoption (Lippert and Davis, 2006). To this end, survey data were collected from 149 Finnish enterprises in the spring of 2020. 93% of these companies were located in rural or sparsely populated areas, and most of them were micro-enterprises.

Micro-enterprises are important to the national economies of Europe. For example, 99.5% of all enterprises in Germany are micro-enterprises, and they are important to Germany's economic stability (Roitzsch *et al.*, 2012). Similarly, 93% of all enterprises in Finland are micro-enterprises, and only 0.2% are large enterprises (Yrittäjät, 2018). Therefore, it is important to study how micro-enterprises adapt to changing situations and determine how these enterprises can be supported in the future.

This chapter begins by providing a background on rural micro-enterprises and their adaptation to change. After the background, we describe how data was collected for the present study. Then, we examine the results regarding how the participating enterprises reacted to COVID-19. Next, we discuss these results, the areas for future research, and the practical implications as well as limitations of the present study. Finally, the chapter is summarised, and the conclusions of the study are stated.

## **Background**

### ***Rural enterprises***

The definition of a rural enterprise or rural entrepreneurship is unclear and variable (McElwee and Smith, 2014). In this chapter, rural enterprises are defined by their geographical locations in that rural enterprises are located in rural areas. However, previous research has recognised aspects of rural enterprises other than location. They are usually more reactive than proactive and tend to employ local individuals (McElwee and Smith, 2014).

Finland (see Official Statistics of Finland, OSF, 2020, English translation by Räisänen and Tuovinen, 2020) divides rural and urban regions into seven categories (Figure 4.1), including three types of urban areas: (1) Inner urban area as a compact and densely built area with continuous development; (2) Outer urban area in terms of a dense urban area extending from the boundary of the inner urban area to the outer edge of the area of continuous development; and (3) Peri-urban area as a part of the intermediate zone between urban and rural, which is directly linked to an urban area. A rural area is any area that has not been identified as urban. Finland (OSF, 2020) recognises

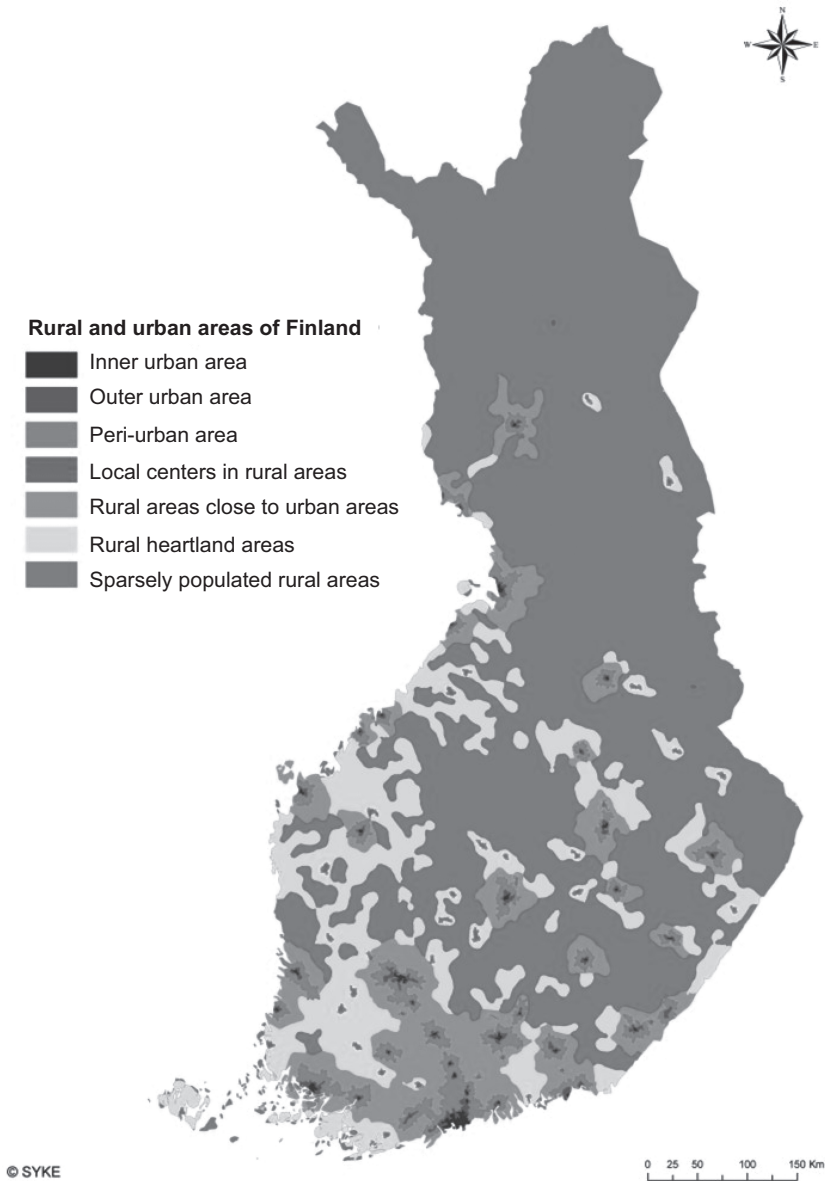


Figure 4.1 Rural and urban areas of Finland (Helminen *et al.*, 2013, p. 2)

four types of rural areas: (1) Local centres in rural areas where population centres are located outside urban areas; (2) Rural areas close to urban areas, *i.e.*, areas with a rural character that are functionally connected and close to urban areas; (3) Rural heartland areas which are rural areas with intensive land use,

a relatively dense population, and a diverse economic structure at the local level; and (4) Sparsely populated rural areas with dispersed small settlements that are located at a distance from each other and where most of the land areas are forested.

### *Technology adoption and trust*

Trust can affect the acceptance of change and the adoption and diffusion of innovation. Before a person decides to trust someone or something, they evaluate the risks and evidence of trustworthiness (Gambetta, 2000; Lewis and Weigert, 1985; Luhmann, 2000). Räisänen and Tuovinen (2020) find that people's willingness to share ideas is affected by their trust issues with change agents and other individuals. This effect was observed in workshops designed to support the adoption and diffusion of digital innovation in rural micro-enterprises. The development of trust between individuals and change agents as well as between individuals themselves could create better opportunities for enterprise development (Räisänen and Tuovinen, 2020).

Lippert and Davis (2006, p. 434) propose that 'technology trust and interpersonal trust, when coupled with planned change initiatives, lead to greater technology adoption and internalization'. Based on this concept, Lippert and David (2006) create a conceptual model of how trust in technology and interpersonal trust affect technology adoption and internalisation (Figure 4.2). This model consists of external factors, such as the national financial situation, that foster or hinder organisational conditions that affect the willingness to change and adopt new technology. Both environmental and organisational factors affect the trust of the individual, the effects of change initiatives, and the internalisation of new technology.

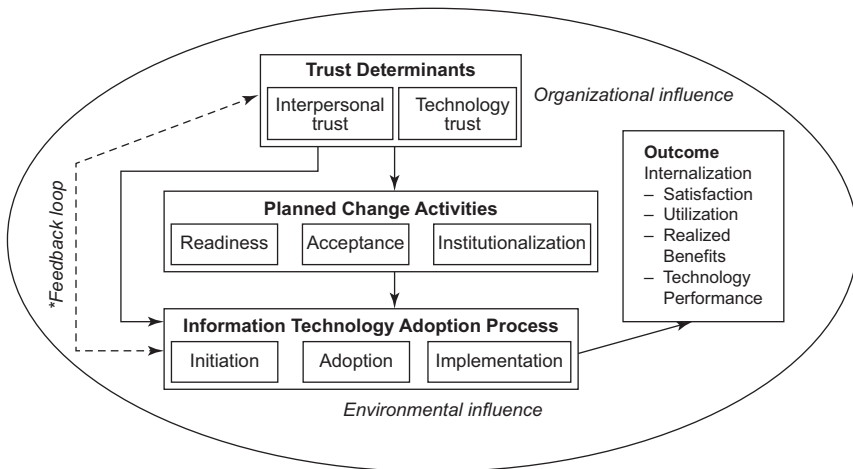


Figure 4.2 Conceptual model by Lippert and Davis (2006, p. 436)

In addition, Lippert and Davis (2006) propose that two perspectives influence the adoption of information technology (IT): (1) Interpersonal trust and trust in technology; and (2) Willingness to accept and use IT. Furthermore, the change process consists of three parts: (1) readiness, in which actions (*e.g.*, new hardware) support the change; (2) acceptance, in which new methods and technologies are accepted and tested; and (3) institutionalisation, in which the change becomes routine (*i.e.*, the new normal). Trust determinants, interpersonal trust, and trust in technology affect planned change activities and the IT adoption process. Planned change activities can lead to various outcomes, including satisfaction, internalisation, utilisation, the recognition of benefits, and assessments of the technology's performance (Lippert and Davis, 2006).

The key to effective technology use, hence, is trust in technology (Kivijärvi, Leppänen, and Hallikainen, 2013). Casey and Wilson-Evered (2012) conducted a study of trust in the context of an online resolution system for family dispute and note, based on this study, that trust is essential to the uptake of technology. In this prior study, trust indirectly affected behavioural intentions to adopt the new system. More specifically, the effects of trust in technology-mediated effort expectancy. In addition, Asadi, Nilashi, and Yadegaridehkordi (2017) have also highlighted the importance of trust in the uptake of technology. Schwartz *et al.* (2015) studied trust in technology in the context of a home-energy management system. Trust was especially important in this context because the system was in a new class of devices and its energy consumption was not yet well understood. Furthermore, Asadi, Nilashi, and Yadegaridehkordi (2017) find that the behavioural intentions of users to adopt cloud computing were affected by the perceived usefulness, perceived ease of use and cost of the cloud, as well as the users' attitudes towards trust in the cloud.

### ***Rural micro-enterprises and digitalisation***

Currently, the digital divide is an especially pertinent issue in rural areas (Park, 2017; Räisänen and Tuovinen, 2020; Veselovsky *et al.*, 2018; Salemink, Strijker, and Bosworth, 2017). Rural areas have lower rates of digital adoption than urban areas, and even in developed countries, such as Finland, certain rural areas are digitally excluded (Räisänen and Tuovinen, 2020). The digital divide negatively affects the social and economic progress of the entire nation (Veselovsky *et al.*, 2018). For this reason, the issues associated with the digitalisation of rural enterprises need to be recognised and investigated.

Digitalisation and IT can support the operations of rural enterprises and help them find new ways of doing business. The use of IT increases information access and could, thus, allow micro-enterprises to increase the extent of their business knowledge (Kamal *et al.*, 2010). However, rural micro-enterprises are often in a disadvantaged position compared to urban micro-enterprises. They often have inferior data infrastructures in the rural areas, and their managers tend to have fewer skills and less education than the managers of larger, urban enterprises (Salemink, Strijker, and Bosworth, 2017). In addition, Townsend

*et al.* (2016) find that rural micro-enterprises tend to have difficulty in realising the value of technology (specifically, social media tools) because they often lack the experience, skills, and knowledge needed to use technology effectively.

On the other hand, micro-enterprises are usually more flexible than larger enterprises. Roitzsch *et al.* (2012) state that micro-enterprises and small and medium-sized enterprises (SMEs) can use this flexibility to cope with change. Entrepreneurs adapt to sudden change through improvisation (Duxbury, 2014). Start-ups, which do not have long histories or well-established ways of doing things, may improvise more easily than older and incumbent enterprises. Roitzsch *et al.* (2012) suggest that the flexibility of micro-enterprises and SMEs can be enhanced by self-set goals. They also introduce the idea that management in micro-enterprises and SMEs often consists of workers who are skilled but lack management training. This may be why these enterprises do not always have the knowledge required to increase flexibility. However, external obstacles to flexibility, such as a shortage of skilled workers or a world-wide pandemic, cannot be changed by the individual enterprise.

According to Gosenpud and Vanevenhoven (2011), micro-enterprises in developing countries must, thus, do four things to better understand their changing environments: (1) perform an external environment analysis; (2) perform an internal environmental analysis; (3) plan; and (4) network. Although this approach was tailored for developing countries, it could also be useful for enterprises in developed countries. Environments change quickly there, too, for example, due to digitalisation and, more recently, the COVID-19 pandemic. Enterprises in developed countries may be slower to change than those in developing countries, but changes still occur in these enterprises and should, therefore, be considered.

## Research design

The research data used in the present study were collected in Finland between 25 March and 7 June 2020 based on a survey that was shared with enterprises through email and social media (Facebook and LinkedIn), mostly by local entrepreneurship and enterprise development associations. The survey consisted of 25 questions, including 16 multiple-choice questions and nine open-ended questions. Due to the difficult situation created by the world-wide pandemic, a survey with a limited number of questions was considered to represent a more practical option than personal interviews. In Finland, a municipality may be termed a *kaupunki* (city or town) even if it is small. For example, the smallest *kaupunki* has 1,246 inhabitants (Association of Finnish Municipalities, 2020). As a result, some residents may feel that they are urban even if they live in sparsely populated areas of Finland. For this reason, the survey did not focus solely on rural enterprises.

One hundred and forty-nine participants responded to the survey. Of the participating enterprises, 91% ( $n = 136$ ) had 1–9 employees, 7% had 10–50 employees, 1% had 51–250 employees, and 1% had over 250 employees.

Furthermore, 94% ( $n = 140$ ) of the enterprises had a yearly turnover of 0–2 million euros, 5% had a turnover of 2–10 million euros, and 1% had a turnover of 10–50 million euros. Only 11 participants were from cities that are not considered rural or sparsely populated areas. Overall, the research data represented rural micro-enterprises in Finland relatively well, even though there were few participants from urban areas.

### ***Results***

The spread of COVID-19 has occurred at different rates in different countries. During the data collection period of 25 March to 7 June 2020, the number of COVID-19 cases in Finland multiplied from 1,190 to 7,082 (see Figure 4.3). As of 25 September 2020, there were 9,484 detected cases of COVID-19 in Finland. The Finnish Institute for Health and Welfare has reported 335 disease-related deaths.

### ***Situation before the pandemic and subsequent changes of the participating enterprises***

Many enterprises are in a difficult situation due to the COVID-19 pandemic. In the present study, entrepreneurs were asked to estimate whether their situation was better than, the same as, or worse, compared to one year prior. Most of the entrepreneurs estimated that their current situation had worsened. This is understandable, as COVID-19 has resulted in new regulations and recommendations that may be disadvantageous to entrepreneurs. However, 6% of the entrepreneurs reported that their situation had improved.

The industries of the participating companies are described in Figure 4.4. These industries were divided into seven categories: (a) agriculture, forestry, and fisheries; (b) manufacturing; (c) construction; (d) wholesale, retail trade, and repair of motor vehicles and motorcycles; (e) services; (f) other industries; and (g) not reported. The first six of these categories follow the categorisation system of the OSF (2010), and the seventh category pertains to enterprises that did not report their industries. Services include transport and storage, accommodation and food service activities, information and communication, financial, insurance and real estate activities, professional, scientific and technical activities, administrative and support service activities, arts, entertainment, and recreation and other service activities. The category of other industries includes the following industries: mining and quarrying; electricity, gas and heat supply; refrigeration; water supply; sewerage; waste management and remediation activities; public administration and defence; compulsory social security; education, health, and social services; activities of households as employers; undifferentiated goods-producing and service-producing activities of households for their own use; and activities of international organisations and bodies. Although there are some differences between the industries, enterprises in the service industry are not the only ones in trouble due to the pandemic. The

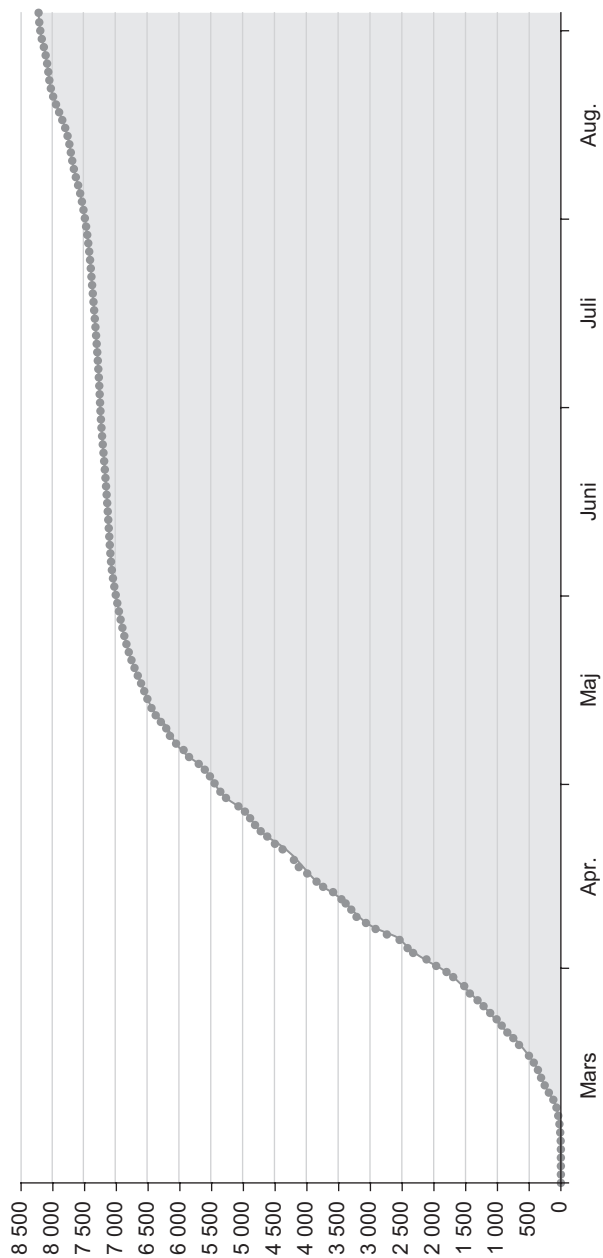


Figure 4.3 Cumulative increase in the number of COVID-19 cases in Finland (THL, 2020)



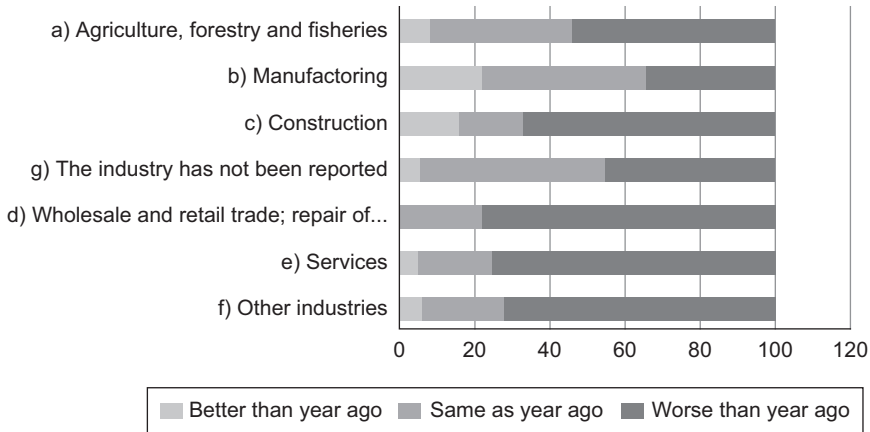


Figure 4.4 Industries of the participating enterprises and estimations of their current situation in percentages

wholesale industry, the construction industry, and other industries also appear to be in a difficult situation. This may be because enterprises in these industries are mainly rural and tend to be smaller than urban enterprises.

Indeed, many participants in the survey report that their enterprises are currently in a serious situation.

Week more work on the calendar. Then, it ends. No new orders have arrived. Customers closed the money taps one to two weeks ago and failed to pay their bills.

Some participants noted a need to change and quickly develop new products and services to address the situation.

The work is practically over, and the salary cannot be paid, so new services must be developed quickly.

Different enterprises show different reactions and implement different changes in response to the pandemic. The participants were asked to describe the changes their companies had made due to the pandemic, and their responses were divided into seven categories (Table 4.1,  $n = 139$ ). Many of the participating enterprises have adopted new digital tools or channels (30%,  $n = 41$ ), but 21% had changed nothing ( $n = 29$ ). Alarming, many enterprises even had to shut down or suspend their business (9%,  $n = 13$ ) due to COVID-19.

On 16 March 2020, due to the ban on gatherings, I had to suspend the company, and I will close it down as soon as I can contingent on the

*Table 4.1* Changes made by the participating enterprises

<i>Changes made by companies</i>	<i>Percent of companies that implemented the change</i>
Nothing	21%
Growth/hiring new labour	1%
Planning the future	2%
Other development or modification	17%
Retrenchment	17%
New digital tools or channels	30%
Increasing precautionary measures (e.g., improving hygiene)	6%
Ending or suspending the business	9%

money transfer. Now, it is not possible for me to close down because there is no money to pay for the closure.

I returned to school and drove down my business.

Some participants were clearly concerned about the future, and some were ready to adjust their enterprises' activities and services in order to survive. However, other participants believed that there was nothing they could do or change about their enterprises.

I cannot do anything.

The COVID-19 pandemic has accelerated the digitalisation of companies in Finland. Nearly half of the participating companies (47%,  $n = 66$ ) report that they would not have made these changes if not for COVID-19. Otherwise, 38% ( $n = 54$ ) state that they would have implemented these changes even in the absence of COVID-19, and 15% ( $n = 21$ ) stated that they might have implemented these changes in the absence of COVID-19.

Change can be difficult, especially when it is due to something beyond one's control, such as a worldwide pandemic. Nevertheless, most of the participants (48%,  $n = 69$ ) did not find the changes they had made to their operations or the implementation of new digital tools to be as difficult as they had expected. Many enterprises have begun to use new digital tools and applications to facilitate online meetings since the start of the COVID-19 pandemic (Table 4.2).

### ***Information and communication technology skills***

Furthermore, an analysis was carried out to assess the association between the participating enterprises' information and communication technology (ICT) skills and the entrepreneurs' estimations of their enterprises' situation. The results (Figure 4.5) suggest that enterprises with lower ICT skills estimate their

Table 4.2 Survey question ‘What digital tools have you adopted in the past six months?’

Digital tools that have been adopted in the past six months	Percent of the companies that adopted the digital tool
Application for online meeting	72%
Video sharing service	16%
Social media channel	27%
Survey tools	14%
Paid online advertising	17%
Online store	17%
Customer relationship management tool	10%
Something else	11%

situation to be worse compared to those with better ICT skills. Many of the changes they implemented during the spring of 2020 were associated with digitalisation. For example, some enterprises developed web stores and began to use online meeting applications as well as digital marketing. In response to the COVID-19 pandemic, the public was asked to maintain social distancing, and naturally, digitalisation offered an immediate solution that would allow business to continue in these new circumstances. Entrepreneurs who state that their situation had improved, as compared to the previous year, were more likely to report that they would have made the reported changes even in the absence of COVID-19 (Figure 4.6).

Furthermore, we investigated the association between the entrepreneurs’ estimations of their enterprises’ current situation and the degree to which they found the adoption of new digital tools to be as difficult as they had expected. The results (Figure 4.7) suggest that enterprises that estimate that their situation

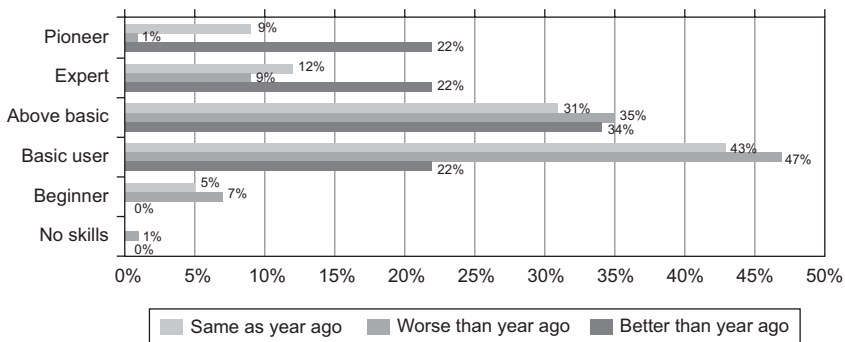


Figure 4.5 Association of the enterprises’ ICT skills with entrepreneurs’ estimations of their enterprises’ current situation

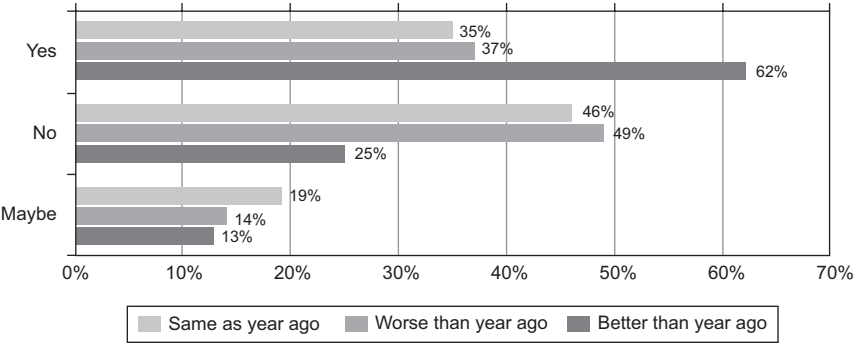


Figure 4.6 Association of the entrepreneurs' estimations of their enterprises' current situation with their belief that they would have implemented the same changes in the absence of COVID-19

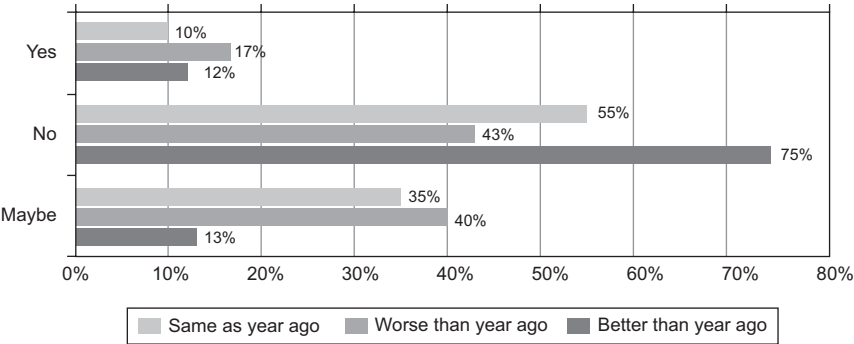


Figure 4.7 Association of the entrepreneurs' estimations of the enterprises' current situation with the degree to which they found it difficult to make changes in their enterprises

had improved or remained the same since one year prior tend to report that making changes in their enterprises was not as difficult as they had expected.

**Trust and technology adoption**

In Lippert and Davis's (2006) conceptual model, environmental and organisational factors affect the trust of individuals, the effects of change initiatives, and the internalisation of new technology. Lippert and Davis (2006) propose that trust in technology, the willingness to accept and use technology, and interpersonal trust lead to more effective technology adoption. The present study aims to determine whether trusting individuals cope better with change, particularly in the context of adopting new digital solutions.

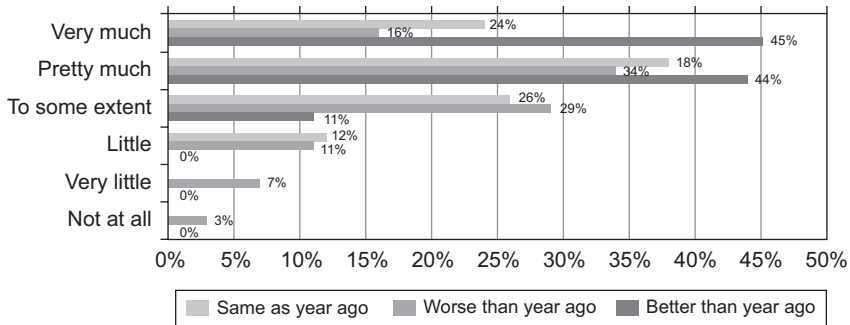


Figure 4.8 Association of the entrepreneurs' estimations of their enterprises' current situation with their trust in the digital solutions used

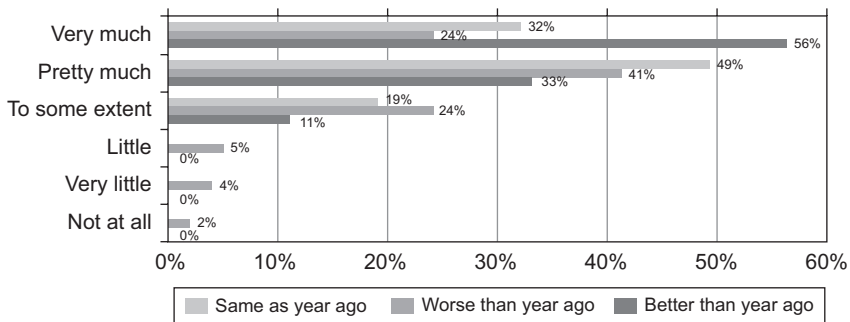


Figure 4.9 Association of the entrepreneurs' estimations of their enterprises' current situation with the degree to which they believed their customers trusted them and their enterprises to operate effectively in a digital environment

The analysis to assess the association between the entrepreneurs' estimations of their enterprises' current situation and the degree to which they trusted the digital solutions they used (Figure 4.8) suggests that those entrepreneurs who trusted the digital solutions that their enterprises had used performed better than those who did not trust the digital solutions. In addition, those who estimated higher levels of customer trust in the ability of their enterprise to thrive in a digital environment (Figures 4.9 and 4.10), trust in the future of their enterprise (Figures 4.11 and 4.12), and personal trust in the future in general (Figure 4.13) performed better than those who were less trusting in these three respects. However, trust in partners (Figure 4.10) and trust in other people were not clearly associated with the performance of the enterprises (Figure 4.12).

The results regarding trust in the entrepreneurs' enterprises and the future support the hypothesis that entrepreneurs whose enterprise performance had improved or remained the same, as compared to the times before the outbreak of the pandemic, were coping better with change and digitalisation than those

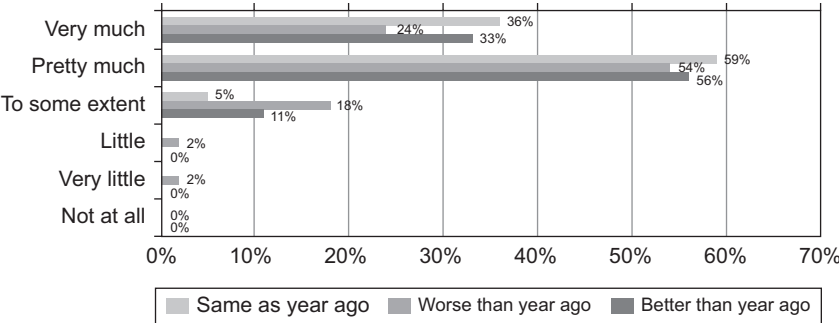


Figure 4.10 Association of the entrepreneurs' estimations of their enterprises' current situation with their trust in their enterprises' partners

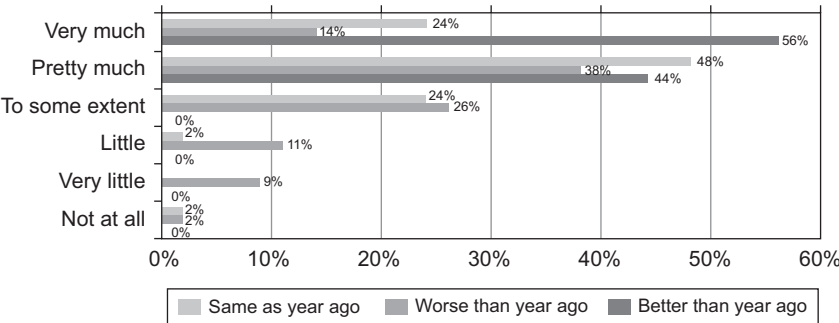


Figure 4.11 Association of the entrepreneurs' estimations of their enterprises' current situation with their trust in the futures of their enterprises

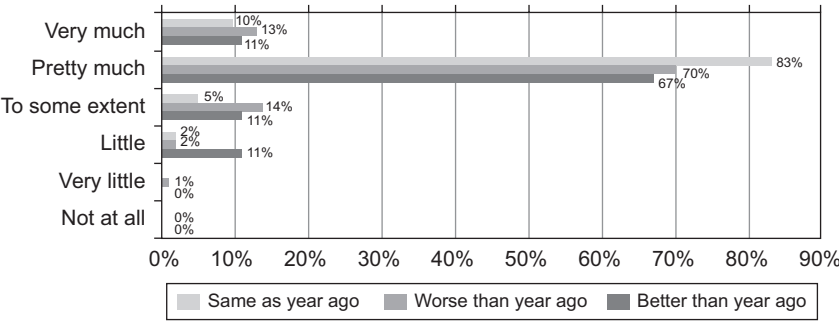


Figure 4.12 Association of the entrepreneurs' estimations of their enterprises' current situation with their trust in other people

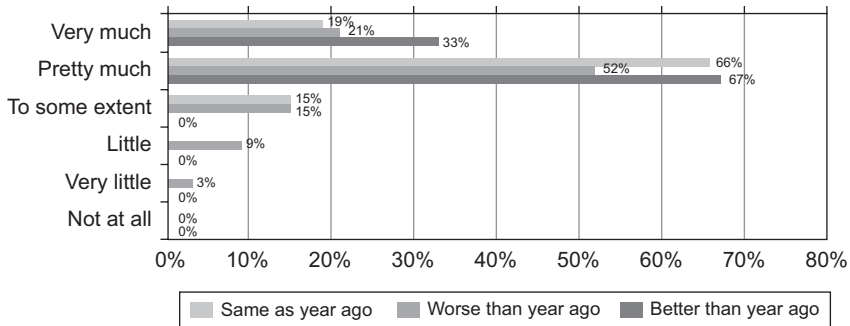


Figure 4.13 Association of the entrepreneurs' estimations of their enterprises' current situation with their personal trust in the future

whose enterprise performance had worsened. However, personal trust in other people did not appear to affect this.

## Discussion and conclusions

The major issues caused by COVID-19 have forced many enterprises to close entirely but have also accelerated digitalisation. Many of the enterprises that participated in the present study report that they have adopted new digital tools or channels. Nearly half of them would not have made these changes if not for the pandemic. However, it remains unknown whether these changes will become habitual and continue after the pandemic ends (Phillipson *et al.*, 2020). It is possible that the changes made by the enterprises in response to the pandemic will remain in place for so long that they will become everyday business operations even after the crisis has ended. This could help enterprises in the future, as it is likely that similar crises will occur. In addition, other factors such as global warming are also likely to affect the enterprises with their operations in the future.

Most of the participants (66%) in this study encountered difficulties in the spring of 2020. The situation created by the pandemic is prolonged, and strict recommendations are in effect in Finland as of December 2020. In addition to enterprises in the service industries, many enterprises from other industries also state that they were in a difficult situation due to the pandemic. However, this result might have been amplified by the fact that most of the respondents were from rural enterprises, which are typically small and more reactive than proactive (McElwee and Smith, 2014). In addition, they may have inferior managerial skills (Salemink, Strijker, and Bosworth, 2017) compared to enterprises in urban areas. In the spring of 2020, 21% of the respondents had made no changes to their business. If this study were repeated beyond the data collection period, it would be possible that these respondents will have incorporated some changes to their business operations.

The need to change business practices arose somewhat suddenly, but the participating enterprises seem to have been capable of adopting new digital tools at a fast pace. Björklund *et al.* (2020, p. 3) note that ‘many entrepreneurs described the crisis lowering the threshold for experimentation through creating a sense of urgency’. Therefore, it appears that enterprises have implemented digitalisation tools in response to this change surprisingly well. Rural micro-enterprises may have benefitted from their characteristics of being more flexible than bigger organisations (Roitzsch *et al.*, 2012).

Most of the respondents in the present study estimated their ICT skills as basic. The entrepreneurs who reported greater ICT skills tend to estimate that the situation of their enterprise was better compared to those who reported lower ICT skills. The COVID-19 pandemic created a situation in which face-to-face interactions with customers might no longer be an option. This has increased the frequency of online shopping in Finland (Suuri Verkkokauppatutkimus, 2020). The results of a study by Björklund *et al.* (2020) suggest that the COVID-19 pandemic has pushed enterprises to utilise collaboration and collective action more frequently. For example, sharing-economy platforms could serve as cost-effective means of conducting online sales for micro-enterprises. A sharing-economy application could also support a more sustainable business (Räisänen, Ojala, and Tuovinen, 2021). If rural enterprises wish to compete in online markets, they will require at least basic ICT skills. Earlier studies have also indicated that rural enterprises have less experience with digital tools, are less likely to adopt new digital technologies, and often have difficulties in realising the value of technology compared to urban enterprises (Krumina, Krumins, and Rozentale, 2015; Townsend *et al.*, 2016). Certain interventions and training programs could help to improve the ICT skills and competitive advantage of rural enterprises (see Räisänen and Tuovinen, 2020). However, rural areas also tend to have inferior data infrastructures (Salemink, Strijker, and Bosworth, 2017), and therefore, infrastructure development should also be supported for rural micro-enterprises.

The present study also highlighted that interpersonal trust and trust in technology can positively affect technology adoption (Lippert and Davis, 2006). Therefore, it examined the respondents’ trust in technology, other people, and the future in general, finding that the respondents generally trust the digital tools used by their enterprises. This is a beneficial characteristic, given that trust in technology positively affects technology adoption. In addition, the study made several preliminary observations that may be further explored by future studies. The entrepreneurs who reported high levels of trust in digital solutions, their customers’ trust in their ability to operate effectively in a digital environment, and the future of their enterprises also stated that they performed better and appeared to cope with change better than those who reported lower levels of trust. These individuals seemed to trust their enterprises as well as their personal futures. However, they were not necessarily trusting of others, as they did not report very high levels of trust in their partners and other people.



The present study investigated the challenges brought on by the COVID-19 pandemic, *i.e.*, directly after the outbreak of the pandemic. It examined the solutions implemented by rural micro-enterprises in response to these challenges and preliminarily estimated the importance of trust in this context. Various measures were found to have positive effects on attitudes toward digital innovation (Räsänen and Tuovinen, 2020) and the learning of ICT knowledge and skills (Kamal *et al.*, 2010). Hence, the background information collected in this study can be used to plan support measures for rural micro-enterprises.

The challenges created by COVID-19 have accelerated the digitalisation of enterprises, and it is possible that future crises will have similar effects. Rural micro-enterprises are at a disadvantage in such situation due to the typically lower skill levels of their entrepreneurs and management (Salemink, Strijker, and Bosworth, 2017). More information is needed to determine how these enterprises can be supported in crises. This information could be collected, for example, through action research during the COVID-19 crisis. In addition, after the crisis has ended, it will be essential to determine whether the changes made during the crisis became permanent and how enterprises recovered from the crisis. In particular, studying successful enterprises from rural areas could reveal the recipe for success in a crisis.

As in all studies, there were several limitations to the present study. First, the research survey was carried out over a short period because we aimed to collect authentic data during the COVID-19 pandemic, which appeared as if it might soon be over in the spring of 2020. Longer and more careful planning could have improved the quality and reliability of the data. Second, more information is needed with regard to trust in the context of the present study, as this study alone did not allow for far-reaching conclusions to be drawn on this subject. Finally, COVID-19 has affected different places differently, and the results of the present study only describe the situation in Finland. For example, different laws, regulations, recommendations, and cultural factors could influence how people react and cope in this kind of crisis.

In conclusion, this chapter discusses how Finnish micro-enterprises that are mostly located in rural or sparsely populated areas have coped with the COVID-19 pandemic. Specifically, the present study explores how micro-enterprises have changed their operations and business as well as adopted digitalisation. Many enterprises experienced a difficult situation due to the pandemic and, thus, adopted digital tools in order to survive. However, it is alarming that many others have done nothing to modify their business operations in light of the situation. It appears that enterprises that were more eager to digitalise are now performing better than those that were less eager to digitalise. Furthermore, entrepreneurs' levels of trust in both their enterprises' and personal future could predict which enterprises are more likely to survive the crisis. However, this topic requires further study. In addition, given that it takes time for changes to become habitual, it remains to be seen whether the changes implemented by enterprises in response to the crisis will

become permanent. Studies should be carried out after the crisis to assess this question.

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# 5 Competitive strategies of incumbent small regional banks in rural locations

*Birgit Leick, Grit Leßmann, Alexander Ströhl,  
and Tim Pargent*

## Introduction

Small regional banks represent a counter-model to the overall globalised financial service industries (Carney, 2017), which are spatially concentrated in a few regions only (*cf.*, Wójcik and MacDonald-Korth, 2015). For small regional banks that typically serve a regional market – often because of a lack of opportunities for market expansion and internationalisation – regional competitiveness factors continue to be important even in the globalised world. However, their business model with long-term financial partnerships with local private and corporate customers in a small-scale region is increasingly threatened in many European countries (Hasan *et al.*, 2019; Usai and Vannini, 2005). In the light of this trend towards globalisation and concentration, the present chapter explores the research question of how small regional banks build competitive strategies in rural regions and cope with these manifold challenges in spite of the fact that they are operating in a regionally limited market area with a rather traditional business model. This research question is empirically studied for public-sector savings banks (*Sparkassen*) and mutual savings-cooperatives banks (*Genossenschaftsbanken*) in Upper Franconia, a rural region in southern Germany. A case study approach is used, drawing from 12 personal interviews (conducted between 2015 and 2017) with small regional banks and related stakeholders such as banking associations and regional organisations in the case region.

Although the pressures and challenges that small regional banks experience with regard to their external market environment (*e.g.*, a high level of competition in the financial industries, changes in the legal-regulatory environment, rising consumer preferences for online banking services) are not specific to banks located in rural regions, these changes are exacerbated by regional-specific factors and development in rural regions (*e.g.*, Greenberg *et al.*, 2018), such as population decline and ageing, youth outmigration, and the retirement of owner-managers in existing enterprises, which represent part of their customer base in the region.

As this chapter will illustrate, small regional banks in rural regions use various strategies to cope with this situation, and these strategies are essentially based

on two competitiveness factors: (1) tight, and long-term, relationships with their customers; and (2) a high degree of embeddedness in and engagement with the region. Based on these factors, the banks integrate both regional-specific and market-related changes into a coherent strategy with the aim of penetrating the regionally limited market area. Since the banks' motivation for doing so is more grounded in necessities than mere opportunities (because the laws in Germany restrict their opportunities for expansion elsewhere), their traditional business model that uses these strategies ultimately represents a path-dependent process. Therefore, the context for rural enterprise development that is described in this chapter marks a notable difference to private banks in Germany, which may be located outside rural regions and do not have to follow such a regional-specific market penetration strategy, as compared to the incumbent small regional banks portrayed here.

In addition, we acknowledge that the German banking sector facing the above-mentioned external pressures and challenges is heterogeneous in itself (*e.g.*, Hüfner, 2010), and regional banks, which are part of this sector, supposedly exhibit a spectrum of different enterprise-specific strategies to cope with the market dynamics. Since, notably, public-sector savings banks and mutual savings-cooperatives banks are committed to providing financial services to customers in a small-scale market area, irrespective of the type of region (*cf.* Schackmann-Fallis and Weiß, 2017), such banks represent important anchors in their local economies, warranting access to credit for the local populace (both private and corporate customers). Hence, we propose in this chapter that their competitive strategies reflect this regional anchoring and that this is even more important for the context of the contested rural regions in the contemporary globalised marketplace (*cf.* Hakenes *et al.*, 2015).

The remainder of this chapter will be organised as follows: The next section gives an overview of the small regional banks, their position in the German banking market, and the context of the rural case region studied. The subsequent section presents the methodology and research design, which is followed by the empirical analysis and discussion. The final section briefly concludes with the main findings and their implications.

## **The research context**

### ***Small regional banks in Germany's financial service industry***

Small regional banks represent a core pillar of Germany's banking system (Höwer, 2016); they are equally represented across the country's regions, while their main competitors, the private commercial banks, are mostly concentrated in a few urban locations (Conrad *et al.*, 2018). With regard to their market share, the sector of *Sparkassen*, the public-sector savings banks, accounted in 2019 for 18% and that of *Genossenschaftsbanken*, the mutual savings-cooperatives banks, for 13.2% of the total German banking market with a total volume of EUR 7,466 billion (Deutscher Sparkassen- und Giroverband e.V.,

2020). Almost 50% of all banks in the German financial industry (2019) are *Genossenschaftsbanken* and 22.5% *Sparkassen* (including their overarching organisations, the so-called *Landesbanken*) (Deutsche Bundesbank, 2020).

The traditional branch-based business model of these banks, with local and regional customers as their main base, is anchored in the ‘regional principle’, which represents a legal requirement in the case of *Sparkassen* and a norm for *Genossenschaftsbanken* to restrict their business operations to a specific local market area (Höwer, 2016; Gärtner and Flögel, 2013). Therefore, both types of regional banks typically operate in a market that corresponds to the geographical area of their principal shareholder, *i.e.*, the municipality (*Sparkassen*) or their corporate and non-corporate members located in a given municipality (*Genossenschaftsbanken*).

Hence, a regional focus on private and corporate customers is a necessity for these banks. They are either obliged or committed to providing private households and enterprises in the region with financial services (Neuberger and Räthke, 2001), which is shown by the figures. For example, their respective market shares for credit lending to private real estate purchases was 35.2% (2019) for *Sparkassen* and 28.4% for *Genossenschaftsbanken*; for corporate lending in 2019, these shares amounted to 30.1% (*Sparkassen*) and 19.5% (*Genossenschaftsbanken*), respectively (Deutscher Sparkassen- und Giroverband e.V., 2020). In both segments of credit lending, the small regional banks are evidently key players.

Altogether, these small regional banks in Germany have been successfully defending their traditional business model until nowadays and, thus, hold a strong position with their regional customers across the various German regions, including the rural regions. Nevertheless, they face manifold external pressures and challenges, which relate, to a large part, to their limited opportunities for market expansion and internationalisation (Hakenes *et al.*, 2015), and the resulting strong dependence on economic development in the small-scale regions where they operate (Conrad *et al.*, 2014).

Some of the most pressing challenges are the following ones: First, the ongoing and accelerating digitisation of financial services entails a rising importance of online, mobile, and internet-based services for banks (Berger and Gensler, 2007; Tiwari *et al.*, 2006) that requires less physical presence and local-regional branches. In response to this, the small regional banks in Germany are working to meet the rising customer preferences for such digital and online services.

Second, the level of competition in the German banking market is generally high (Hüfner, 2010). To offset competitive pressures and reduce costs, the group of *Sparkassen* has been undergoing different loops of mergers and fusions already since the 1990s – a trend that was adopted and followed by *Genossenschaftsbanken* at a later period. This has led to a higher concentration within these two groups of regional banks and actually strengthened their market position as a whole, while it also implied a reduction of the local branches for the individual banks in the mergers/fusions processes (Deutsche Bundesbank, 2020). As a result, the individual banks have been growing into

larger enterprises and are paying less attention to the physical provision of financial services in the small-scale regions, as they have been doing traditionally. This trend also pressurises the remaining small-sized banks to merge into larger units to save costs and enlarge their market area. As a matter of fact, according to figures issued by Bundesverband der Deutschen Volks- und Raiffeisenbanken (2019) and Deutscher Sparkassen- und Giroverband e.V. (2019), 28.3% of all *Sparkassen* but 99.8% of all *Genossenschaftsbanken* have less than 249 employees, and are, thus, prototypical small and medium-sized enterprises (SMEs) that face common challenges of other SMEs outside the banking sector.

Finally, new regulatory requirements for financial services through the introduction of the Basel II and Basel III rules in the European Union have led to more restrictive credit-lending conditions and partly limit the flexibility of regional banks for quick and flexible loan decisions. Credit-lending conditions by large banks and regional banks are increasingly converging, challenging the regional banks' highly customised approach to credit lending. In a similar vein, the current low-interest-rate policies of the ECB threatens the regional banks' established business model: For example, about 80% of the margins of German *Sparkassen* are generated in the loan operations, but the margins are decreasing because of low interest rates and, thus, reduce the profitability of the individual bank in the sector of the *Sparkassen* (Deutscher Sparkassen- und Giroverband e.V., 2020).

### ***Rural enterprise strategies for incumbent small regional banks***

As the aforementioned figures highlight, small regional banks in the German banking system hold a strong market position and manage to compete successfully with their established business model even though there are manifold pressures and challenges. Nevertheless, the rural context is associated with some key challenges which they find hard to cope with. First, given the geographical limitation of their market operations to a local-regional area, for example, a municipality, a group of neighbouring municipalities, or a county (as the biggest geographical unit), the banks depend on a quantitatively stagnating or even shrinking market potential (Conrad *et al.*, 2014). In rural regions, their corporate customers are often limited to mostly small and micro-enterprises from the craft sector, retail trade, and regional business services with low levels of equity capital and a high dependence on debt capital. These enterprises are increasingly threatened by generational and ownership change due to the demographic challenges across Germany, which often put rural regions at a specific disadvantage (Leick and Ströhl, 2013).

Second, while the regional banks' numerous local branches across the small-scale regions have represented a strong competitive advantage in the past, this part of their business model nowadays turns into a cost factor (Reichhard, 2019; Pertl, 2019). By cutting the number of branches in locations with a low frequency among customers, the banks can effectively reduce their costs, which



allows them to better compete with the spatially concentrated large banks that hold a lower number of branches in rural regions. However, particularly in the rural regions, it is the growing cohort of elderly private customers that appreciates the spatially close-by branches, and this group of customers represents an important target group for the regional banks in the future (Leick and Ströhl, 2013). Therefore, the small regional banks might be finding themselves increasingly caught in a trade-off between cost reductions through branch reductions, on the one hand, and the need to keep branches for luring elderly customers and potential new customers, irrespective of their age, to a physical meeting point.

These regional-specific challenges in tandem with the trend of digitisation, ongoing cost-management pressures, and mergers/fusions within the German banking sector put an enormous burden on the small regional banks (Pertl, 2019; Reichhard, 2019). These developments force them to revise their traditionally successful business model. While a reduced availability of physically-provided services with branch closures might be a reasonable approach to deal with demographic challenges, the banks will nevertheless have to accept that some of the pressures from the markets will force the transformation of their business model (for instance, the ongoing and accelerating digitisation of financial services). In addition, the increasing standardisation requirements in the loan-granting process, which are enforced by the legal frameworks of Basel II and Basel III, threaten the banks' approach to customisation, which represents another pillar of their past success (Flögel, 2018; Semenyshyn, 2017). For example, when it comes to the decision-making for a loan grant to a regional enterprise, the pressures on the small regional banks are rising to adopt a bank-specific calculation model instead of a tailored decision-making for their individual customer because the banks need to legitimise their loan decisions against the Basel regulations. These requirements also imply high administrative costs and burden their cost management. In a similar vein, ownership change with their corporate customers, such as takeovers by the younger generation in family-owned enterprises, wind-ups, and external acquisitions with changes in management (*cf.* Bluhm and Martens, 2008), threatens the stability of their relationships to family-owned enterprises – and might even lead to its breach.

### ***Rural regions and the rurality characteristics of the case region***

In the literature, 'rural regions' are often associated with economic weaknesses, and their economic performance is typically compared to urban or metropolitan regions (Leick and Lang, 2018). Therefore, in this chapter, we will illuminate the economic-social criteria underlying the typical understanding of rural contexts for the case region of Upper Franconia. Located in the South-East of Germany, the NUTS-2 level region is considered rural according to the ongoing spatial observation of the German Federal Institute for Building, Urban and Regional Research (BBSR, 2019). Typical characteristics are a low population



density, a high proportion of agricultural land use, and longer accessibility routes to neighbouring centres.

In terms of its economic structure, Upper Franconia is characterised by an above-average importance of manufacturing industries for regional economic performance. With 110 industrial employees per 1,000 inhabitants, the region has a very high industrial density (Statistische Ämter des Bundes und der Länder, 2019). The main sectors of industrial production are mechanical engineering, electronic and optical products, and the plastics industry (IHK für Oberfranken-Bayreuth, 2018). The economic performance, however, is mainly provided by SMEs. The smallest enterprises alone (*i.e.*, micro-enterprises with less than ten employees) make up a share of over 75% of all enterprises in Upper Franconia. The share of SMEs in all enterprises in the case region is 99.7%. Hence, SMEs represent a significant economic factor and an important employer base in the region. In addition, the mostly family-run enterprises show strong roots and a high identification with their business location (Maier *et al.*, 2011).

According to Regional Statistics Office Bavaria (BLfS, 2020), the population in the case region is predicted to decrease by 4% by 2038, with the average age increasing by approximately 2.5 years up to 47.8 years in the same period. For enterprises in Upper Franconia, demographic challenges are increasingly associated with the problem of finding and retaining a sufficient number of employees, as the working-age population is about to both shrink and age significantly in the foreseeable future. Moreover, the issue of succession within enterprises and their organisations is placing a growing burden on the Upper Franconian economy (Leick and Ströhl, 2013). Shortages of skilled workers coupled with a dwindling interest in takeovers of enterprises endanger the existence of successful SMEs in the region (IHK für Oberfranken-Bayreuth, 2020) since closures due to a lack of new owners and managers not only destroy business assets, but also lead to job losses for the local populace.

The demographic challenges are exacerbated by the fact that other economic indicators for the region such as the R&D intensity of the enterprises, the export quota in the industrial sector, and the number of designated industry clusters score below average in a national comparison. In addition, Upper Franconia has a backlog demand in fibre optic expansion for the provision of high-speed internet, which is needed by all enterprises that depend on access to fast internet (vbw, 2019). Due to these structural weaknesses, the Upper Franconian municipalities suffer from a weak financial basis. In a regional comparison, Upper Franconia has the lowest tax power per inhabitant across the wider country in Germany's South (IHK für Oberfranken-Bayreuth, 2019). This tense financial situation leads, in many cases, to a degradation in municipal service provision, notably with educational institutions, public swimming pools, and libraries, which further reduces the quality of life and living for both private households (as employees) and enterprises (as employers) in the case region.

## **Research design and methodology of the case study**

The empirical part of this chapter uses a qualitative and inductive research approach according to the grounded-theory paradigm (Strauss and Corbin, 1997). The fieldwork conducted aims to generate insights into the topic which was addressed inductively and iteratively, including several subsequent stages of fieldwork. In a first stage (2015–2016), interviews were conducted to generate ideas about theoretical categories, paying attention to the requirement of constant comparison. These ideas were about, for example, the characteristics of the relationship between small regional banks and their customers, notably SMEs, and the factors influencing these relationships in the context of globalisation. A subsequent stage (2016) concerned the reflection, writing, and narrowing down of theories for the subject under investigation, followed by another interview stage (2016–2017) that was devoted to developing categories in depth. Finally, the last stage (2017) juxtaposed coded empirical material from the interviews with theories.

This inductive process generated multiple-order categories: For example, a first-order category was the exogenous factors influencing the relationships of banks and customers. Second-order categories were then ECB low-interest-rate policies, regulatory requirements, digitisation, globalisation, and competition challenges. Another example is the business activities of the banks in the region (first-order category), which was subdivided into the provision of information and cash, business networking services, services for international expansion, and business services for future financial planning.

The empirical fieldwork was organised as a series of personal interviews with six managers in regional banks from the rural case region of Upper Franconia. In addition, external key informants from banking associations in the county of Bavaria, chambers of commerce, and chambers of craft in the case region or the county were interviewed. To check the validity of these interviews, control interviews were held with managers of a similar type of regional bank and a banking association representative in a more urban region in the south of Germany. Therefore, the total sample consists of 12 open-ended interviews, which were iteratively conducted between December 2015 and January 2017.

The interviews were transcribed and subsequently coded by means of an open, yet theory-driven, coding approach that matched the inductive research design applied (Saldaña, 2016). The analysis of coded material was aligned to a common qualitative content analysis approach (*cf.* Krippendorff, 2018), which paid particular attention to the assessments and interpretations provided by stakeholders within regional banks and external stakeholders. Altogether, the methodological-empirical fieldwork did not aim to generate and interpret statistically representative causal relationships, but to benefit from the knowledge of the interviewees selected regarding the topic explored.

## Empirical findings

### *Competitiveness factor 1: Relationship banking with local-regional customers*

An important competitiveness factor for the small regional banks studied refers to the concept of the housebank, which is also called ‘relationship lending’ or ‘relationship banking’ (Schrumppf and Müller, 2001). The concepts embrace the following characteristics: Banks and their customers hold a long-term relationship, in which the bank is the premier lender to the borrower (a private household or an enterprise) (Elsas and Krahnen, 1998). In this relationship, lending is the main transaction among the multiple transactions taking place between these partners (Uzzi, 1999). Because of the long-term character of the relationship, informational advantages accrue to the bank, reducing information complexity over time (Moro *et al.*, 2012) and leading to trust, which, in turn, implies more advantageous lending conditions for the borrower. Since the relationship is paramount in the approach to loan grant and credit decisions, the concept is called ‘relationship lending’ (Boot, 2000).

For the small regional banks studied, all interviewees state that the relationship between the regional banks and regional SMEs is paramount to their competitiveness because of its long-term stability. Two basic advantages are accruing to the banks through these relationships in the case region: high levels of trust and social capital based on the relationship, and informational advantages through the relationship (Table 5.1).

These advantages are associated with positive effects on the local customers in terms of the swift and non-standardised decision-making (Table 5.1). More specifically, the relationships provide the banks with ‘informal’ information on credit decisions, and the banks use this information along with information that they can retrieve from the books and balance sheets about the customer. Through these informational advantages, the banks can use tacit knowledge about borrowers for non-standardised, quick decision-making about loans. Because the banks also have their headquarters located in the rural region, the closeness to the customers actually pays off, and regional banks manage to turn into regional market leaders, notably in the credit segment with regional enterprises by holding this competitive advantage over large banks further afield.

### *Competitiveness factor 2: Regional embeddedness and engagement*

Another competitiveness factor is the regional embeddedness of the banks and their engagement for the region, both of which are rooted in the ‘regional principle’. New economic sociology has coined the mainstream understanding of embeddedness by describing the impact of social structure on economic transactions (Swedberg, 1997). In a spatial context, social embeddedness is associated with the interpersonal relationships in economic transactions that are held in a given territory. As, for instance, Greenberg *et al.* (2018) show in their study of small companies in a rural region, this embeddedness is not only expressed in the social relationships but also reflected in idiosyncratic financial

Table 5.1 Key quotations on relationship banking as a competitiveness factor

<i>Advantages of regional relationship banking with small banks as housebanks</i>		<i>Effects of regional relationship banking with small banks as housebanks</i>
<i>Trust, social capital, and stability</i>	<i>Informational advantages</i>	<i>Local, non-standardised, and swift decision-making</i>
<i>'The recipe for success is that you are accompanying your customer from the start-up until succession planning ... The personal, individual and trustful contact over the years binds the company and the bank together'. (Regional bank A)</i>	<i>'I believe that our credit business differs largely from that of large banks, we have a regional business and know all persons in the companies. This allows us to assess the situation of the company in a very profound way'. (Regional bank D)</i>	<i>'The most important thing for local firms is that ... decisions will be taken fast'. (Regional bank F)</i>
<i>'Private banking is a highly standardized business. But not the B2B sector, it is the opposite – a highly individualised business, and the personal relationship is paramount!' (Regional bank B)</i>	<i>'If you serve the complete national market like large banks, it is much more difficult to assess regional-specific situations. This is where we have big advantages. And the customers, of course, know this. It simplifies our business'. (Regional bank E)</i>	<i>'You have only a few companies that you can evaluate and assess with a standardised approach. Our customers come to us and say: 'I want to talk with someone', and, here, we cannot adopt a standardized approach but need to react and decide swiftly'. (Regional bank C)</i>
<i>'It has a long-term character and is stable and resilient over time. Also in difficult times'. (Banking association J)</i>	<i>'If you are a large bank with lots of locations, it is harder to assess the credibility of an individual company. We have the advantage that we are close to the company and know much about them – and have short distances to them'. (Regional bank F)</i>	<i>'Our bank operations are governed in this region, not outside it, as, for example, large banks such as Commerzbank do'. (Regional bank C)</i>
<i>'We want to give something back to the customer. This is the trust we get from the customer because we have really long-term customer relationships'. (Regional bank C)</i>	<i>'Because of the individual business with SMEs ... we know everything about the company's present and a lot about its future. For example, if there is a business opportunity for us with firm succession, we use this information in the consulting approach'. (Regional bank B)</i>	<i>'We do not work with managing credit loans according to industry as large banks do but we manage the risk individually. At regional level a different approach is needed because we know most companies and entrepreneurs and therefore can judge their decisions differently'. (Regional bank D)</i>

and business-related relationships in a rural context. For the purpose of this chapter, our understanding of regional embeddedness is closely related to the regional operations of the small regional banks and their strategic focus on the development and penetration of regional markets. The following statements made by key interviewees illustrate this understanding:

As a regional bank, you have to be focused on a regional market. It is a closed market area in which we operate. We do not operate across Europe or globally.

(Regional bank C)

We are bound to the region. Our market area is the city and the neighbouring municipality ... Of course, if we have enterprises that open a subsidiary elsewhere, we accompany them there with our services. But our focus is here in the region.

(Regional bank D)

The regional embeddedness of the banks, which is grounded in their regional market focus, leads to high levels of market and expert knowledge, including tacit knowledge, which the banks use as a key resource for their competitive strategies. They gain important information on customers by developing intensive relationships with them, as the following quotation highlights: 'Because of our regional thinking, we know the people and the key players in enterprises in our region. We can assess them in other ways than a big bank can' (Regional bank D). Moreover, through the regionally and socially embedded relationships and the resulting mix of various knowledge bases, tacit and formal knowledge, the banks build up considerable expertise about their customers and use this expert knowledge in their strategies to penetrate a regionally limited market. Although such embedded bank–customer relationships exist also outside rural regions, the regional expertise has a higher importance for the regional banks operating and headquartered in rural regions because their competitors, notably large private credit banks located elsewhere, do not embark on a similar strategy – that is, using regional expert knowledge bases about customers to establish a competitive edge and penetrate a geographically limited market.

Hence, small regional banks may achieve a considerable market power through the informational advantages associated with knowledge about regional customers, and this might even lead to their temporary monopolistic positions in the regional markets. Due to such market power, they might even establish a market entry barrier for large private credit banks because it takes enormous investments of resources and time to replicate such in-depth and cumulative expert knowledge.

The banks, moreover, consolidate their embeddedness in the social-economic relationships with stakeholders in the rural region by intentionally engaging for the region beyond the mere provision of financial services. Regional engagement is defined by Bürcher (2017, pp. 693–694) – citing Lengauer and

Tödting (2010) – as ‘active involvement of companies in shaping and upgrading regional productive potentials’ to ‘strengthen their socio-spatial embeddedness and finally become part of the local community’. The engagement of the small regional banks in Upper Franconia shows that their engagement materialises particularly through the networks of relationships within the region because, based upon these networks, the banks support regional economic development either directly (through investments, taxes, jobs and employment, and donations) or indirectly (through investments in relationships with various regional stakeholders). Their commitment through the networks exceeds the political-legal mandate for the provision of financial services to the local populace according to the ‘regional principle’, as the following statements illustrate.

When we built our new head office, we gave 80 per cent of the orders to regional construction and craft enterprises. We invest in ... our customers, and they can benefit from our investment. We strengthen the region by using such networks.

(Regional bank D)

Our bank is one of the biggest donor in the region with approximately 150,000 EUR that we donate every year for social, cultural and sports events in the region.

(Regional bank C)

The regional engagement, thus, pays off for the banks because it contributes to their brand development and brand consolidation, and regional customers – both existing and new customers – reward it with loyalty and trust, as the next statement highlights: ‘If you are coming from the region and you are working in the region, you convey the customer a sense that regional economic cycles matter for you’ (Regional bank B). Moreover, through this ‘triangle relationship’ (Regional bank C) of the bank with regional enterprises, the small regional banks stabilise the regional market because their corporate customers might employ private households and grant them jobs and income that stays in the region.

### ***Strategies to cope with challenges in the rural region***

In essence, based on the two competitive factors, the small regional banks are able to respond to the challenges related to the rural context of the case region. To transform a purely branch-based into a branch-based *plus* digital regional bank, the banks are working to adopt digitised service provision to lure notably private customers in the younger age cohorts and keep them as they grow older. To this aim, standardised services that the banks formerly provided in the branches are increasingly offered online, and the banks focus on providing only very specialised, customised higher-rank services physically in order to meet the sophisticated and complex demands of both private households and

companies. This move away from physical service provisions in branches helps the banks to keep a competitive advantage in the region compared to the large private banks, whilst reducing the costs that branch facilities involve.

An important element of this strategy is 'travelling' bank consultants, who drive to the enterprises' facilities for personal meetings. By this token, the banks intensify their relationship with local enterprises and provide a holistic consulting approach. Although the banks are quite successful with this strategy, they acknowledge that they also need to invest more than before in the offer of higher-level services, such as consulting for succession planning, to maintain their existing tight relationships with the enterprises at high levels of trust and intensity. Hence, even though they might reduce the costs of facilities, this involves higher costs for the small banks with limited resources.

Another example of their strategies is that the banks seek to extend existing relationships to new persons in the management of the enterprises already at an early stage when local enterprises start considering ownership change, as the following example of a local bakery shows:

[It] is a very solid enterprise with a huge production factory and several shops in the region. Three generations work in the bakery. The current owner-manager is about 55 years old, the son is between 20 and 30, and the owner-manager's parents are between 75 and 80 years old. Each of this generation has [its] own needs, which we are fulfilling. It is a broad range of services we offer them. Because we serve all of the three generations fast and consult them individually and intensively, they are a good example of the new generation staying with our bank.

(Regional bank A)

In this case, the expert knowledge built up in the course of a long-term relationship between owner-manager and bank consultant helps the bank extending the relationship to the new generation of owners. Moreover, the expert knowledge also eases the transition for the younger generation that is taking over the enterprise. Hence, the small regional banks are aware of the regional-specific challenges such as demographic change, and integrate them proactively in their strategies to penetrate a small-scale market with a limited regional customer base.

However, the banks have less room for manoeuvring when it comes to responding to the increasing standardisation requirements in the loan-granting process due to legal-regulatory enforcements in the European Union. For example, decision-making for a loan grant to an enterprise forces the banks increasingly to adopt a bank-specific calculation model instead of the tailored and individual decision-making that they have always used. Nevertheless, they keep the flexibility to decide in cases where the calculation model and their personal assessment collide, but it is obvious that the political-regulatory pressures might threaten the long-term viability of the banks' strategies.



## **Conclusion and implications**

Incumbent small regional banks in rural regions in Germany manage to adapt to external challenges based on tight and long-term relationships with regional customers and a high level of regional embeddedness resulting in regional engagement. While their place-dependent business model with branches across a small-scale region has been successful in the past, it becomes increasingly obsolete due to both market dynamics in the financial industries and regional-specific factors. Notwithstanding this, the banks manage to penetrate a regionally limited market and maintain a strong market position with regional customers through relationship development and embeddedness, leading to high levels of commitment for the regions. Their success can be described as a path-dependent process, grounded in a traditional business model that they successfully adapted to market and regulatory changes to a large extent. However, the external pressures from the market changes and regulatory enforcements will threaten the banks' well-drafted coping strategies in a long-term perspective. It becomes questionable whether regional banks can maintain their approach in the future. Although they have an interest in keeping a small-scale market structure for regional economies, including rural regions, and holding strong market leader positions in these economies, they will most probably not be able to prevent the market and regulatory changes from happening and accept a higher degree of standardisation and economies of scale as a pre-condition for their viability in the future.

Altogether, the example of incumbent small regional banks in Germany illustrates that small enterprises in rural regions can achieve a strong market position and support regional economic development by adapting parts of their established business models to external challenges. The coping strategies outlined in the case study in response to regional-specific challenges can serve as a point of departure for any small enterprise in rural areas to reflect on strategies that internalise locational advantages such as a strong regional market leader position for the development and growth of the enterprise.

As practical implications, managers in regional enterprises with limited opportunities for market expansion and internationalisation can exploit a high level of embeddedness as a resource to engage in networking with local stakeholders and build up tight and long-term relationships to all stakeholders, particularly potential regional customers. It seems paramount that such embeddedness is achieved through activities that go beyond the core operations of a rural enterprise (here, the provision of financial services to the populace in the rural region). Local market and expert knowledge serves as a key resource that can be exploited to maintain local customers even though there is a fierce rivalry in the market. Even without a legal mandate to stick to a small-scale market, the knowledge that regional enterprises can build with customers within local-regional reach represents the key reference point to compete based on a regional market leader position. To conclude, the example of the small regional banks emphasises the



opportunities that a small market in a rural region can provide, rather than pointing to regional disadvantages for enterprises that have limited or only incremental opportunities for geographical expansion.

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## 6 Reflections on tourism business viability and competitiveness in rural regions

*Runolfur Smari Steinthorsson*

### Introduction

This chapter provides a reflection on rural tourism enterprises and regional competitiveness. It brings forward key elements that enable an understanding of the interplay between business activities and factors of competitiveness outside the realm of the individual enterprise. The discussion aims to open up insights into the conditions, elements, and dimensions that can have a critical impact on the development of successful rural tourism enterprises.

In fact, the COVID-19 pandemic reveals the importance of the subject and illustrates that the problems faced by enterprises have to be addressed by many actors in the regional rural economy. The pandemic has been extremely challenging for tourism enterprises, not only in Iceland, which represents the empirical context of this chapter, but in all parts of the world. The viability of many tourism enterprises is severely threatened, and the tourism sector is at a standstill in many countries.

Tourism has been the fastest-growing industry in Iceland in the last decade with an annual increase of 24.3% in the years 2010–2017, from 488,600 visitors in 2010 to 2,224,600 visitors in 2017 (Icelandic Tourist Board, 2018). In 2019, there was a decrease by 14.2%, followed by a big downfall in the number of visitors in 2020 (Icelandic Tourist Board, 2020). The problems due to the pandemic have been a serious blow to an already vulnerable business situation in tourism in Iceland (KPMG, 2019). Despite some measures of compensation from the government of Iceland, it remains to be seen how many enterprises in the sector will actually survive.

A difficult crisis, such as the pandemic, clearly illustrates that sudden changes in business conditions can have a major impact on the viability of enterprises and their development. Also, in normal times, the environmental forces can be very challenging to them. For small tourism enterprises, the competitive day-to-day tasks already constitute a very demanding environment, as they need to achieve a good position in the market and be well equipped in terms of internal resources and capabilities. It is not sustainable for any enterprise if their costs are higher than their income, which has been the case for many tourist enterprises during the pandemic crisis. It is a never-ending quest for

business leaders to prepare for and respond to difficult circumstances, because they have to work out how to secure at minimum the financial sustainability, while meeting the needs and wishes of customers.

The field of study in this chapter is at the intersection of rural tourism, regional competitiveness, and entrepreneurship. The body of knowledge on this subject appears limited (Brooker and Joppe, 2014; Brouder, 2012; Komppula, 2014), and the ambition is to cast a light on the research area from both a theoretical and practical point of view. The focus is on identifying important conditions and elements that can have an impact on the viability and success of rural tourism enterprises, not least when it comes to extreme challenges and turn-around situations. Hence, the main assumption is that rural enterprises have to address these conditions and elements that can be identified at the different levels of analysis. To do so, it is important to connect insights from the rural entrepreneurship arena with regional competitiveness studies.

The aim is, thus, to provide answers to the following research question: What are the main conditions and key elements that have an impact on business survival and competitiveness in rural areas? The chapter starts with a discussion of the important issues, conditions, and concepts regarding business viability and regional competitiveness. The main issues are presented in a model that highlights the scope of the different conditions and elements that rural tourism enterprises have to deal with in order to become successful. The challenges are furthermore discussed with reference to two illustrative cases of companies in South Iceland. The chapter concludes with a discussion of learning points on rural business viability and regional competitiveness.

## **Rural tourism entrepreneurship and regional competitiveness**

### ***Rural tourism entrepreneurship***

Rural tourism includes activities like ‘accommodations ... food service ... retail operations, art galleries and studios, farms (agritourism), cultural attractions, festivals, outfitters and guides, and other related service sectors of a community’ (Kline *et al.*, 2014, p. 306). These activities are usually based on local ownership and entrepreneurial activities. A way forward is to upgrade the local enterprises and improve their possibilities to grow, diversify, and develop a competitive advantage.

‘Fostering entrepreneurs’ is, thus, critical for a strong rural economy (Carmichael and Ainley, 2014, p. 257). Success in entrepreneurial activities generates new or additional value in rural regions that often find themselves in a state of transition from an economy based on traditional industries to more service-oriented industries such as tourism (Sharpley, 2002). Understanding the critical issues for entrepreneurship and enterprise development is fundamental for the successful creation of value and prosperity in rural areas.

From an economic and market-based point of view, the act of entrepreneurship is a bottom-up micro-based activity. The entrepreneur can be seen 'as a person who, driven by opportunity, organizes and manages a business and assumes the risk for the sake of profit' (Baldacchino and Fairbairn, 2011, p. 331). Entrepreneurship can be considered as 'the process of uncovering or developing an opportunity to create value through innovation and seizing that opportunity' (Slaughter, 1996, p. 7; Robinson *et al.*, 2004), indeed, evolving in three stages of conception, realisation, and operation (Stathopoulou *et al.*, 2004), which takes place in the so-called 'rural milieu'. The 'rural milieu' consists of the physical environment, which is the location, natural resources, and landscape, the social environment in terms of social capital, governance, and cultural heritage, and the economic environment, *i.e.*, infrastructure, business networks, and information and communication technologies (ICT) (Stathopoulou *et al.*, 2004, p. 413). The viability of an enterprise created is, accordingly, dependent on a successful encounter with the many issues and elements of processual and contextual nature within the rural area in question to avoid or compensate for the threats of market failure that often exist in rural areas.

### ***Regional competitiveness***

An example from Northern British Columbia in Canada informs that an upgrading of a rural area usually takes a long time, and a strategic approach can be useful when making a 'move from an economy based upon comparative advantage to ... competitive advantage' (Markey *et al.*, 2006, p. 19). A combination of a simultaneously entrepreneurial and competitive business strategy is also seen as important for the development of a rural area (Kline *et al.*, 2014; Komppula, 2014). Businesses viability can be further ensured based on an insight into the wider context, not least through regional clusters (Porter, 2008) and participation in cluster activities within the respective areas (Pejanovic *et al.*, 2017; Ketels and Memedovic, 2008).

In regional development, there has been a move away from traditional top-down industry policy led regional development programmes (Markey *et al.*, 2006; Porter, 2000). Instead, new approaches highlight both the economic and social dynamics as well as the striving for uniqueness within regions. It is pointed out that the social economy and social capital are of great importance for competitiveness (Markey *et al.*, 2006). The forces of globalisation have also highlighted the need to identify and work on the possibilities for regions and locations to build competitive advantage (Porter, 2003). Indeed, there is a need for regional development strategies that can improve the competitiveness of regions (Huggins and Williams, 2011).

### ***Why viable rural entrepreneurship and regional competitiveness are inter-connected***

An understanding of regional competitiveness is important for rural enterprise development (Porter, 1990; Sölvell, 2015) because it provides insights into the

strengths gained from an interplay between competition and collaboration in a challenging environment. Rural areas often face challenges related to costs of policy failure as well as real costs and opportunity costs of their weak economic performance (Porter *et al.*, 2004). Hence, by understanding the economic conditions in a region, insights into the quality of the business environment will be generated (Porter, 2008) which influence both the possibilities and limitations for business viability in the area.

To understand the complexities of competitiveness, the metaphors of low-road and high-road competitiveness can be useful (Malecki, 2004). Low-road competitiveness often represents traditional public intervention, while high-road competitiveness reflects 'committed regionalized processes of learning, innovation and positive place attraction' (Markey *et al.*, 2006, p. 25). Further insights can be reached from information on quantifiable elements in the environment like infrastructure, production factors, location, economic structure, and amenities, and on qualitative elements that are associated with social capital, innovation support, and the various institutions that can be of assistance in the business development.

A focus on regional competitiveness opens up the possibility to better understand how attractive and fertile an area is or can be for economic and social development. A core issue within regions is the ability of entrepreneurial actors to perform and contribute to the development of value. For an enterprise, the key is often seen in the ability to develop a business opportunity into a competitive advantage through successfully serving satisfied customers in a growing market (Porter, 1985). For a region, the key can lie in the capability of its economy 'to attract and maintain firms with stable or rising market shares in an activity while maintaining stable or increasing standards of living for those who participate in it' (Huggins and Williams, 2011, p. 909).

The more recent contributions place emphasis on a so-called New Rural Paradigm that is place-based and builds on aspects such as the 'construction of identities and images around new agricultural goods and services' that also link to sustainability and eco-economy (Horlings and Marsden, 2014, p. 4). A focus on a New Rural Paradigm also reflects the view of embeddedness in entrepreneurial and economic activities (Johannisson *et al.*, 2002), which connects to tourism-value ecology (Epler Wood, 2017) and value co-creation (Font *et al.*, 2021).

Reflections on regional competitiveness and rural tourism entrepreneurship help bring forward many factors and elements that can have an impact on entrepreneurial processes and performance. Similar multi-level elements can be seen in research on destination competitiveness (Ayikoru, 2015; Gomezelj and Mihalic, 2008; Wilson *et al.*, 2001). For success in rural tourism development, there is a need for a community approach, although such an approach is not in itself a sufficient solution as it 'cannot work without the participation and collaboration of business persons directly and indirectly involved in tourism' (Wilson *et al.*, 2001, p. 132). A narrow view on the entrepreneurial firm and

the innovation process is not supported, and a community-centred approach is not in itself sufficient (Wilson *et al.*, 2001; Komppula, 2014).

It is important to see enterprise development as both embedded and linked to collective entrepreneurship, embracing networking and participation in a community (Johannisson *et al.*, 2002; Horlings and Marsden, 2014; Font *et al.*, 2021). This does not diminish the need for successful entrepreneurial processes, innovation, and performance among the enterprises operating in a region that can lead to growth and competitive advantage (Porter, 1985, Stathopoulou *et al.*, 2004; Kallmuenzer *et al.*, 2019). The viability of the businesses can be enhanced further by strategically linking them to unique clusters and cluster activities within the region (Porter, 1990; Porter *et al.*, 2004; Ketels and Memedovic, 2008; Porter and Kramer, 2011).

**A model on the key elements of regional competitiveness and business viability**

The model presented in this chapter (Figure 6.1) brings forward an outline of the various dimensions which an enterprise is related to, and these dimensions include key elements that need managerial attention to ensure success and business viability. The success of business activities depends on the interplay of factors at the micro-, meso-, and macro-levels of activity. The model informs that local enterprise development is a complex and multi-dimensional task and takes into account that even though businesses are micro-enterprises, their fortune and success is not only based on their capabilities and positioning in

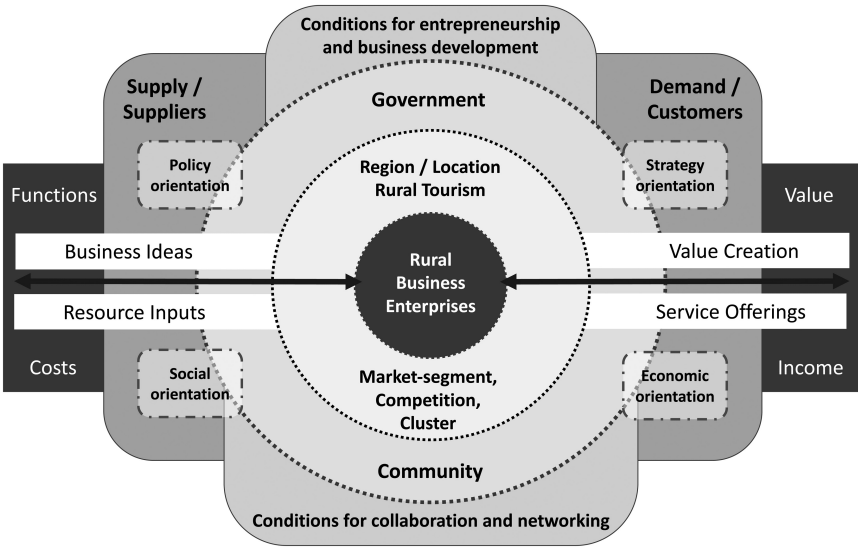


Figure 6.1 Conditions and elements of regional competitiveness and business viability – focus on rural tourism (adapted from Steinthorsson, 2010)



the market, but also on their alignment and cooperation with other important stakeholders in the local community and wider region.

The key elements that are influencing the survival and viability of businesses are over time both changing and interacting concurrently through the different levels of activity in the region in question. The model is based on the assumption that the supply side of an enterprise must be aligned with the demand side of the same enterprise. The supply side includes at minimum the services offered by the enterprise, the facilities needed for the service delivery, the resources available (human, financial, natural) and the management. However, this view is too narrow, as a rural enterprise is a part of a bigger tourism-supply setting in the region. Hence, the overall conditions and elements of the supply side need to be considered. A similar assumption holds for the demand side.

Figure 6.1 highlights that a rural enterprise needs a customer base to earn the necessary income that covers costs and earnings. The enterprises are, indeed, the key enablers of value creation and profitability in the rural region. They are established by entrepreneurs, and they are the providers of particular service offerings that are sold to the customers: the tourists and travellers as well as the local people and other enterprises in the region. For the enterprise, profitability is necessary. The costs of the resource inputs are critical and need to be managed in relation to the income generated. The generation of business ideas is also critical to ensure the uniqueness, the attractiveness, and the competitiveness of the services offered. The business viability is threatened if there is a fall in income, and the burden of costs can lead to a turnaround to avoid closure of the enterprise and bankruptcy. Moreover, if there is a mismatch in the core alignment of supply and demand in a region, any enterprise can be in trouble. Regarding rural tourism enterprises, this can be extremely challenging because of the risk of a lack in the supply and demand alignment and a mismatch in the region's tourism attraction system (Rosentraup and Joo, 2009).

Figure 6.1 furthermore indicates that entrepreneurs need to understand that their enterprise and fortune can be influenced by many factors at the three main levels of activity, the business enterprise level, the industry level, and the level of the society in general. The rural 'business enterprise' is seen as a creator of value through a value chain or value network that is influenced by many stakeholders. The model highlights the need to consider not only the competitive situation when enterprise development is taking place, but also the conditions for collaboration and co-creation in the society and community in question. Therefore, a narrow view on the tourism enterprises in a rural region can have a limiting effect on their success. Business profitability is a necessary but not a sufficient condition. It is important to see tourism enterprises as puzzles in a bigger setting with an important part to play in the success of the rural region as well as in securing the fortune of the rural business enterprise, as illustrated by Figure 6.1. Hence, the elements for the individual enterprise are influenced by the level of the innovation that takes place with the enterprise and the other business-related sources necessary to generate competitive advantage. The wider study of supply and demand is taking place at the

industrial level, and the business enterprises have to deal with the competition within their service industries and markets in the rural regions. The enterprises furthermore need to secure their relations and agreements with suppliers and other stakeholders in the region. Moreover, there are important opportunities for developing advantages based on collaboration through cluster activities and networking. At the macro-level of society and government actions, other very important conditions require managerial attention because public agencies and municipalities may have an important influence on the conditions for entrepreneurship and enterprise development in their respective regions.

### **Rural tourism entrepreneurship in South Iceland**

To illustrate the relevance of this model, two examples of rural business enterprises are presented which are located in the county Rangárvallasýsla in South Iceland. The county is in the middle of South Iceland, and, within it, there is a beautiful highland area with glaciers, mountains, lakes, rivers, volcanos, and lava formations. In the lowland area, there are two small villages, many farms and farmland, salmon rivers, waterfalls, and dark beaches. Everything is more or less within reach in the area. The county is divided into three municipal districts, ranging from the west to the east: Ásahreppur, Rangárthing ytra, and Rangárthing eystra. The enterprises studied are Midgard Adventure located in Rangárthing Eystra and Caves of Hella in Rangárthing ytra.

#### ***Midgard Adventure***

Midgard Adventure is a tourism enterprise that is located in the village Hvolsvöllur in Rangárthing Eystra. The story of Midgard starts as far away from Iceland as possible. The founder, Siggí Bjarni, at the age of 23, went travelling to New Zealand, and during that trip he ‘got inspired and recognised the potential of his own hometown Hvolsvöllur in a similar beautiful and adventurous setting’ (Midgard, 2020).

When back in Iceland, he founded Midgard Adventure in 2010, in fact, one day before the volcanic eruption in Eyjafjallajökull. As explained at the website: ‘His goal was to share his love of the country and backyard he had grown up exploring’ (Midgard, 2020). He was quickly joined by other co-entrepreneurs and team members: the couple Addi and Hildur, the neighbouring horse farmer Stefnir, and Björg, Addi’s mother, who did join them as CEO. ‘Together they created trips, activities and tours, doing the things they love most, in this incredible area we are lucky to have as our backyard’ (Midgard, 2020).

The fast-growing demand from tourists made it possible for the enterprise to grow and expand. A base for the enterprise was built on the ruins of an empty 40-year-old cement factory building that had been built by Siggí Bjarni’s father Svenni. The building was developed further and extended to become a place that also offers accommodation and a restaurant for Midgard Adventure

customers and others that come by. This addition to the building is named the Midgard Basecamp today, and the accommodation and restaurant services are in the hands of Midgard, a sister company to Midgard Adventure. The team behind Midgard Basecamp has been getting bigger. One of the additional members is Stefan, who moved from Switzerland to join the enterprise and became a co-owner (Midgard, 2020).

Midgard Adventure offers a wide range of tourism services around day tours, including Highland tours, Super-Jeep, hiking and biking tours, snowmobile tours, sightseeing and glacier tours, or ATV tours. There are also 'multi-day packages' offered, ranging from two days up to eight days. Different types of service packages are created for the tourists, with combinations of Super-Jeep trip, hiking, camping, and sightseeing opportunities, but the core service is related to enabling the tourist to immerse into the adventures and atmosphere of being in the highlands in the South of Iceland. These tours, both the day tours and the multi-day packages, are also possible as private tours. The enterprise furthermore enables 'tailor-made adventures', 'tailor-made luxury', and family vacations in addition to general travel agency services. Midgard Adventure also targets groups of different sizes for which the focus is on incentive activities, events and educational tours. These group-related activities are also promoted with other enterprise, institutions, and schools (Midgard Adventure, 2020).

The Midgard Basecamp is considered as both a base for the Midgard Adventure and the customers in their visit to Iceland, that is, a kind of home away from home for everybody, both staff and visitors. The Midgard team also brings forward the community, as they state: 'Community is very important to us at Basecamp, we're a local operation and most of us grew up here or fell in love with the area and moved here. We're different to the larger tour companies you will find in Iceland, because we are registered here in Hvolsvöllur our taxes get put straight back into the local community' (Midgard, 2020).

### ***Caves of Hella***

Caves of Hella is an enterprise that takes care of a recently re-established tourist attraction very close to the village Hella in Rangárthing ytra. The care of the caves has been in the hands of the family that has lived on the farm Ægissida for nearly 200 years. The caves at Ægissida are man-made and they are in fact the oldest known archaeological remains of housing facilities in Iceland that are still standing and possible to use as such (Caves of Hella, 2020a). Nobody knows who made the caves, but the archaeological remains indicate that it could have been Celts that did live in Iceland before the Vikings came to the country (Caves of Hella, 2020b).

The total number of caves in Ægissida is 12, and after being closed to the public for some time, it was in 2019 when the third, fourth, and fifth generation of the family from Ægissida joined hands together to reopen four of the caves after restoration, installation of lights in the caves, and investment in facilities to ensure better and safer access to the caves. The main goal of their

entrepreneurial initiative is to develop a business that enables the family to take proper care of the caves and introduce them to the public in Iceland and tourists from abroad. There are stories to be told of the caves as used by the family for generations, and in the caves, there are many marks, shapes, and signs on the walls and other archaeological evidence that are the substance of stories that reach further back in time.

The motive behind the reopening of the caves to the public is one of restoration and sustainability. It says so on the Caves of Hella website: ‘The restoration project is under the supervision of the Cultural Heritage Agency of Iceland. We focus on slow and sustainable tourism, working closely with the local community using local guides and local products. The main aim of the project is to continue the restoration of the caves, opening up more caves to the public. All monetary income from the project is used to preserve the Caves and keep them open to the public’ (Caves of Hella, 2020b).

Among the activities that are on offer in the caves are guided tours and special tours. The guided tours are scheduled at fixed times and the standard tour takes around an hour. The special tours are custom-made and adapted to fit the people and the event in question. The range of special tours is considerable. There are luxury tours with whiskey tasting and local food delicacies. Also on offer are occasional events such as weddings, concerts, surprise trips, ghost stories, scientific explorations, midsummer festival, Christmas adventures, and writers’ nights (Caves of Hella, 2020c).

### **Learning points on regional competitiveness and business viability**

The two company cases – Midgard Adventure and Caves of Hella – are tourism-related enterprises that offer their services in the South of Iceland. Midgard Adventure is an entrepreneurial enterprise that is located in the village Hvolsvöllur. Caves of Hella is an entrepreneurial family-based initiative located in the village Hella. Both are in the county of Rangárvallasýsla, and the distance between them is 15 kilometres.

Midgard Adventure as an enterprise has enjoyed considerable growth and has been diversified into several business units. The enterprise has also invested in facilities: mountain vehicles, basecamp, hotel, restaurant, and operational facilities. The present standstill in the tourism sector in Iceland due to the COVID-19 pandemic is, without doubt, very difficult for Midgard Adventure because of a dramatic fall in income and the need to cover both fixed and variable costs of the business units. Increased domestic travel in Iceland has helped some local enterprises throughout Iceland, but, in general, all tourism enterprises are in big trouble. For Midgard Adventure, the business viability is severely threatened primarily because of the standstill in the tourism sector in Iceland.

Caves of Hella is a small family enterprise which is based on tours and exhibitions in man-made caves that have been in the care of the family for

at least two centuries. The fixed costs seem to be kept at a minimum and the upgrading of the caves, including the installation of lights, improvements to the access, the establishment of a website, the recruitment of guides, *etc.*, are variable costs that can be adjusted to the income generated. The demand from domestic travellers visiting the caves has been considerable despite the pandemic, which means that the enterprise has enjoyed some demand in the year 2020, and further upgrading of the caves has been supported.

Taking the elements of the model outlined in Figure 6.1 as a point of departure, it can be illustrated that the two enterprises are examples of rural tourism enterprises that are based on successful business ideas. Both provide service offerings that are in demand. However, the scope and the scale of their business enterprise are different. When business viability is under threat, the bigger enterprise, Midgard Adventure, is clearly more vulnerable due to the lack of income. Demand is necessary to cover the costs of resource inputs and the investment in the system of value creation. Before the crisis, the enterprises studied were apparently financially sustainable, but during the standstill in the tourism sector, both of them are facing serious threats.

It is an established fact that, in order to respond to immediate threats to business viability, owners and managers need to react. Their responsibility is to nurture the respective enterprises and ensure survival through adjusting the operations and costs towards the income generated. Owners and managers also need to be proactive, and the key elements in Figure 6.1 can open up for a richer understanding of the possibilities that tourism enterprises can have in such a critical context.

From a regional competitiveness point of view, both enterprises represent important players in their region, but they are, at the same time, pieces in a bigger puzzle. In both cases, there are references that support the assumption that they both enjoy benefits and opportunities, which can be explained as positive externalities. This means that the enterprises are stronger because of their rural location. This is very clear in terms of access to natural resources, and the same applies for the social and cultural resources in the region. Such resources are links and relations to the local community, both directly through local business relations and indirectly in the meaning that together, all stakeholders in the regions are in a better position to survive.

The main message of this study is, thus, firstly, that a rural enterprise can become even more successful as a business enterprise if it takes into account the benefits it can enjoy through a thorough understanding of the key elements of regional competitiveness and rural tourism entrepreneurship (Kline *et al.*, 2014; Komppula, 2014). This conclusion is based on the assumption that both the enterprises and their communities can become stronger by making use of the benefits of co-existence (Johannisson *et al.*, 2002; Porter and Kramer, 2011). An active focus on the possible complementarities and synergies may increase the options and chances for entrepreneurs in terms of the benefits of co-location and co-creation (Porter, 2008; Font *et al.*, 2021). Secondly, another learning point for the tourism enterprises studied could be to look into how enterprises

and other actors in the region have been working together to develop and improve the overall tourism business conditions in the area (Wilson *et al.*, 2001; Ketels and Memedovic, 2008), in this case Rangárvallasýsla in the South of Iceland. Thirdly, it becomes evident that entrepreneurship is not only an important business activity, it is also an important part of regional competitiveness and regional economic policy (Porter, 2003; Huggins and Williams, 2011). This study of the factors of success in rural tourism development highlights the important roles of the entrepreneurs, their enterprises, the industries, and the community as well as the relations with other stakeholders in the rural region (Rosentraub and Joo, 2009; Brooker and Joppe, 2014; Kline *et al.*, 2014).

To sum up, the main conclusion in this chapter is that rural enterprises are more likely to do better and develop competitive advantage if they develop an inclusive mindset and open up to strengths that can be realised through connecting their enterprise according to the multiple elements and dimensions highlighted in Figure 6.1. Enterprises and other stakeholders in a rural region are more likely to prosper if they see themselves as co-dependent actors that have a potential for gaining benefits from participation in various types of hybrid arrangements across different levels in the region. In other words, in order to foster and enable the successful development of rural enterprises, it seems very important to nurture both the conditions for entrepreneurship at the business level and improve the conditions for collaboration and networking at broader levels. As the literature highlights, a local rural tourism environment can be upgraded through strategic collective efforts and allows entrepreneurs and other stakeholders in the region to contribute significantly to the overall economic, social, and environmental sustainability for the benefit of all the regional stakeholders (Porter, 2000; Markey *et al.*, 2006; Brouder, 2012; Horlings and Marsden, 2014; Komppula, 2014; Epler Wood, 2017).

As the body of knowledge on rural tourism enterprises and regional competitiveness is limited, this study provides an explorative illustration of the field and demonstrates the benefits that could be gained for rural enterprises and rural regions, respectively. The main limitation of this study is that it is only at an explorative stage and its focus is on conceptual issues. Further research is, thus, needed, and the next step can be to analyse the business practices of regional tourism enterprises and the roles that entrepreneurs and other stakeholders play in South Iceland. As the information from the cases studied is, moreover, limited to the industrial and society level of activity, further research should also shed more light on these elements in the model.

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## 7 Tourism marketing in rural contexts – the potential of wine tourism in the Dão wine region

*Maria Lúcia Pato, Elisabeth Kastenholz, Cristina Barroco, and Andreia Pereira*

### Introduction

With the ongoing challenges facing rural areas and traditional rural economic activities, the future success of many of these territories is closely linked to the capacity of rural actors and communities to innovate and identify new business opportunities that create wealth and improve local living conditions (Pato and Teixeira, 2018). An increased demand for rural amenities for leisure and tourism purposes has brought such opportunities. In fact, in the last 50 years, tourism has grown continuously, with new travel markets seeking new places, destinations, and experiences (Lane and Kastenholz, 2015; Sánchez *et al.*, 2017). One trend is the increasing interest in wine and food tourism, leading to a lifestyle-defined market for tourists sometimes called ‘foodies’, with diverse degrees of culinary versus other motivations (Andersson *et al.*, 2015; Crespi-Vallbona and Dimitrovski, 2016). Sometimes the culinary product becomes the main reason for visiting a certain area and is no longer a mere complementary attraction (López-Guzmán *et al.*, 2012), even though most tourists travelling for food and wine tasting additionally wish to explore the landscapes and culture of the region visited (Andersson *et al.*, 2015; Holland *et al.*, 2017; Mitchell *et al.*, 2012).

On the one hand, wineries are typical enterprises in rural areas. They include farming activities, the production of the end product based on such agro-production, and additionally offer visitor experiences, innovating the basic farming activity. On the other hand, they are pure forms of rural entrepreneurship because they are located in the rural space, employ local people, utilise rural resources, and sell a product with a rural character (Pato and Teixeira, 2018), while diversifying from agriculture and wine production to tourism. Additionally, many authors conceptualise wine tourism in rural areas as a form of rural tourism (there is wine tourism in urban areas, as well, *e.g.*, the Porto wine cellars in Vila Nova de Gaia, Portugal), with tourists seeking wine tourism experiences amongst other rural tourism experiences, exploring the wine-producing ‘terroir’ (Holland *et al.*, 2017).

For wine producers, the opening of wineries to visitors is a marketing tool for promoting their wines and increasing their direct sales, but it also

constitutes a diversification strategy for the winery's core business and a means of rural regional development (Carlsen and Charters, 2006; Sidali *et al.*, 2011). Also, territorial brand enhancement through wine tourism may, in the end, benefit their wine sales again, thus triggering a virtuous circle of wine tourism leading to additional wine sales and positive region-of-origin effects which, in turn, implies increased (post-visit) wine sales. Simultaneously, as a new form of experiential tourism, it provides an effective way of enriching a destination's overall tourism product and responding to new tourist interests, while reinforcing the destination's appeal, competitiveness (Mancino and Presti, 2012), and sustainable development (Kastenholz *et al.*, 2012; Sidali *et al.*, 2015).

Rural areas thereby benefit from tourism but need to acquire new cultural, social, and business competences, where rural entrepreneurship with a sound, desirably regionally integrated, marketing approach is vital to success. This is a challenge for wineries, since it is not easy to adapt to the new role of tourism suppliers, with most suppliers preferring to focus on wine production (Correia and Brito, 2016; Hall and Mitchell, 2000). Others even see tourism as antithetical to their core business and identity as winemakers (Canovi, 2019). As a matter of fact, only a few studies focus on the marketing of rural tourism enterprises (Pato and Kastenholz, 2017), which is also true for rural wine tourism enterprises.

Therefore, from an integral tourism marketing perspective, we explore the marketing approach, strategies, and actions undertaken by wineries to promote their wine and tourism products as well as the overall wine-producing region. Specifically, our research questions are: (1) How do wineries define their target market and communicate with it? and (2) How do wineries relate to networks in their marketing strategy? To answer these questions, data obtained through in-depth interviews with winery managers from the Dão wine region (DWR), located in central Portugal, were analysed. Results may help identify strategies aiming at more successful management of wine businesses and wine-producing rural regions.

The chapter consists of five parts. After the introduction, the second section contains a review of the concepts of wine tourism and marketing in wine tourism. The third section presents the methodology of the empirical study, the results of which are discussed in the following section. The final section concludes with an attempt to answer the research question and discusses relevant additional avenues of research.

## **Literature review**

### ***Wine tourism – A 'new' strategy towards the development of rural areas***

Wine tourism can be conceptualised 'as the development of the tourism and productive value of a territory around its traditions, culture, activities and landscape associated with wine producing' (Correia and Brito, 2016, p. 28). Indeed, wine tourism is based on an encounter between the wine tourist and the wine

tourism product, the latter being defined as the union between tourism and the wine industries within the wider context of the wine region (Benavides and Rotarou, 2018). It is, therefore, understandable that wine tourism can be understood as the product of a complex ‘eco-system’ (Salvado and Kastenholz, 2017) with a wide range of components, which are important for the development of both the wine and tourism industries (Mancino and Presti, 2012). For that reason, it is also understandable that the concept has grown significantly in popularity in the past decades, leading to a notable increase in wine festivals and events, which are now being introduced and promoted as part of regional and national tourism strategies (Getz and Brown, 2006; Hall and Sharples, 2008) and/or as a tool for rural development (Benavides and Rotarou, 2018).

From a rural development perspective, wine tourism is a structural diversification strategy into new, non-agricultural activities carried out on farms (Mancino and Presti, 2012) and in wine-producing regions (UNWTO, 2020). This diversification strategy offers significant scope for increasing the economic feasibility of farm businesses (Barbieri and Mahoney, 2009; Barbieri *et al.*, 2019), and if well managed, local identity (Harvey *et al.*, 2014). Moreover, diversification into rural tourism stimulates the production of local products (Kastenholz *et al.*, 2018). Further yet, wine tourism can also provide other benefits for the local, regional, or national economy: It creates local jobs, introduces new business opportunities in rural areas, and attracts investment and other types of tourism (Benavides and Rotarou, 2018; Kunc, 2010).

This trend is expected to continue in the future, pushed by the growing number of consumers seeking locally produced food and desiring to reconnect with local farmers and culture (Kline *et al.*, 2016). Even the United Nations’ World Tourism Organization (UNWTO) recognises the power of wine tourism towards the development of rural areas. In particular, the Georgia Declaration (presented at the 1st UNWTO Conference on wine tourism held in Georgia) underlines, amongst other aspects, that wine tourism (i) provides an opportunity for underdeveloped tourism destinations, in most cases rural areas, to mature alongside established destinations, and enhance the economic and social impact of tourism on a local community; (ii) is capable of generating substantial economic and social benefits for key players of each destination, in addition to playing an important role in terms of cultural and natural resource preservation; and (iii) provides an innovative way to experience a destination’s culture and lifestyle, responding to consumers’ evolving needs and expectations (UNWTO, 2016). Hence, from a broader perspective, wine tourism not only contributes to a more profitable wine industry, but also helps the reputation of a country and/or region as a whole (Hall *et al.*, 2003; Schlüter and Norrild, 2015).

### ***The significance of marketing in wine tourism***

For the desirable development of a wine destination area, special attention should be given to certain elements, such as the presence and quality of a set

of attractions and services and the development of sound strategic and marketing plans (Getz, 2000). Following this idea of defining a comprehensive strategic destination development approach, Skinner (2000) suggests that an understanding of the attitudes and aspirations of tour operators, government, local residents, and tourists within a wine destination should be amongst the first steps in wine tourism planning and management. This issue is particularly important for the tourism industry because a region's attractiveness and its development depend not only on a territory's endogenous resources, but also on interaction of a region's enterprises and all other stakeholders (Festa *et al.*, 2020; Salvado, 2016).

Moreover, globalisation and worldwide access to information has resulted in a more knowledgeable and empowered wine consumer with a more sophisticated understanding of product value, and a selective demand for wine quality (Benavides and Rotarou, 2018) and appealing wine tourism experiences (Hall *et al.*, 2002). Therefore, the use of marketing practices, appropriate to the aims, capacities, and resources of the rural business, is a tool for improving their respective performance as well as the benefits generated for the local communities they are connected to (Pato and Kastenholz, 2017).

Considering the particularities of tourism services and the chance of delivering broader, more appealing, and diversified rural destination products, and in an attempt to match the needs of single, small enterprises, the community and tourists (Pato and Kastenholz, 2017), one interesting concept of marketing in rural tourism is that of integrated and sustainable marketing proposed by Kastenholz (2006). Integration is desirable due to the complexity of the tourism product as well as the range of tangible and intangible resources it involves. Sustainability, following the principles of respect for and conservation of environmental, cultural, and historical heritage of the community and the destination region, and the enhancement of all stakeholders' interests, should yield the best possible outcomes for all in the long run (Pato and Kastenholz, 2017).

Due to its usefulness in this perspective, the following sub-points will address issues related to: (1) management of demand and communication; and (2) networks.

#### *Management of demand and communication*

'Management of demand' has the purpose of attracting the tourists that bring most benefits to the rural area (Kastenholz, 2004) and enhance the interconnectedness of diverse suppliers, community, visitors, and the cultural and natural resources of the area (Ping-Tsan and Chun-Te, 2020; Saxena and Ilbery, 2010), which is crucial to sustainable rural development. Indeed, management of demand and market segmentation is significant for wine tourism operators and destinations in terms of product development and for developing more successful and differentiated marketing strategies, specifically targeting distinct tourist groups according to specific preferences and behaviours (Alebaki and Iakovidou, 2011; Mitchell *et al.*, 2000), which may further sustainable development

(Kastenholz *et al.*, 2018). To ensure effectiveness in achieving these goals, the messages reaching consumers about the products and services that convey the value proposition must be clear, succinct, and integrated (Ribeiro *et al.*, 2006).

Gathering information and developing long-term relationships with visitors also allows cellar managers to learn more about their customers and establish more tailor-made contacts in the future (Castray and Francis, 2003). However, this is a challenge for rural wine tourism suppliers (WTS) because for many of them, 'their product is their wine rather than the bundle of experiences that a customer may attach to wine consumption' (Hall and Mitchell, 2000, p. 455). Several studies confirm this difficulty. For instance, Barroco and Amaro (2020) state that the small size of wineries in the DWR, and their limited access to qualified human resources to manage websites and social media to communicate their product has led to little investment in marketing and web technology. Quaresma *et al.* (2017) also state that many companies of the Lisbon Wine Route used the web to promote their offering, but not always in the most appropriate way to attract tourists and new consumers.

### *Networks*

In recent years, the emergence of relationships between the public sector, private sector, and local communities has been encouraging communication and connectivity among these entities and led to the development of regional networks (Brás *et al.*, 2010). Indeed, partnerships and coordination between these stakeholders are also essential for the creation of a unique, credible, and surprising tourism experience (Kastenholz *et al.*, 2012), emphasising the image of destinations and the value of these destinations' brands (Gómez *et al.*, 2015; Wargenau and Che, 2006). Networks and other forms of inter-firm cooperation may be identified as being integrated horizontally (*e.g.*, within the wine industry or the tourism industry), vertically (*e.g.*, alongside a supply chain among different industries), or diagonally (*e.g.*, complementary or symbiotic firms add value to the activities of others) (Michael, 2007). For instance, the study of Wargenau and Che (2006) shows that trail members have formed strong horizontal relationships (*i.e.*, through joint advertising, promotion, production) as well as important vertical relationships with tour operators, lodging businesses, and restaurants, which also helps the marketing of wine tourism.

To sum up, we agree with Gibson and Lynch (2007), who argued that the adoption of a structured network can bring several benefits, particularly concerning knowledge, marketing and information exchange, the enhancement of economic activities, and community development.

## **Methodology of the study**

### *Procedures*

For the empirical research, a case study approach was adopted, because, on the one hand, it draws attention to the question of what especially can be learned

about the single case (Stake, 2005) and, on the other hand, as this approach is particularly adequate for this exploratory investigation. The case analysis implied the administration of interviews with WTS of the DWR, particularly those who belong to the wine route of the region. In this study, the focus was on open questions (based on a literature review) related to integrated and sustainability yielding marketing approaches, namely, target-market selection, types of promotion, collaboration with other entities and businesses, marketing-related contribution of the business to local economy, and culture and well-being of the community.

From a universe of 46 members of the wine route, 14 interviews were carried out between November 2019 and July 2020. The majority of interviews were held online due to the COVID-19 pandemic. In order to identify the main discourse of winery managers, interviews were tape-recorded, transcribed, and subjected to content analysis. The purpose of this is to systematically transform a volume of text into a highly organised and concise summary of key results (Erlingsson and Brysiewicz, 2017).



Figure 7.1 ‘Location of DWR. Source: CVRD, 2012’ about here

For methodological procedures, respondents are identified here by numbers (*e.g.*, WTS1, meaning wine tourism supplier n°1), while frequencies of cases are briefly referred to in brackets with the respective number.

### ***The case study***

The demarcated DWR is located in the centre of Portugal. Established in 1908, it was the first demarcated region of non-liqueur wines of Portugal (ARVP, 2020), in the seven sub-regions: Alva, Besteiros, Castendo, Serra da Estrela, Silgueiros, Terras de Azurara, and Terras de Senhorim (Figure 7.1). Presently, the DWR promotes the wine route (created in 1995) and other types of events and festivals which are intended to revitalise the region and the actors involved (Barroco and Amaro, 2020). Moreover, in the DWR tourists can also taste local gastronomy, appreciate beautiful landscapes, and enjoy the historical, architectural, and cultural heritage of its rural areas (Barroco and Amaro, 2020).

## **Results and discussion**

### ***Brief characterisation of the sample***

The 14 respondents correspond to 17 member enterprises of the wine route, since one represents three entities and another represents two (see Table 7.1).

*Table 7.1* Brief characterisation of WTS

<i>WTSs</i>	<i>Type</i>
WTS1	Wine producing farm
WTS2	Wine producing farm
WTS3	Wine producing farm
WTS4	Wine producing farm
WTS5	Wine producing farm 2 restaurants
WTS6	Wine producing farm 1 restaurant
WTS7	Wine producing farm
WTS8	Wine producing farm
WTS9	Interpretative centre (historical collection: documentary and photographic archives and exhibition of agricultural materials)
WTS10	Cooperative winery
WTS11	Wine producing farm
WTS12	Wine producing farm
WTS13	Wine producing farm
WTS14	Hotel (5 stars)
	Restaurant Museum with agricultural assets
	Wine producing farm

Source: own source

Respondents are at different stages of tourism development, with some offering an integrated wine tourism experience and others still taking their first steps. All respondents offer wine sales, wine tasting, and guided tours. These tours may include visits to the winery and to vineyards. In two of the route members' establishments, it is not possible to visit the vineyards because they are located far from the cellar (WTS6, WTS10). In one case (WTS6), they developed a 'pedagogical vineyard', which shows the main grape varieties they use for wine production.

In nine establishments, visitors may engage in wine tasting combined with local food matching, and in five establishments, visitors may have picnics in the vineyards. In addition to the members who own a restaurant, another five provide lunches or dinners by appointment. Occasionally, they organise events such as 'sunset dinners' and 'harmonised meals' (WTS6) or gala dinners and carriage rides through vineyards (WTS7).

In four of the establishments, tourists are allowed to participate in the harvest. Some of the members also offer other experiences, such as 'Paper Chase in the Vineyards'; 'Winemaker for a Day' (WTS1); 'Aroma Game' (WTS1, WTS13); 'Cheese and Jam Workshops'; 'Shepherd for a Day' (WTA14). In some of the wine stores, it is possible to buy other products like olive oil (WTS5), books, soap, chocolate (WTS6), cheese, jam, or Portuguese ceramics (WTS14), showing diverse degrees of innovation and product development.

### ***Target market, evaluation of the wine experience, and communication***

When asked about their desired target market, the majority of WTS (eight) focus their activities on the international market. According to them, these tourists seem to value what the destination has to offer most, specifically its natural beauty, traditional culture, and unique, memorable experiences in the countryside. To a certain degree, this understanding reveals these suppliers' concept of management of demand, as suggested by Kastenholz (2004) and illustrated in the following statements:

We have been getting a very large audience from the USA and Brazil. These are the two strongest markets we have. Very educated people looking for different wines, which they call boutique wines, they take holidays specifically just for wine.

(WTS12)

most of our visitors are international and not only looking for wine tourism, they are looking for the complete experience.

(WTS13)

Surprisingly, despite the reported attention given to the desirable market, many WTS (six) do not currently have a – formal or informal – system to collect opinions from visitors about their wine experience (*e.g.*, questionnaires,



analysis of social networks, registers of suggestions or opinions, *etc.*). Some justify this option, explaining that tourists do not like to participate in surveys: ‘but sometimes we feel that people don’t want to be disturbed, and so we decided to put this questionnaire aside’ (WTS5). Other WTS justify this option, referring to a more systematic approach being ‘expensive and the business goes well’ (WTS3) and as ‘a direct relationship exist[s] with tourists’ (WTS11), this approach would not be necessary.

Concerning market communication, in a world dominated by technology (Keller, 2009), social networks and other digital means, mainly provided through the internet, are presently the main tools used by most WTS (10) in the present study. These digital tools are even more important for a product that is spatially isolated from its markets, such as rural and wine tourism, as they help to reduce remoteness and dependence on traditional intermediaries (Gössling and Lane, 2015; Hernández-Maestro and González-Benito, 2013; Pato and Kastenholz, 2017), as expressed below:

Social networks allow us to have very close communication with the customer. We are in Nelas [town] and our consumers are from many places, which is somehow, limiting. So social networks allow us to have a relationship with the final customer that would not be possible otherwise.  
(WTS1)

At the same time, these tools are designed to engage customers and direct or indirectly raise awareness and improve image or elicit sales of products and services of the company (Keller, 2009): ‘so we opted for Instagram and Facebook. I will post events and photos from the farm ... my idea is really to transmit the [atmosphere of the] place, where we live, that this is magical’ (WTS12).

Despite many enterprises’ apparent online promotion, there is a lack of promotion and communication from DWR (Barroco and Amaro, 2020). Having a website does not mean that people know it exists. As confirmed by some respondents, some websites have incomplete information (WTS2) and do not work as they should (WTS12). Apart from social networks, other communication tools used by WTS, albeit less frequently, are direct marketing approaches, mainly using telephone, email, or WhatsApp contacts as well as public relations through participation in wine trade fairs.

### ***The challenge of networks***

All respondents are aware that collaboration with other entities and enterprises in the region is crucial to the success of the DWR. This vision is supported by other studies (*e.g.*, Francioni *et al.*, 2017; Gómez *et al.*, 2015; Kastenholz *et al.*, 2012), which emphasise the importance of networks in the success of a destination and wine route. Accordingly, WTS note the need to work together and develop partnerships (WTS2, WTS4, WTS5, WTS6, WTS9, WTS12, WTS13, WTS14) and establish joint actions with local

accommodation and other local producers (WTS2). The role of municipalities is also recognised as very important (WTS4, WTS6, WTS8, WTS13, WTS14) and considered essential to support and streamline the events promoted by these municipalities alluding to wine and gastronomy (WTS8). Moreover, 'it is necessary to promote actions where people can get to know each other, because when this happens we become much more affectionate and develop a much greater connection' (WTS5). Specifically, WTS4 suggests meetings amongst producers to discuss tourist visits and tasting experiences.

Regarding other entities and companies that respondents consider to be a relevant part of the wine route, some members mention accommodation units, cheese and sausage producers (WTS2, WTS9, WTS11, WTS12, WTS14), museums and spaces related to handicraft, embroidery and other endogenous products (WTS5, WTS8, WTS14), restaurants (WTS6, WTS9, WTS12, WTS14), museums, galleries, and theatres (WTS12). WTS5 stresses that the DWR has a duty to unify not only wine producers, but also all tourism-related entities, since wine is not an isolated product; it is part of people's culture, so it does not make sense to isolate it (WTS12). Wine tourism has the ability to connect everyone through wine, also involving the local community (WTS5).

In this sense, there are some members who promote local culture by integrating local food products into their meals (WTS5, WTS6, WTS14) by hiring small local producers to provide meals (WTS2) or by recommending local restaurants (WTS8, WTS12). They harmonise wine tasting with local products and organise visits to artisans (WTS4). WTS5 developed a pedestrian route that leaves the cellar and passes through archaeological monuments, visits a local artisan, and involves sausage tasting. WTS10 suggests their clients visit a cheese producer for buying cheese. For this member, 'wine is culture, so every time you take a guided tour or taste a wine you are already promoting local culture, the stories and products of the territory'. WTS7 always uses local staff when organising his events (security, sound, light, catering, and artists).

There are also partnerships with social solidarity institutions, such as Santa Casa da Misericórdia, the Guide Dog School for the Blind – ABAADV (WTS13) and Firefighters (WTS14). In the opinion of WTS13, 'it is part of our company's social responsibility to maintain good relations with the place where it is integrated'. According to WTS14, 'practically all employees are from the region, so there is great involvement with the community in all aspects'.

Despite this, as also found by Mancino and Presti (2012), this research presents a certain lack of cooperation with other local tourism operators in some cases, as mentioned in the following quotes:

It is not easy to find partners who want to open their door.

(WTS4)

The most important thing is to work in partnership with others, but not everyone has this attitude.

(WTS12)

Partnerships still need to be much more dynamic.

(WTS9)

From our point of view, this lack of partnerships and networks may occur because of poor selection of members: 'One of the biggest problem with the DWR is that it does not filter members. Instead of having more than 40 wine producers, there should be those who are actually willing to receive tourists' (WTS1, WTS4).

### **Conclusions, limitations, and paths for future research**

Drawing on an exploratory study conducted in the DWR, the present chapter makes some important contributions. Firstly, it reveals the attention paid to the international market by the WTS of the region, but at the same time the lack of attention to evaluating their experience and deficit in market communication. Secondly, it exposes the weaknesses of networks and governance in the region, as highlighted in the extant literature (*e.g.*, Mancino and Presti, 2012; Salvado and Kastenholz, 2017) and unfortunately identified as a weakness in many rural tourism businesses (Lane and Kastenholz, 2015; Pato and Kastenholz, 2017). However, many WTS show innovation in product experience development and awareness of the role of networks for more sustainable enterprise and destination development, integrating local resources, stakeholders, and the local community. WTS also reveal an understanding of the importance of local culture and identity in wine tourism and wine branding, but show limited capacity in implementing such networks, which they apparently expect from the DWR.

While wine tourism, similar to other types of agro-tourism business, may promote regional development through the revitalisation of local economies (Novais and Antunes, 2009), stimulate cross-selling between agro-products and tourism services, and enhance a territory's cultural identity and regional branding (Harvey *et al.*, 2014), special attention is required for sound marketing action (Pato and Kastenholz, 2017). An appropriate marketing approach can improve the attraction of a suitable target market that brings the most benefits to the region (Kastenholz, 2004). Moreover, sustainable rural development calls for collaboration with all regional stakeholders and local communities (Pina, 2010; Salvado and Kastenholz, 2017). The need to develop consistent networks results precisely from the fragmented and emergent nature of the tourism sector in the DWR, as does the need to develop appealing, coordinated tourism products, to effectively promote them and for the overall development of the destination and its attractions (Buhalis and Molinaroli, 2002). Due to the small size of participating enterprises, cooperation allows for both economies of scale and scope, providing visitors with complete, coordinated

‘tourism + local products’ packages that would make them stay longer, increase individual spending, and eventually lead to repeated visits (Mancino and Presti, 2012), while offering a complete and unique experience based on the territory’s diverse endogenous resources (Breda and Pato, 2014).

From this perspective of integrated marketing, the chapter also suggests relevant implications. Firstly, from a practical point of view, all WTS should become more aware of the potential of a systematic and integrated marketing approach, collaborating with all tourism-relevant regional stakeholders, through which their wine companies would (1) be able to develop more appealing, unique, and coordinated wine tourism products and act more effectively within their markets (Mancino and Presti, 2012); and (2) enhance regional development that would, in the end, benefit all stakeholders and enhance destination image and regional branding (Harvey *et al.*, 2014). Secondly, from a political point of view, strong local governance is needed that can support, promote, and unify all stakeholders of the DWR, including those not directly involved in wine production. Without the necessary policy support, some traditional rural enterprises abandon the market.

The study has some limitations, most notably time constraints caused by the COVID-19 pandemic, which made fieldwork difficult. Therefore, this study should be extended to other WTS. Additionally, for a complete picture of the marketing challenges of the wine route, a study of other regional actors that may be included in the route’s development, both from a governance perspective (*e.g.*, municipalities and rural associations) and an extended supply perspective (including accommodation, restaurants, producers, and other stakeholders) would be useful. An integrated marketing approach yielding sustainable destination development is only feasible if, apart from knowledge of markets and most appealing local resources, the interests of the diverse actors are understood and consensus is built regarding a global destination vision. Effective engagement of all players in this ‘wine tourism eco-system’ (Salvado and Kastenholz, 2017) is as important as its governance (Lane and Kastenholz, 2015) to allow for its successful and sustainable implementation (Benavides and Rotarou, 2018; Hall *et al.*, 2003).

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# 8 Participation of micro-enterprises and public organisations in rural development projects

Balancing between collaboration and tensions

*Susanne Gretzinger and Mads Bruun Ingstrup*

## Introduction

Micro-enterprises, defined as enterprises with less than ten employees (Baumann and Kritikos, 2016), face many challenges in rural regions. In particular, the limited amount of internal and external resources poses a problem. As pointed out by McAdam *et al.* (2004) and Burdack *et al.* (2013), the lack of external resources is related to, for instance, pure access to knowledge, networks, and capital. To compensate for these limitations, rural micro-enterprises often collaborate with other enterprises and public organisations. Indeed, the more micro-enterprises are embedded in trustful collaborations, the more likely they are to develop sustainable business strategies (Kelliher *et al.*, 2018).

One way to collaborate and address the lack of internal and external resources is through development projects. Development projects typically involve various public and private stakeholders and help with building relationships and capabilities (Kelliher *et al.*, 2018; Andersson, 2009). However, since such projects involve participation from different stakeholders, tensions arise because of different goals, expectations, and institutional logics (Gillett *et al.*, 2019). Even if the participating stakeholders can share goals and values, have appropriate and sound management approaches, and adapt their collaboration capabilities to the context, tensions will be part of development projects (Gillett *et al.*, 2019).

Some contributions already focus on this matter (*e.g.*, Gabillet, 2015; Gillett *et al.*, 2019), but research on rural development generally misses insights on the interaction between collaboration and tensions in projects and how this affects stakeholder participation. To address this gap, we investigate how the presence of collaboration and tensions in rural development projects fertilises or hinders stakeholder participation. We do this by, first, explaining the concepts of stakeholder participation, collaboration, and tensions, and, second, by presenting a case study of a rural development project. The project is named 'Benefit4Regions' and focuses on how rural micro-enterprises can grow through collaboration with a range of stakeholders. In the end, we provide

conclusions on how to achieve strong participation in future rural development projects.

### **Stakeholder participation**

The stakeholder approach highlights that stakeholders such as micro-enterprises and public organisations depend on relationships and collaboration for acquiring resources (Aaltonen and Kujala, 2016; Eskerod *et al.*, 2015). Everett and Jamal (2004) define stakeholders as individuals, enterprises, or groups that have a stake or an interest in the performance of a collaboration. One aspect covered in the stakeholder approach is stakeholder participation, and according to Luyet *et al.* (2012), it is central to bringing together expertise and resources from diverse stakeholders. In this chapter, stakeholder participation is understood as the participation of micro-enterprises and public organisations in rural development projects.

Overall, public and private stakeholders that are internal to a region are expected to better understand the region's economic and societal problems than externally located stakeholders (Luyet *et al.*, 2012), and they participate in development projects to address these problems. Public stakeholders tend to follow the state institutional logic, which aims to increase democratic participation and community goods (Thornton *et al.*, 2012). In the wake of this, they focus on developing knowledge and solutions that match the regional context and improve human and physical infrastructure (Purvis *et al.*, 2015; Reed, 2008). According to Kearney *et al.* (2008), such efforts are based on a bureaucratic set of structures, rules, and traditions. From the perspective of private stakeholders, the motivation to participate in development projects relates to their interest in networking and improving capabilities (Burdack *et al.*, 2013). This is in line with the market institutional logic that emphasises that they interact with the purpose of increasing share price and profits (Thornton *et al.*, 2012). This can promote a behaviour that pursues 'profit-maximising objectives and a self-interested, individualistic, and arm's-length ethos' (Almandoz, 2012, p. 1382).

### **Collaboration**

Collaboration is a process that involves two or more stakeholders, which interact with the aim of achieving a joint goal (Martinez-Moyano, 2006). One classical form of organising collaboration is a project (Aaltonen and Kujala, 2016), and key objectives are frequently to increase stakeholder participation and create stakeholder value (Freeman, 2010). Collaboration among various stakeholders enables pooling and combining of resources, which helps to achieve stakeholder goals (Savage *et al.*, 2010). According to Savage *et al.* (2010), collaboration among stakeholders can be described along the following three dimensions: appreciative linkages, structures, and processual entities.

Appreciative linkages can be understood as the common ground of stakeholders in terms of shared values and goals (Singh and Mitchell, 2005; Li and Hambrick, 2005). According to Savage *et al.* (2010), appreciative linkages are vital as they foster the rules and norms used for coordinating collaboration, and they support the development of commitment. Furthermore, to foster sound collaboration, stakeholders constantly need to agree upon or adjust values and goals and thereby reconfirm the appreciative linkages; otherwise, tensions can arise (Savage *et al.*, 2010).

Structures focus on how collaboration is guided by institutional settings (Prior, 2016; Ostrom, 2011; Carson *et al.*, 2006). Institutional settings consist of structural features in the form of rules, norms, and sanctions (Ostrom, 2011) as well as governance mechanisms (Carson *et al.*, 2006). While the first creates target and reciprocal behaviour, the second shapes relational contracts that align with the appreciative linkages of the participating stakeholders. While appreciated linkages emerge over time, the structural features are implemented. Savage *et al.* (2010) stress the effect of structural features on the development and coordination of projects. For example, structural features support the development of a collective project identity.

Processual entities are about trust, the supportiveness of management, and a sound climate among stakeholders (Savage *et al.*, 2010; Hoegl and Parboteeah, 2007). Savage *et al.* (2010) outline that these entities develop over time and collaborative advantages may not occur when there are tensions and a lack of trust. For the effective handling of tensions, teamwork capabilities and understanding the reasons for the tensions are necessary (Savage *et al.*, 2010). While trust and teamwork capabilities are assumed to have a direct impact on collaboration, the impact of tensions on collaboration is often indirect.

## Tensions

Many sources can lead to tensions between collaborating micro-enterprises and public organisations. In a study by Welch and Wilkinson (2005), it is stressed that incongruences in goals and perceptions provoke tensions. Additionally, Johansson (2012) explains that tensions arise because of inharmonious role expectations and demands, and Fernandez *et al.* (2014) argue that in relationships, tensions are caused by diverse views on values, goals, and strategies. Along these lines, Fang *et al.* (2011, p. 774) claim that tensions are 'two co-existing contradictory forces with conflicting goals'. They continue by outlining three types of tensions: behavioural, structural, and psychological.

Behavioural tensions stem from clashes between competing behaviours in relationships. This type of tension can be illustrated by referring to cooptation, where elements of both collaboration and competition are present (Fang *et al.*, 2011). Collaboration is when stakeholders chase the same interests and benefits as well as share resources. On the other hand, competition is when stakeholders seek to win over each other by acting opportunistically and

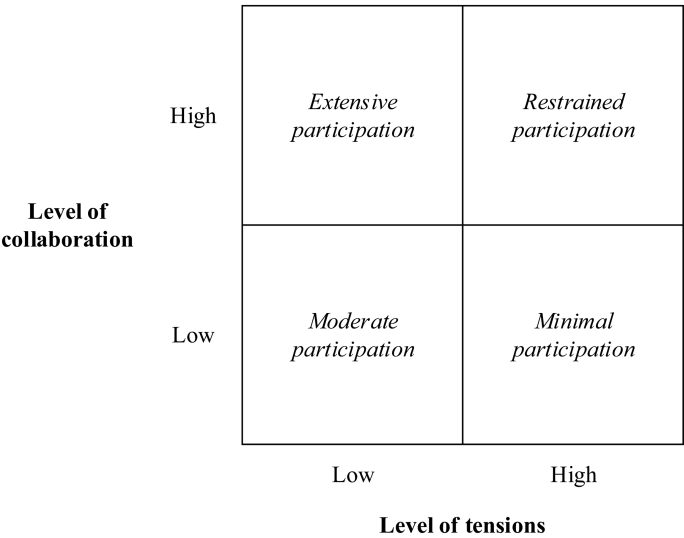
favouring their own interests, benefits, and resources. If an imbalance occurs between collaboration and competition, it fosters tensions, and relationships might decline.

Structural tensions concern the balance between flexibility and rigidity in relationships (Fang *et al.*, 2011). Flexibility is when stakeholders can change their structural set-up due to shifts in their environment while the unalterable investments are low. Rigidity is the extent to which stakeholders are linked to each other in relationships through, for instance, agreements and investments. A missing balance between flexibility and rigidity causes tensions and can also lead to the decline of relationships.

Psychological tensions are about which time orientation, *i.e.*, short- or long-term, that dominates in relationships (Fang *et al.*, 2011). Short-term orientation is associated with a transactional approach and a focus on fast results. In contrast, long-term orientation is the situation where a relational approach is pursued and where fast results are not on the top of the agenda. Instead, lowered uncertainty and opportunism are valued. If there is a lack of balance on time orientation, it initiates tensions and possible relationship decline.

**Theoretical synthesis**

Based on the above descriptions, we are able to explore how the presence of collaboration and tensions in rural development projects fertilises or hinders stakeholder participation. The point of departure is a stakeholder participation matrix, which relies on two scales: collaboration and tensions (see Figure 8.1). The collaboration scale shows the degree to which appreciative linkages,



*Figure 8.1 Stakeholder participation matrix*

structures, and processual entities foster collaboration, and the tensions scale shows the degree to which behaviour, structure, and psychology generate tensions.

The matrix displays four distinct types of stakeholder participation and thereby emphasises that such participation comes in several forms. Extensive participation (high collaboration and low tensions) and minimal participation (low collaboration and high tensions) are two extremes, and in between them are restrained and moderate participation. Moreover, with this matrix, we indicate that the dimensions of collaboration (appreciative linkages, structures, and processual entities) and the types of tensions (behavioural, structural, and psychological) can co-exist and influence each other. This will be illustrated later in the chapter. Next, the empirical context and research methods are outlined.

### **Empirical context**

This study relies on the Danish–German cross-border region, which is rural and organisationally thin. Such regions are known for shortcomings in their resource endowments, such as knowledge, networks, and capital, which hinder their development (Tödting and Trippel, 2005; Isaksen and Karlsen, 2016). The region is home to approximately 700,000 citizens and connects the southern part of the Danish region of Southern Denmark with the northern part of Schleswig-Holstein, Germany. The major regional specialisations are tourism, logistics, food, energy and clean-tech, and mechanical engineering.

Within this region, an EU Interreg project named ‘Benefit4Regions’ ran from 2016 to 2019 and focused on how the region, including its stakeholders such as micro-enterprises and public organisations, could develop. The idea was that the project, with participation from Danish and German stakeholders, would initiate knowledge exchange and learning, which then would stimulate relationship and capability-building. To organise this effort, ten project teams were established within the following areas: food, tourism, CO<sub>2</sub>-neutral heating, funding, accessibility, recruitment of labour, broadband, networking and exchange, digital infrastructure, and mobility.

In each project team, various stakeholders took part, such as micro-enterprises, municipalities, public consultancies, and universities, and most of the teams consisted of seven to ten stakeholders. Under the guidance of a project team manager, each team identified some problems in the region that related to their focus area. After defining the problems, the teams were to agree on a set of goals and develop and implement an action plan to handle the identified problems.

### **Research methods**

The empirical investigation is based on a case study (Stake, 2005) of how micro-enterprises and public organisations participate in two of the ten teams in the Benefit4Regions project. The case study approach was chosen since it

allows for examining social phenomena, such as collaboration and tensions, which are not easily separable from their context (Easton, 1995; Halinen and Törnroos, 2005). The nature of the case study is comparative since stakeholder participation is portrayed and compared across two cases: a case with high collaboration and low tensions, and a case with low collaboration and high tensions. Thus, the selection of the cases was guided by the maximum variation principle and our knowledge from participating in the project.

Data for the case study were primarily collected through 15 in-depth, semi-structured, and face-to-face interviews conducted between autumn 2018 and spring 2019. The interviewees came from the two chosen project teams, and they were mostly representatives from micro-enterprises and public organisations. The interviews were recorded and later transcribed. Furthermore, participant observations were made at different project events, such as meetings and trips, and they were documented in a field study guide. To avoid misunderstandings and misinterpretations, we continually compared and discussed the observation notes with each other. While the data collected from observations were used to understand the underlying dynamics of the project teams, *e.g.*, diversity, structure, and management, the interview data were used to understand the reasons for and outcomes of stakeholder participation, including how collaboration and tensions influenced the progress or lack of progress in the project teams.

All the interview transcripts and observation notes were read, coded, and interpreted in relation to theory on stakeholder participation, collaboration, and tensions (Myers, 2020). To link the interview and observation data to the theoretical synthesis and confirm and add empirical richness to the stakeholder participation matrix, the method of typology building was applied (Kluge, 2000; Kelle and Kluge, 2010). The method can be used for systematic clustering of qualitative data to develop and confirm typologies. In practice, we followed the following four steps of Kelle and Kluge (2010): define key dimensions for comparison, compare and group data, identify behavioural types, and characterise and describe the types. First, collaboration and tensions were chosen as dimensions for comparing the data. In the next step, we grouped the data based on the chosen dimensions, and in the third step, we identified four types of stakeholder participation, which confirmed the stakeholder participation matrix. Finally, the four types were characterised and described.

### **Case presentation and analysis**

In the following, the two chosen cases from the Benefit4Regions project are presented and analysed. Case 1 illustrates a project team with high collaboration and low tensions, and case 2 portrays a project team with low collaboration and high tensions. In Figure 8.2, both cases are positioned within the stakeholder participation matrix.

In case 1, micro-enterprises and public organisations from both sides of the Danish–German border teamed up. While the public organisations were

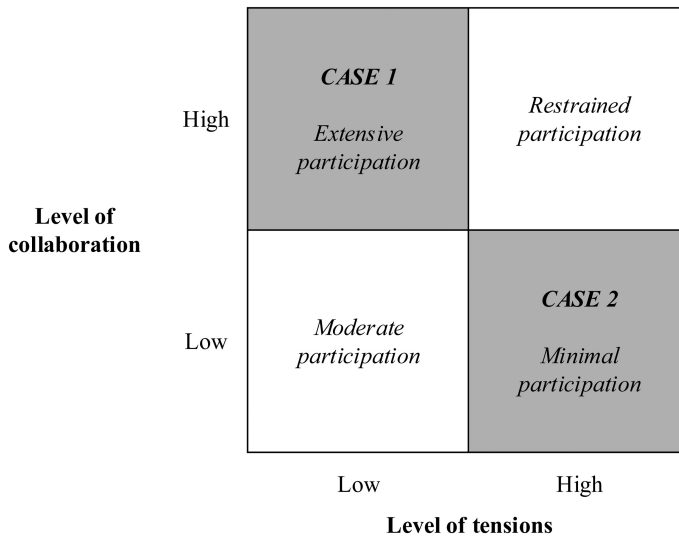


Figure 8.2 Position of cases

motivated by fulfilling the goals expressed in the project application, such as improving the regional infrastructure and implementing a better model for knowledge exchange and learning across the border, the micro-enterprises were more interested in strengthening their own relationships and capabilities. These motivational differences were discussed early on at one of the project team meetings, and to create appreciative linkages among the stakeholders, the project team manager suggested including a broader range of goals than originally planned in the project application. Another issue that was discussed early on was the asymmetric resource allocation in the project since the public organisations were paid per hour spent on the project whereas the micro-enterprises did not receive any funds. This variance was handled by the project team manager by stating that the micro-enterprises were not expected to invest the same amount of time in the project as the public organisations. This decision minimised behavioural and psychological tensions and laid the foundation for collaboration. For example, the stakeholders collaborated on arranging professional and social activities, such as visits to a group of agricultural enterprises that have managed to build a regional food brand and informal coffee meetings that support knowledge sharing and cohesiveness.

During the project, the micro-enterprises and public organisations got to know each other and discovered a number of differences that influenced their collaboration. For instance, most of the Danish stakeholders welcomed open discussions during meetings to get everybody involved and engaged. However, most of the German stakeholders were not used to navigating in such meetings. Based on a proposal from the project team manager, it was agreed that

a minimum structure was needed to run meetings so all stakeholders could feel comfortable and that possible behavioural and structural tensions could be avoided. With the aim of handling such and other issues, it was also decided to apply structural features in the form of a set of rules that was appropriate for addressing problems due to different goals, expectations, and institutional logics. One example is the rule of collegial consultation. The main idea is that each stakeholder should be able to bring up ideas and critiques and that the other stakeholders should have the discipline to listen. Criticism should always be to the point and not personal.

Overall, the institutional setting made collaboration grow between the micro-enterprises and public organisations in the project, and tensions were minimised. Because of this, processual entities in the form of trust and understanding bloomed among the stakeholders, which had the consequence that the project team manager did not use a lot of time on assigning tasks and controlling deadlines. Instead, the focus was on building relationships and capabilities. The project team succeeded in fulfilling the goals from the project application and managed to foster collaboration that continues today.

In case 2, micro-enterprises and public organisations from both sides of the Danish–German border teamed up. From the start, the project team manager tried to implement, in a top-down manner and without a mandate from the stakeholders, a set of goals and rules to guide collaboration within the team. However, it turned out that the goals and rules did not resonate well with the priorities and interests of all the stakeholders. They lowered the stakeholders' flexibility, and they did not favour a relational approach, which was important for most of the stakeholders. This gave birth to behavioural, structural, and psychological tensions and led to discussions on, for instance, the role of the project team manager, the direction of the project team and what professional and social activities should be pursued. Additionally, the project team manager was eager to assign tasks and control deadlines to foster progress, but this way of managing a team was viewed by most of the Danish stakeholders as an extreme German approach, which did not offer flexibility and involvement. The outcome was even more tensions.

Since the project team manager was focused on assigning tasks and controlling deadlines to fulfil the goals expressed in the project application, such as improving the regional attractiveness and encouraging citizen participation, he did not pay much attention to relationship and capability-building. Therefore, processual entities in the form of trust and understanding among the stakeholders had difficult growth conditions, which affected the functioning of the team negatively. Primarily behavioural tensions emerged, and after some time, the project team split into two sub-teams. Each of the sub-teams had dissimilar expectations of what goals should be pursued and how, but in the end, one of the sub-teams suppressed the views of the other. Despite some growing collaboration within the sub-teams, this fostered a situation where collaboration at the project team level, among all the stakeholders, was impossible.



In general, the approach of the project team manager as well as the lack of appreciative linkages, structures, and processual entities caused high tensions and minimal collaboration. Instead of collaborating and performing activities together, the stakeholders arranged activities on their own or in their sub-teams. In spite of these shortcomings, the project team fulfilled some goals stated in the project application, but the micro-enterprises and public organisations are not collaborating after the Benefit4Regions project.

Looking across the two cases, it is evident that in case 1, common ground was found among the micro-enterprises and public organisations, and appreciative linkages, structures, and processual entities emerged and fostered relationship and capability-building. This accomplishment was facilitated by inclusive and compromise-seeking project team management, which minimised tensions. In contrast, in case 2, behavioural, structural, and psychological tensions were high and did not leave much room for the development of trust and understanding, which affected collaboration between the stakeholders negatively. Indeed, the institutional setting combined with the approach of the project team manager of assigning tasks and controlling deadlines did not lower the level of tensions, but the contrary. In Table 8.1, the main reasons for collaboration and tensions are briefly outlined for each of the two cases.

## Concluding discussion

In this chapter, we looked into how the presence of collaboration and tensions in rural development projects fertilises or hinders stakeholder participation.

Table 8.1 Cross-case comparison

	<i>Case 1</i>	<i>Case 2</i>
<i>Reasons for collaboration</i>	<p>Development and implementation of shared rules among stakeholders</p> <p>Emergence and spread of mutual trust and understanding among stakeholders</p> <p>An inclusive and compromise-seeking project team manager</p>	<p>Stakeholders interested in the area of the project team</p> <p>Relationships within the sub-teams</p>
<i>Reasons for tensions</i>	<p>Motivational differences for engaging in the project</p> <p>Asymmetric resource allocations between the stakeholders</p> <p>Clashes between cultures in relation to management approaches and meetings</p>	<p>Missing agreement on goals and rules among stakeholders</p> <p>Project team manager has a top-down approach, assigns tasks, and controls deadlines</p> <p>Opportunistic behaviour when performing diverse activities</p> <p>Clashes between cultures in relation to management approaches and meetings</p>

We found that collaboration and tensions are two co-existing elements in such projects, and whether they fertilise or hinder participation is mainly up to how well project managers form appreciative linkages, structures, and processual entities and combine dialogue and compromises to lower behavioural, structural, and psychological tensions. In particular, the investigation stresses that to ease stakeholder participation, project managers should understand how appreciated linkages and structures stabilise collaboration as they foster shared goals and rules, which after some time can lead to processual entities in the form of trust and understanding. Moreover, to encourage participation it is of importance for project managers to understand how stakeholders' priorities and interests manifest in tensions as well as how their own management approach can increase or decrease tensions.

These findings can be explained in more detail by looking into how each of the three dimensions of collaboration relates to each of the three types of tensions. Starting with appreciative linkages, it becomes clear from the cases that implementing project team goals that do not resonate well with the priorities and interests of all the stakeholders can lead to behavioural tensions. Goals can also foster structural tensions if they lower the flexibility or perceived flexibility of the stakeholders about, for instance, which activities should be pursued and how. Finally, psychological tensions can grow if there is disagreement between the stakeholders on whether accomplishing goals should cause short-term transactional or long-term relational results.

On structural features, it is discovered in the cases that clashes between competing rules among the stakeholders on matters such as how to run project teams and team meetings can lead to behavioural tensions. Furthermore, it is portrayed that a lack of dialogue and compromise between the project team manager and the stakeholders can cause structural and psychological tensions in situations where the rules are not flexible enough to include all stakeholders. Without a balancing mechanism, neither flexibility nor inclusion can be achieved, and long-term relational results are hard to produce.

Lastly, the cases provide examples of where missing processual entities in the form of trust and understanding among the stakeholders can cause behavioural, structural, and psychological tensions. An example was when one of the project teams splits into two sub-teams since the stakeholders lacked trust in each other, which increased existing behavioural and structural tensions. Moreover, due to the absence of a sound climate among the stakeholders, they began to act opportunistically when performing activities. This fostered psychological tensions and made it difficult to build long-term relational results.

Additionally, we bring awareness to project managers in rural development and how they can act as a balancing mechanism. In doing so, the findings add to Gnyawali and Park (2009), who point to the fact that managers in general can use tensions as triggers for constructive discussions, which can lead to new solutions and competitive advantages. Thus, tensions are not negative *per se*, as they can lead to learning if handled properly. As exemplified in case 1, an inclusive and compromise-seeking approach from the project team manager

minimised tensions in favour of forming appreciative linkages, structures, and processual entities. In sum, this balancing role of project managers makes it possible to turn up and down for the dimensions of collaboration (Savage *et al.*, 2010) and the types of tensions (Fang *et al.*, 2011) and foster participation.

In relation to the above, we highlight that involving stakeholders through dialogue and compromises makes it more likely that they internalise the goals and rules set out to guide the project and make sure that they are flexible. Goals and rules that are not internalised and flexible are shown in this study to be less helpful to develop, for instance, trust and understanding among the stakeholders, compare with case 2 and the establishment of two sub-teams. On flexibility, specifically, Fang *et al.* (2011) and Gnyawali and Park (2009) argue that balancing collaboration and competition is key for turning tensions into competitive advantages. The better competing priorities and interests are balanced with collaboration, the greater the chance for knowledge exchange among the stakeholders and that participation will emerge.

Finally, these findings can inspire further research. First, it is advisable to study how the findings relate to other rural contexts to investigate their transferability. Second, research should also look more into the role of project managers in rural development, including their management approach and how it is operationalised. Third, additional research can be useful in further unfolding balancing mechanisms in general to become more knowledgeable about how to increase participation from micro-enterprises and public organisations in rural development projects. Fourth, to get a broader picture of what fertilises and hinders stakeholder participation in rural development projects, it is relevant to analyse project external relationships as they might influence collaboration and tensions in projects.

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## 9 Rural business support policy and rural enterprise economy

The neo-endogenous approach to entrepreneurship promotion of common agricultural policy<sup>1</sup>

*Päivi Kujala and Seija Virkkala*

### Introduction

Rural enterprises make a broad contribution to the regional and national economies of which they are a part (Atterton *et al.*, 2011). We are interested in how a rural business support policy can assist the rural enterprise economy by enhancing the innovativeness of rural enterprises. Our focus is on the EU and the subsidies to enterprises implementing the rural development programme (RDP) of the common agricultural policy (CAP).

The rural areas are significant in the EU. According to the standard definition more than 91% of its territory is rural, and over 56% of the population in its 27 Member States live in rural areas (McElwee and Smith, 2014). However, the localities and their pre-conditions vary in European rural areas. The RDP is the second pillar of the CAP supporting the economic viability of rural communities and rural enterprises (European Commission, 2019), where the first pillar supports agriculture. Second-pillar measures have been co-financed by the Commission and the Member States since their beginnings in the *Agenda 2000* CAP reform (Dwyer *et al.*, 2007; Berkhout, Hart and Kuhmonen, 2019). CAP is a complex system (*e.g.*, Kuhmonen, 2018), and the RDP has evolved as a complicated multi-level governance system with a lot of EU and national regulation. The RDPs direct a lot of expectations to entrepreneurs as employers securing, maintaining, and developing the livelihood of rural regions. Still, the bureaucratic character of the support might influence the enterprises not applying for subsidies or assessing the process to be too bureaucratic (Dwyer *et al.*, 2007). Indeed, according to the evaluators, rural business support is insufficient to foster the development of rural entrepreneurship (North and Smallbone, 2006; Avramenko and Silver, 2010).

Scholars have studied different aspects of rural entrepreneurship (*e.g.*, Pato and Teixeira, 2014; Gaddefors and Anderson, 2019) and rural enterprise support policy in general (Meccheri and Pelloni, 2006; North and Smallbone, 2006; Klofsten *et al.*, 2019). There is also emerging literature on the impacts of the RDP, which focuses either on agri-environmental measures directed at farms (the main target of the RDP) or on the LEADER approach (Navarro,

Woods, and Cejudo, 2016). Some studies focus on rural development impacts beyond the agricultural sector, such as regional well-being or vitality of rural areas (Bakucs, Ferto, and Benedek, 2019; Mack and Fintineru, 2018), or like the study of Michalek, Ciaian, and Di Marcantonio (2020) on the impact of the RDP on the food-processing sector in Poland.

We believe that it is vital to understand and study the design and implementation of the rural business support of the pillar II CAP. First, because the RDP accounts for one quarter of the total CAP budget (three quarters is allocated to agriculture), and the CAP for one third of the common European budget. Second, the development programmes aim to affect rural well-being by enhancing the rural enterprise economy, which is the subject of this book. Third, regarding the importance of enterprises in rural development and business subsidies as a means of developing entrepreneurship, there is relatively little research on the practices of the rural business support system. The national authorities have organised *ex ante*, interim, and *ex post* evaluations of the impacts of RDPs according to the framework given by the EU Commission. Nevertheless, there is a need for different approaches to this programme, and especially from the experiences of the entrepreneurs.

We aim to respond to this research need using the neo-endogenous approach to rural development in studying the RDP subsidies as they appear to the enterprises. We are interested in the ways in which entrepreneurs consider their localities, local resources, networks, and the multi-level governance system of the CAP. The neo-endogenous development approach has been used in studies of rural development and especially in the LEADER programmes (Bosworth *et al.*, 2016; Dax *et al.*, 2016), and in research on rural enterprise (Atterton *et al.*, 2011) but not in studying the promotion of entrepreneurship in the context of the RDP. Ray (2006) distinguishes three planes of a neo-endogenous development approach. The first level is based on local resources and local participation. The second level is characterised by dynamic interactions between local areas and their wider environments, and the third level is the politico-administrative system, which in our case is the multi-level EU policy governance. We state that even though business support is an exogenous opportunity in rural development, it could be fully exploited for the benefit of the rural economy by using the neo-endogenous approach (see Ray, 1999). Accordingly, the research question of this chapter is: *How does the neo-endogenous approach manifest in the rural business support policy from the perspective of the rural enterprise economy?*

We approach the research question by considering rural economic development from the perspective of both enterprises and rural development policy, especially the business support policy of the second pillar of the CAP. The neo-endogenous approach emphasises both the local, bottom-up development of enterprises and the more centralised, top-down policy in the form of EU and national regulation. Since the rural enterprise economy is a new notion, it is useful to explore it from different perspectives like neo-endogenous rural development.

The following section outlines this chapter's conceptual framework. First, we discuss the elements of neo-endogenous development derived from rural entrepreneurship studies. Second, we introduce the neo-endogenous development approach as a lens on the rural enterprise economy. The third section illustrates our interpretation by outlining the data and method employed. The fourth section describes the findings of the analysis of the empirical data comprising 12 semi-structured interviews of Finnish entrepreneurs who had received financial support for their business activities from the RDP of the second pillar of the CAP. The final section comprises a discussion and the conclusions.

## Conceptual framework

### *Entrepreneurship studies and rural areas*

Rural areas are diverse, extending from the near-urban to remote wilderness. Rurality has been defined, for instance, through population density, the rate of population loss or gain, settlement size, local economic structure, and the landscape. Rurality offers a diverse entrepreneurial milieu for enterprises (Avramenko and Silver, 2010; Makkonen *et al.*, 2020). Many rural areas face difficult challenges for sustained growth and development posed by accessibility and marginalisation; however, rural areas can also have advantages over urban areas based on the available resources (Bosworth and Bat Finke, 2020). The experience of a rural place is subjective, culturally contingent, and dependent on the market position. Rural regions, moreover, differ in their economic performance and development depending on their historical and institutional backgrounds. The local culture and history of rural areas influence the ways in which enterprises and other actors mobilise local resources (Lang, Fink, and Kibler, 2014; Gaddefors, Korsgaard, and Ingstrup, 2020).

Entrepreneurship in terms of the creation of businesses or the modernisation and expansion of existing ones is a critical element of rural development (Baumgartner, Pütz, and Seidl, 2013) and positively influences the levels of employment (Labrianidis, 2006) and welfare. Entrepreneurship has often meant innovation in terms of novel products, services, processes, and ways of organising activities. Rural enterprises create something new, for instance, by linking the uniqueness of the local to emergent global values (Anderson, 2000). Entrepreneurship can be seen as a process consisting of the discovery, evaluation, and exploitation of opportunities. Rural enterprises need support in this process. Since the environment of enterprises is more open and networked, the support should be broader than financial subsidies alone.

Rural entrepreneurship studies have dealt with the role of local resources in entrepreneurial processes, the embeddedness of enterprises, and local and extra-local networks for the entrepreneurial process. The entrepreneurs have used local resources to develop unique rural products and services, such as activities related to nature conservation (Anderson, 2000). The physical nature



resources, including landscape and cultural heritage, are embedded in the local context and form a sense of place. The notion of amenities refers to the natural and cultural opportunities for living and entrepreneurship offered by the rural environment (see OECD, 2006, pp. 69–78).

Rural entrepreneurs do not operate in isolation and are, instead, part of their social and local context, which is encapsulated through the concept of embeddedness, meaning the nature, depth, and extent of the entrepreneurs' ties to a location (Atterton *et al.*, 2011). According to Granovetter (1985), economic activity requires social relations, which play an essential role in terms of generating the trust that permits economic activity to occur. Indeed, rural entrepreneurs are often embedded in different communities, which are based on shared convictions, values, or expertise (Nordberg, Mariussen, and Virkkala, 2020).

Local networks can be informal links among actors forming a community promoting endogenous development. Cooperation supports the economic activities of rural enterprises and is an essential stimulus for innovation. While local networks are critical, extra-local connections can supplement local embeddedness and resource bases. The combination and mutual reinforcement of local and extra-local networks seem essential aspects to ensure successful enterprises (Korsgaard, Ferguson, and Gaddefors, 2015; Dubois, 2016).

There is a diverse range of support functions, organisations, policies, programmes, and measures that stimulate and support various forms of rural entrepreneurship (Gretzinger *et al.*, 2018). In this support constellation, we focus on rural authorities, which are regional state implementers and part of the multi-level governance system of the EU rural policies. Rural authorities are expected to stimulate entrepreneurship in rural regions (North and Smallbone, 2006). In the ideal situation, the rural authority is an enabler supporting the exploitation of local resources and local and extra-local networking among the rural enterprises. The authority contributes to the entrepreneurial process through its knowledge of the RDP and the business environment. The interaction between rural authorities and entrepreneurs is characterised as cooperation, reciprocity, and knowledge sharing (Kujala, Virkkala, and Lähdesmäki, 2021). We frame the rural authority as an enabler of entrepreneurship with the help of the neo-endogenous rural development approach (Bock, 2016; Lowe *et al.*, 2019).

### ***Rural enterprise economy through the lens of the neo-endogenous approach***

The neo-endogenous development approach emerged in the early 2000s as a synthesis of endogenous (bottom-up) and exogenous (top-down) theories containing elements of both views (Ray, 2006). It seeks to promote local and extra-local connections that will strengthen the terms on which local people deal with the outside world (Atterton *et al.*, 2011; Lowe *et al.*, 2019). Extra-local networks, like rural–urban and local–global relationships, enable knowledge exchange that facilitates development potential and the exploitation of amenities in rural areas (Gkartzios and Lowe, 2019). The elements of

neo-endogenous development were suggested by an OECD report (2006) and are also in line with place-based development, a policy central to EU cohesion policy (Barca, 2009). Furthermore, EU rural development policies have transitioned towards a more place-based approach (Zasada *et al.*, 2015; Vasta *et al.*, 2019).

The neo-endogenous development approach is a loose framework, ‘an effort to rationalise what was actually happening on the ground, a way of thinking about how things work in practice’ (Gkartzios and Lowe, 2019). The approach is still developing and can be interpreted differently. This chapter uses the neo-endogenous development approach as a lens on the rural enterprise economy. We apply the approach in studying both the enterprises and rural business support policy that is part of the multi-level governance system of the second pillar of the CAP. The multi-level governance system encompasses institutions like the EU, the Member States, regional authorities, municipalities, and LAGs with their relations (Bosworth *et al.*, 2020).

Viewing the rural enterprise economy through the lens of neo-endogenous development implies that local resources are the main building blocks for a rural enterprise economy. Accordingly, the realisation of the indigenous potential of the rural enterprise economy can occur with the help of the extra-regional networks. Our interpretation of the neo-endogenous development approach to the rural enterprise economy, thus, comprises three levels (Figure 9.1). The core issue is rural entrepreneurs and their networks, which are the drivers of development. Those entrepreneurs are embedded in the local community and their local context, which is the lower level in the figure. The

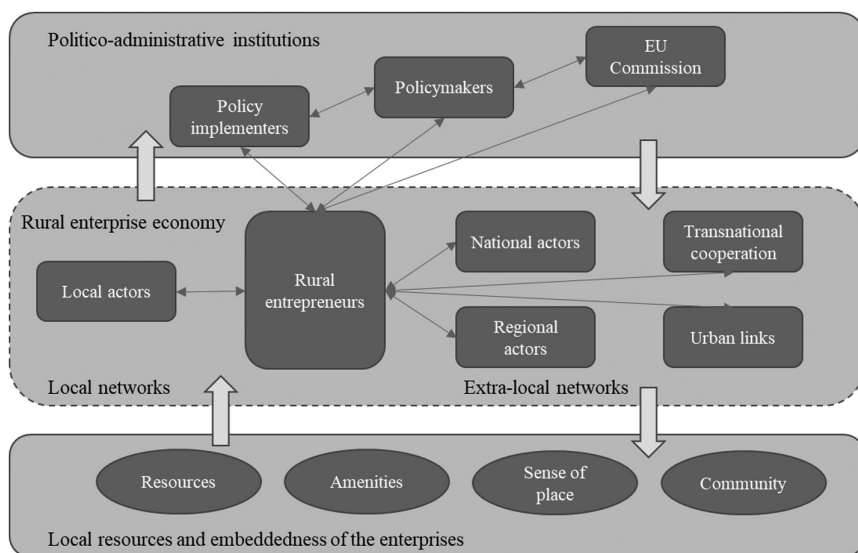


Figure 9.1 Rural enterprise economy and entrepreneurship promotion interpreted by neo-endogenous approach

upper level is a politico-administrative level which supports rural enterprises through, for example, RDPs, and, thus, affects the rural enterprise economy. The main actors in the politico-administrative system are national policy-makers like ministries and state agencies or regional policy implementers, which in the Finnish case study are regional state offices (ELY Centres) and which (with LAGs) have the authority to finance investments in rural enterprises to implement the regional or local strategic plan within the framework of the national RDP. The European Commission approves and monitors the RDPs. Entrepreneurs are clients of the administration, but at the same time, the practical implementers of the RDP (Kujala, Virkkala, and Lähdesmäki, 2021). The most important relationships are those between policy implementers and enterprises.

## **Research methodology**

This chapter is based on the analysis of 12 semi-structured interviews of entrepreneurs, which is part of a research study conducted in the form of 38 interviews in Finland in 2016. The interviewed entrepreneurs had received financial support for their business activities from the RDP. The other interviewees were national rural policy-makers, regional policy implementers, executive managers of LAGs, representatives of local municipalities, evaluators of the RDP programmes 2007–2013 and 2014–2020, and members of the Finnish Parliament.

The interviews were conducted face-to-face between March 2016 and January 2017 on the premises of enterprises in four Finnish regions of South Ostrobothnia, Häme, Lapland, and North Karelia, representing either core countryside, rural areas close to urban areas, or sparsely populated rural areas. The interviewed entrepreneurs were active businesspeople and were chosen according to a purposeful sampling strategy (Patton, 2015) to capture the experience of applying for subsidies. The enterprises were involved in rural tourism, multidisciplinary rural tourism with a reindeer farm, a food business, and the service sector. The interview themes covered the path to becoming an entrepreneur, the motivation to apply for business support from the RDP, the challenges of the business support application process, and the knowledge shared between an entrepreneur and a policy implementer in the innovation process. In addition, the interviews focused on two major themes of the business location. First, we were interested in the meaning of the location of an enterprise from a business point of view, and second, how the managing authorities improve the business environment.

To find out how the neo-endogenous approach manifests in the rural business support policy from the perspective of the rural enterprise economy, we analysed the transcribed data based on directed content analysis (Hsieh and Shannon, 2005). Our interpretation of neo-endogenous development (see Figure 9.1) is the framework of empirical analysis. First, we examine the role of the rural places of the enterprises. We assume that the local embeddedness of

rural enterprises influences their activities. Second, we examine the role of local and extra-local cooperation for the enterprises. Third, we discuss the impressions of the rural entrepreneurs who received business support from the RDP of the politico-administrative system of the CAP. We analyse features of both rural enterprise and the business support policy reported by the entrepreneurs.

## **The neo-endogenous rural development and rural business support experienced by entrepreneurs**

### *Local resources and embeddedness*

Each entrepreneur interviewed had their own story of the place (see Korsgaard, Ferguson, and Gaddefors, 2015). The place was understood both as a concrete site or estate and as the local environment of the entrepreneur. For example, the place of the enterprise was an old family estate, a company purchased that became familiar through work, or entrepreneurs had purchased an estate that felt like their own. The entrepreneurs were satisfied with and proud of their location and considered the place of the enterprise to be a platform for creative thinking and innovation. Entrepreneurs had succeeded in transmitting their sense of place to their customers, which was considered the basis of good service. The place as the enterprise's local environment consisted of those material and non-material amenity factors that bind an entrepreneur to a site and create continuity for entrepreneurship.

The entrepreneurs highlighted that rural business support had made it possible to start and develop a business. In many cases, there was no equity, so subsidies were required to facilitate financing. Entrepreneurs also welcomed joint negotiations with local banks and business support experts on finance. Business support was considered useful, if only because the application process requires entrepreneurs to undertake economic planning. One interviewee stated that business support

has created jobs in the countryside and allowed estates to exist in such a way that it continues to make a livelihood in the countryside possible. There are no animals in the barn, but other things occur with human beings. The barns are used as banquet rooms or otherwise.

(Interviewee 2, rural tourism)

Even the remote location of an enterprise was not a significant barrier to entrepreneurship as it had once been. Many interviewees felt that digitalisation facilitated new ways of place-making. However, they confirmed the finding of Avramenko and Silver (2010) that rurality can be seen as an enabler or a constraint, depending on the perspective. In the words of an entrepreneur in a sparsely populated area: 'The sense of remoteness does not exist when we are in the middle of the forest' (Interviewee 11, service sector).

The entrepreneurs had often based their business idea on local resources and had relied on active local business contacts to help start the business. The

core community of entrepreneurs consisted of their family members, company employees, and an established customer base. Family members were the most significant collaborative network and employees for many enterprises. However, their workload had increased, so most of the enterprises had hired employees. Consequently, entrepreneurs also wondered why useful measures had not been maintained to aid the development of businesses. For example, entrepreneurs recalled business support for the hiring of the first employee, which had been a successful measure offering a significant incentive to boost employment. Hiring the first employee had often boosted revenue and encouraged the hiring of more staff.

The crucial resource for rural enterprises is accessibility, which is sometimes problematic in rural areas. Entrepreneurs highlighted that the poor condition of the roads was a significant disadvantage to their enterprises. Public transport was also no longer universally accessible. Local conditions had created some confusion among the customers of rural tourism:

I reply that unfortunately, we don't have local traffic. Well, tourists say that they come to the 'city centre' bus station, so how do they get to our company? No problem, I pick them up in my car, and they still have some pretty confusing facial expressions when they come from the bus to the shop yard.

(Interviewee 9, rural tourism)

Entrepreneurs appreciated education and, thus, professional competence. A few entrepreneurs had obtained qualifications in entrepreneurship when they started the business. In their view, there was sufficient suitable, tailored training available. Above all, entrepreneurs stressed that the entrepreneur gives a face to the enterprise, emphasising the entrepreneurial spirit of the interviewees, as one of them stated: 'When an entrepreneur has the desire, the will and the ability, then he/she will be able to do anything' (Interviewee 14, food business entrepreneur).

### ***Local and extra-local networks***

The entrepreneurs interviewed had created networks with surrounding actors, and with the help of digitalisation, the entrepreneurs had acquired national and global networks (see Dubois, 2016). Networks surround entrepreneurs, but the border between local and extra-local has transferred and is currently porous for the entrepreneur. The change is a potential advantage for a rural enterprise economy.

The local networks reported mostly comprised local municipalities, financing and accounting services, business advisers, NGOs, and other enterprises. The role of the municipalities was considered to be key, especially in building the enterprises' innovation environment. Intermediators, like business advisory services, now serve larger areas due to declining populations in rural areas, and,

thus, entrepreneurs considered those services essential. Cooperation with local entrepreneurs through joint meetings, training, and study tours often took place through local business associations.

The enterprises had quite an extensive network of supporting organisations whose duties included visiting the enterprises on site. That was something the companies expected of rural authorities because entrepreneurs found face-to-face meetings essential, even if they generally used electronic means of communication with policy implementers. One entrepreneur reflected the need:

I have such a habit that a person who gets involved in one way or another in my business, so the first compliment is that he/she comes to the spot so he/she will get inside a bit of what is planned.

(Interviewee 3, rural tourism)

The entrepreneurs interviewed nevertheless identified many challenges regarding their locality. The lack of local services, which would help their own business, was undeniable in sparsely populated areas. Rural tourism enterprises, for example, would have liked to join with local foodservice enterprises, but there was no longer any foodservice in the neighbourhood.

Digital channels were crucial for entrepreneurs in accessing knowledge and communication. However, when it comes to digital connectivity, many areas still had severe shortcomings, and many entrepreneurs were still learning how to exploit electronic channels. The entrepreneurs collaborated with the village associations, among others, as part of attempts to improve the infrastructure of the business environment.

Entrepreneurs created versatile connections to develop their business. They had a pervasive extra-local network consisting, for instance, of regional development organisations, educational institutions, urban links, national business agencies, political actors, interest organisations, other enterprises, and transnational organisations. One interviewee stated:

We know entrepreneurs everywhere in Finland, and we have become good friends over the years. We work together, especially with entrepreneurs who have different markets. That way we do not compete, but we can benefit from cooperation.

(Interviewee 2, rural tourism)

Some tourism entrepreneurs had used top designers on their interior room plans, and a food business entrepreneur designed packaging with an advertising agency. Entrepreneurs cooperate with retail trade alongside research institutes in food product development. Entrepreneurs were actively involved in nationwide business associations and, by extension, were influencing the development of their industries. The entrepreneurs included policy implementers like rural authorities in their networks, and they also maintained contact with national policy-makers and MEPs to exchange knowledge on political issues.

Transnational cooperation was widespread among entrepreneurs. Entrepreneurs networked while visiting fairs, attending study tours, or visiting other enterprises overseas, and especially those involved in rural tourism had foreign customers. Some entrepreneurs exported their products abroad and, accordingly, they also imported goods from abroad. Many entrepreneurs emphasised that, in principle, the ideas for development come for the most part from abroad.

***Cooperation with politico-administrative institutions in rural business support***

When asked about the effect of business support and related legislation, the entrepreneurs considered it generally favourable and as having a value-adding function, but nevertheless some of the entrepreneurs also felt that the spirit of the law was not being upheld when it filtered down to entrepreneurs. The rural business support policy system was considered bureaucratic and laden with checks stemming from the CAP regulation, the EU Commission, and the national level. The entrepreneurs stated that the payment of business support was overregulated and governed by detailed checks, and the inspectors were fearful of misuse of the business subsidies. One concrete manifestation of the top-down approach was thorough inspections and treating the beneficiary with suspicion.

I will give you an example of the bureaucracy. I think it's a good thing that there is some monitoring but ... in the support application we said that we'll buy a fridge for our customer kitchen. But later we thought a fridge-freezer would suit us better and we bought that instead. It was a little cheaper than a fridge we planned to buy. Still, they didn't approve the fridge-freezer because it was not stated in the application. For me, this feels like a miscarriage of justice.

(Interviewee 9, rural tourism)

From the perspective of rural enterprises, there are many obstacles, and the long chain of implementation influences practice so that the rules of the business support in the RDP become restrictive rather than enabling, especially during the payment stage. However, rural authorities belong to the EU-wide multi-level administrative system of rural development policy. They must follow the national and EU-level regulations, which might explain their cautious approach to policy implementation. This is a feature of the exogenous rural development model in the operation of business support of the CAP.

Rural authorities as policy implementers, however, act as a hub for the knowledge exchange related to local information, enterprise activities, and business support regulation. Although the entrepreneurs viewed the implementation of the RDP as bureaucratic and replete with top-down regulation, the interviewees were quite satisfied with the advice and support from the

individual civil servants who allocated the company subsidies. Entrepreneurs expected high levels of expertise from rural authorities. While entrepreneurs also had considerable knowledge, this created a requirement that policy implementers must maintain their competence, as one entrepreneur stated: ‘It’s unfortunate, if there is such a feeling that which of us knows more, the authority or me, when there are sanctions for foolish things’ (Interviewee 7, rural tourism with a reindeer farm).

Most of the entrepreneurs described the cooperation between themselves and the policy implementers as marked by mutual understanding and a willingness to seek solutions to the entrepreneurs’ concerns. The entrepreneurs expected continuity, predictability, clarity, timeliness, simplicity, and pragmatic support mechanisms for the subsidy and data systems. Entrepreneurs also expected the cooperation of the authorities in developing innovation. The process of innovation is not a smooth linear one (Cowie *et al.*, 2019), and the entrepreneurs stated that building some flexibility into the business aid application system, for instance, permitting changes to plans, would be an important step towards innovative businesses. However, the institutional culture appears to still be ‘conservative, preoccupied with regulation and control, not appropriate to stimulate or support local aspirations’, as Dwyer *et al.* (2007, p. 880) described it. Furthermore, entrepreneurs and the rest of society expect the budget allocated to be used effectively. Nevertheless, the success of the business support policy is often still measured by the fact that all allocated money has been spent (see Bosworth *et al.*, 2020).

## Conclusion

This chapter contributes in two ways through its response to the research question on the neo-endogenous approach to the rural enterprise economy and business support policy. The first contribution is to expand on the studies of rural business support of the RDP by adding a neo-endogenous development approach. Second, the chapter links the definition of a rural enterprise economy to the rural development and development policy approach.

The neo-endogenous approach is a loose framework emphasising multi-sectoral and multi-scale development as well as the integration of economic and governance perspectives. In our view, the neo-endogenous development approach is suited to describing the rural enterprise economy. In addition to taking account of the embeddedness of entrepreneurs in the wider environment, it also explains the significance of the rural business support of the RDP of the second pillar of the CAP, which belongs to the politico-administration system. Therefore, the neo-endogenous approach can be used in a normative way as an ideal model. The success of the policy actions depends on using the full potential of the neo-endogenous approach, including local amenities and emerging local and extra-local networking. In an ideal case, policy implementers offer broad support to enterprises in their entrepreneurial process, including the discovery, evaluation, and exploitation of opportunities as well as feedback



on their business ideas (Kujala, Virkkala, and Lähdesmäki, 2021). They also support rural enterprises in connecting them to extra-local networks, in line with the neo-endogenous development model (Ray, 2006; Bosworth *et al.*, 2016). Continued improvement depends strongly on persuading entrepreneurs to get involved in rural development activities so that the focus is on the development according to the spirit of the RDP, and not on complying with detailed rules and controlling practices. In addition to the allocation of subsidies, rural authorities could act as advisers to entrepreneurs and a partner in the rural enterprise economy characterised by neo-endogenous development. That step could ensure that the rural enterprises, as implementers of the RDP, become the central actors in rural development even in the politico-administrative system.

In order to ensure business support is used to improve the rural enterprise economy, the administrative burden should be reduced for both entrepreneurs and authorities. That might be achieved by changing the culture of the implementation of development programmes from a restrictive form to an enabling one (Adler, 1999). An enabling rural authority would support the entrepreneurial process broadly by fully utilising the opportunities of the RDPs to the benefit of the entrepreneur (Kujala, Virkkala, and Lähdesmäki, 2021) to support neo-endogenous rural development. The policy implication of our findings relates to the broad support of entrepreneurial discovery among enterprises as a function of the rural authorities. Such a policy would enable entrepreneurs to be equal participants alongside rural authorities.

This study also has limitations. First, the neo-endogenous interpretation of the rural enterprise economy was constructed based on the enterprises which have applied for and received rural business support. However, the rural enterprise economy, moreover, consists of enterprises which have not applied for rural business support. A second limitation is that the influence of digitalisation on the implementation of rural business support policy has not been analysed very closely. Nevertheless, our findings reveal that when entrepreneurs use the knowledge available through digital channels, they can become stronger and more equal players alongside the authorities. These limitations indicate the need for future research.

## Note

- 1 This chapter is also published as one part in Päivi Kujala's dissertation 'Towards enabling rural authority: promoting entrepreneurship in the rural policy of the European Union'. Acta Wasaensia Nr 460, 2021.

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**Part III**

# **Rural entrepreneurship**



# 10 Opportunity- and necessity-driven entrepreneurship in urban *versus* rural locations

*Michaela Backman and Charlie Karlsson*

## Introduction

Rural localities in the developed world have undergone a fundamental transformation in the post-war period (Markantoni and van Hoven, 2012). Today, most rural localities face a range of challenges stemming from the loss of their traditional comparative advantages due to mechanisation, automation, and structural change, as a minority of rural localities performs well. In comparison to urban areas, rural localities face structural problems, such as lower levels of formal education, ageing populations, lower population density, lower market potential, limited access to capital, and a less developed economic milieu (Reynolds, Miller, and Maki, 1995), all of which exemplify ‘institutional thinness’ (Tödtling, Lengauer, and Höglinger, 2011), a concept that implies that rural localities tend to offer a less fertile ground for entrepreneurship than urban areas provide. Of course, certain rural localities offer environmental amenities that make them attractive for tourists, which implies that they may attract enough tourists to generate sufficient market potential and stimulate vibrant, local entrepreneurship. However, most rural localities lack enough amenities to attract tourists, which prompts these localities to cater instead to distant markets to compensate for the limited local and regional market potential.

The entry of new firms can generate benefits by introducing new or improved products and/or production processes (Baumol, 2002), increasing competition, and forcing incumbents to become more effective. Thus, when new, innovative firms expand to a location, some existing businesses are displaced in a process of creative destruction (Robinson, O’Leary, and Rincon, 2006). However, new firm formation is a heterogeneous phenomenon in which innovative entrepreneurs are mixed with more typical entrepreneurs in the forms of passive followers, over-optimistic gamblers, and individuals endeavouring to find an alternative to unemployment (Vivarelli, 2007). There exists, for example, empirical evidence that suggests that necessity-based firms survive for shorter times and create fewer jobs than longer-lasting, opportunity-based firms can produce (Zali *et al.*, 2013).

Several studies demonstrate that location factors are critical to the explanation of spatial variations in entrepreneurship (Karlsson and Backman, 2011;

Stuetzer *et al.*, 2014; Hundt and Sternberg, 2016). Certainly, location factors, such as the access to market potential, resources, networks, and expertise, are equally important for entrepreneurship in both rural and urban locations (Acs *et al.*, 2016), and rural locations lack the distinct qualities that assist entrepreneurs, as Ring, Paredo, and Chrisman (2010) claimed. However, both rural and urban locations exhibit substantial differences in the levels and forms of entrepreneurship (Breitennecker and Harms, 2010). Because the local and regional spatial context in which potential entrepreneurs are active enables and constrains the entrepreneurial process (Anderson, 2000), location factors play a clear role in entrepreneurship in that the local and regional spatial context can shape the outcome of entrepreneurial processes.

It is important to realise that firms in rural locations meet the same fundamental conditions for long-term survival, namely, the need for sufficient accessible demand to take advantage of internal scale economies and for a supportive economic milieu that offers external scale economies to secure a substantial surplus after costs, as firms in urban locations fulfil. Thus, it is a misunderstanding that rural entrepreneurship ‘stands apart from other forms of entrepreneurship because of its particular spatial characteristics’ (Korsgaard, Müller, and Wittorff, 2015). Rural and urban localities are not two distinct categories; instead, there exists a gliding scale with extremely dense urban localities at one end and extremely sparsely populated rural localities at the other end. Further, Muñoz and Kimmitt (2019) misunderstood that location factors, such as access to market potential, resources, networks, and expertise, cannot explain the factors that affect rural entrepreneurship and thus inform entrepreneurship policies at the communal level in rural localities. Research into rural entrepreneurship, therefore, is conceptually, theoretically, and empirically underdeveloped (Bosworth, 2012).

A better understanding of the location factors as drivers of entrepreneurship in urban and rural localities is important because many authors assume a relationship between entrepreneurship and growth in both urban and rural localities (Audretsch, Keilbach, and Lehmann, 2006). A common presumption is that the continual entry and exit of firms is a necessary condition for economic growth in both urban and rural localities, even if authors such as Acs and Storey (2004) claimed that the empirical evidence is inconclusive. However, Karlsson and Nyström (2007), in a survey of empirical studies since 1996 of the relationship among entrepreneurship and productivity, employment, and economic growth, demonstrated that two thirds of the studies had found a significant positive relationship among these factors.

The focus of this chapter is on how the rate of entrepreneurship varies over geographical space depending upon the general location conditions in terms of accessibility to purchasing power and the type of entrepreneurship, namely, necessity- and opportunity-driven entrepreneurship. We further differentiate according to the type of region where we observe how the given pattern differs along the urban and rural hierarchy.

This chapter is organised as follows: In the second section, we discuss the relationship between market potential, economic milieu, and rural



entrepreneurship. The empirical design with data, variables, and findings is presented in the third section, and the final section concludes this chapter.

## **Market potential, economic milieu, and rural entrepreneurship**

### *Basic assumptions*

A basic presumption in this paper is that the volume of entrepreneurship at the local level is a function of the accessible market potential, that is, the accessible demand and the development level and richness of the local and regional economic milieu, which implies that locational milieu moulds potential and actual entrepreneurs (Anderson, 2000). This relationship is most commonly found for opportunity-based entrepreneurship because greater demand allows for entrepreneurs and new firms to fill new demands and more niched demands. The size of the accessible market potential and of the access to the local and regional economic milieu is a function of the local and regional endowment of transport infrastructure (Klaesson, Johansson, and Karlsson, 2013). The more developed the transport infrastructure is, the higher the density is, the lower the transaction costs are, the larger the accessibility of suppliers to customers is, the higher the accessibility of producers to suppliers of (specialised) inputs is, and the greater the (specialised) labour input of households is (Lakshmanan, 1989).

Spatial variations in demand conditions in terms of local and regional market potential and local and regional demand for new products generate spatial variations in the volume of entrepreneurial opportunities. However, what is most critical for entrepreneurship and the success of newly founded firms is that each new firm that carries the burden of fixed start-up costs and accessible market potential will determine to what extent it will be able to take advantage of its internal economies of scale and thus achieve a sufficient profit to survive. In addition, regarding the economic milieu, there are substantial variations between localities and regions about the conditions, such as the knowledge base, industrial structure, firm structure, supply of distance-sensitive inputs, producer and financial services, and infrastructure supply.

We expect that the larger the market potential in a municipality is, the better the conditions for opportunity-based entrepreneurship in the municipality will be. However, entrepreneurs considering starting a firm that supplies distance-sensitive products must find sufficient demand within their own municipality or functional region. If the local-regional market potential is too small, a potential entrepreneur cannot obtain positive profits from locating in such a municipality and functional region. Because rural municipalities are generally characterised by a low local market potential and often also by a low regional market potential, they offer more limited opportunities for entrepreneurs than urban municipalities provide in terms of what products can be produced with a profit, which is contingent upon proximity to a concentration of purchasing power. Marshall (1920) emphasised the impact of external economies of scale

in the form of localisation economies, and Ohlin (1933) extended Marshall's approach by introducing the following four sources of scale economies that may benefit individual firms: (i) internal economies of scale associated with the technique or production function of the individual firm; (ii) localisation economies, which affect the individual firm as an influence from the (size of the) local industry to which the firm belongs; (iii) urbanisation economies, which arise from the size of the regional economy and are external to individual industries and their firms; and (iv) inter-industry linkages of input–output type, where proximity to suppliers of intermediate inputs reduces the price of inputs. Chipman (1970) formalised external economies of scale by describing how a firm with constant scale economies can benefit from positive external influences that result from the output of other firms in the same locality. External economies of scale include externalities, which are transmitted through the market and through extra-market influences in the form of various forms of information spill-overs.

Different localities offer different combinations of internal and external economies of scale that generate spatial differences in economic density and agglomeration. Although the lower economic density than that of urban locations and the fragility of urbanisation economies characterise rural localities, substantial localisation economies may also typify these localities if the localities host a local cluster of firms that produce comparable products or use similar production methods with possible proximity to specialised suppliers (Karlsson, 2008). Thus, firm entry rates tend to be higher in urban localities than in rural localities partly because agglomeration economies provide productivity advantages that can outweigh the higher land and labour costs in urban localities.

### ***Rural and urban market potentials and entrepreneurship***

A traditional explanation of the volume of opportunity and necessity entrepreneurship in different localities might be based upon a traditional analysis of comparative advantages that emphasises variations in the strength of the economic milieu of each locality, including the economic milieu of the rest of the functional region. The underlying idea is that the more developed the local economic milieu is, the better the conditions for entrepreneurship are.

Because of the presence of urbanisation economies, urban localities offer an economic milieu characterised by diversity (*i.e.*, economies of scope) in information, skills, knowledge, competence, producer and financial services, and other inputs, which are particularly crucial for innovative, and mainly opportunity-based, entrepreneurship (Norton, 1992; Parr, 2002). Urban locations offer greater and more varied access to knowledge and skilled and educated labour, economics of density, and entrepreneurial opportunities as well as access to innumerable networks with a scale ranging from the local to the global (Nijkamp, 2003). Rural localities are often at a disadvantage compared to urban localities in terms of the conditions that are important for potential entrepreneurs, for the following reasons:

1. Urban localities offer more entrepreneurial opportunities than rural localities due to the existence of a large and diversified market potential (Acs, Bosma, and Sternberg, 2011).
2. Under certain conditions, entrepreneurs may capture the market share of incumbents if they locate near incumbents (Hotelling, 1929). However, this gain may be short-lived if more entrepreneurs enter or if incumbents react to this unwanted competition. However, when the competition in the product market is imperfect, geographical proximity increases competition in the product market (Fujita, Krugman, and Venables, 1969), which implies that entrepreneurs may suffer from starting firms in the proximity of firms offering equivalent products, particularly if the demand is thin. However, when there is a demand for variety among customers, urban localities with a larger local and intra-regional market potential always offer entrepreneurs a greater possibility to launch a new product variety than rural localities (Hoover and Vernon, 1959).
3. A more long-term motive for potential entrepreneurs to locate their start-ups in urban localities is that the urban environment provides greater exposure than rural localities (Grek, Karlsson, and Klaesson, 2013). The underlying reason is that searching is costly for customers who, *ceteris paribus*, prefer to minimise search costs by purchasing in localities of concentrated (and varied) supply. This is particularly relevant in product markets with discerning potential customers who exhibit specific demands and requirements and wish to search and inspect before purchasing. These product markets are, to a high extent, concentrated in urban localities.
4. A special advantage for potential entrepreneurs to locate in urban localities is the positive information externality in such localities, through which individual (potential) entrepreneurs receive signals about the strength of the localised demand by observing the successful trades of incumbent firms. These observations also provide information about varieties of existing products, which also might trigger the development of new varieties that might be complements of or substitutes for existing product varieties (Frenken, van Oort, and Verburg, 2007).
5. A location in an urban locality implies a risk reduction for the potential entrepreneur (Mills and Hamilton, 1984). To the extent that fluctuations in demand are imperfectly correlated across customers, demand can be stabilised through a location in an urban locality because more potential customers imply that some customers are buying while others are not.

### ***Hypothesis***

In the literature, it is common to distinguish between opportunity- and necessity-based entrepreneurship (Bosma and Sternberg, 2014; Laveson, 2018), and we assume that the prevalence of these types of entrepreneurship in different localities can be explained with the type of location factors discussed in the second section. We expect the share of opportunity-based entrepreneurship in

municipalities to increase with the size of their local and intra-municipal market because these municipalities offer more business opportunities to exploit (Acs and Varga, 2005). Because the lower output market potentials and a less rich economic milieu than those in urban municipalities typify rural municipalities, we expect opportunity-driven entrepreneurship to be less prevalent in rural municipalities than in urban municipalities, and that, instead, necessity-driven entrepreneurship will dominate there. Artz, Guo, and Orazem (2018) claim that rural entrepreneurship tends to be necessity driven. We are now able to present our hypothesis:

*Hypothesis:* The rate of opportunity-driven (necessity-driven) entrepreneurship in a locality increases (decreases) with the size of its market potentials and the richness of its economic milieu.

### **Empirical design: Data, variables, and findings**

We estimate changes and differences in urban and rural entrepreneurship by using municipal data from Sweden for the years 2015 and 2016. Municipalities are the lowest administrative unit in Sweden, and in 2016, there were 290 municipalities in Sweden. There are numerous ways to define and to classify entrepreneurs. In this paper, we use the proxy *self-employed* to capture if an individual decides to become an entrepreneur. Thus, an entrepreneur is a person who becomes an entrepreneur at a time  $t$  and was not an entrepreneur at time  $t-1$  (*Entrepreneur*). A key element in the empirical design is to define the different types of entrepreneurs; this is challenging to accomplish because we can only rely on register data and must find proxies to analyse the different career choices of individuals.

In this paper, we differentiate between voluntary (opportunity) and involuntary (necessity) entrepreneurs by using the following proxies. The definition of necessity and opportunity entrepreneurs derives from Reynolds *et al.* (2002), and we use definitions like those that Block and Wagner (2010) use.

- Voluntary/opportunity entrepreneurs (*Opp. entrepreneur*) are defined as the individuals who become entrepreneurs at time  $t$  and were employed by a firm at time  $t-1$ . By this token, we intend to capture those individuals who had a job the previous year and were not forced to become entrepreneurs because of a lack of employment opportunities. The labour status of the individual is measured every year in November, so there is the possibility that individuals became unemployed in December at time  $t-1$  and were then forced to become an entrepreneur by November of the following year.
- Involuntary/necessity entrepreneurs are defined by summing the individuals who become entrepreneurs in time  $t$  and were either (i) registered as unemployed at time  $t-1$  or (ii) worked in a firm that closed at time  $t-1$ . The sum of the two above indicates individuals who are forced to become entrepreneurs (*Nec. entrepreneur*).

**Market potential: local, intra-regional, and inter-regional**

‘Market potential’ describes concentrations and the opportunities of making contacts in and between such concentrations based on a spatial discount factor (Lakshmanan and Hansen, 1965). In the subsequent analysis, we will stress the importance of making a precise distinction among a locality’s local, intra-regional, and inter-regional market potential. In contrast, a locality’s intra-regional market potential is, in a fundamental way, related to the delineation of the geographical extension of the functional region to which the locality belongs.

It is a standard assumption in regional economics (*cf.*, von Thünen, 1826) that products vary according to the contact or interaction intensity associated with their input and output transactions. An additional assumption in regional economics is that interaction costs are much lower when a transaction is made within a locality or a functional region than when it is carried out between regions. Contact-intensive products can be considered to have distance-sensitive transactions, and, hence, for such products, the geographical transaction costs rise sharply as the transaction crosses a regional border. Therefore, the interaction frequency associated with distance-sensitive products decreases because of the increasing amount of contact required; this applies for both the input and the output sides.

With this background, we distinguish in this paper among the local, intra-regional, and inter-regional market potential of potential entrepreneurs located in a given locality. The level of entrepreneurship is linked to the market potential in each municipality (*local market potential*), in the local labour market (*i.e.*, the functional region; *intra-regional market potential*), and in all other municipalities in Sweden (*inter-regional market potential*), following Johansson, Klaesson, and Olsson (2002). The market potential is captured through the sum of income in each municipality weighted with the distance, measured through travel distance by car. Market potential for the three various levels is defined as follows:

$$\text{Market potential}_{\text{Local}} = e^{-\lambda t_{ss}} N_s \quad (1)$$

$$\text{Market potential}_{\text{Intra-regional}} = e^{-\lambda t_{sr}} N_r \quad (2)$$

$$\text{Market potential}_{\text{Inter-regional}} = e^{-\lambda t_{sk}} N_k \quad (3)$$

where the time sensitivity parameter for commuting  $\lambda$  differs according to level,  $t$  is the average distance within the municipality ( $s$ ), between municipalities  $s$  and  $r$  within the same local labour market, or between municipality  $s$  and all other municipalities ( $k$ ).  $N$  denotes the market potential – in this case, the wage sums – in the respective municipality or municipalities. We use the wage

sum for the daytime population in the municipality and have used the night-time population as a robustness check with similar findings.

### ***Regional taxonomy***

To capture the urban–rural hierarchy in Sweden, we follow the regional taxonomy created by The Swedish Agency for Growth Policy Analysis (Tillväxtanalys, 2014), which we define and explain in Table 10.1.

### **Descriptive statistics**

To control for other factors related to self-employment at the regional level, we control for the unemployment rate and mean establishment size in each municipality. Table 10.2 provides an overview of the variables used in the estimations, coupled with summary statistics.

Overall, from 2015 to 2016 in Sweden, more individuals switched from employment to entrepreneurship, *i.e.*, opportunity-related entrepreneurs, than continued from either unemployment or firm closure. This trend may be indicative of the overall state and business cycle that Sweden experienced in 2015 and 2016, during which the employment level was high (also reflected in

*Table 10.1* Description of regional categories

<i>Name of regional category</i>	<i>Definition</i>
Metropolitan municipalities	Less than 20% of their population in rural areas and a total population of at least 500,000 in adjacent municipalities
Urban municipalities good accessibility	Municipalities with less than 50% of their population in rural areas and at least 50% of their population facing a journey of less than 45 minutes to an agglomeration with at least 50,000 inhabitants
Urban municipalities low accessibility	Municipalities with less than 50% of their population in rural areas and less than 50% of their population facing a journey of less than 45 minutes to an agglomeration with at least 50,000 inhabitants
Rural municipalities good accessibility	Municipalities with at least 50% of their population in rural areas and at least 50% of their population facing a journey of less than 45 minutes to an agglomeration with at least 50,000 inhabitants
Rural municipalities low accessibility	Municipalities with at least 50% of their population in rural areas and less than 50% of their facing a journey of less than 45 minutes to an agglomeration with at least 50,000 inhabitants
Rural municipalities very low accessibility	Municipalities with their entire population in rural areas, with a journey of at least 90 minutes to an agglomeration with at least 50,000 inhabitants

Table 10.2 Description of variables and summary statistics ( $N=290$ )

<i>Variable</i>	<i>Description</i>	<i>Mean (St.dev)</i>
Opp. entrepreneur	Share of individuals who are classified as opportunity entrepreneurs as part of the labour force	0.009 (0.003)
Nec. entrepreneur	Share of individuals who are classified as necessity entrepreneurs as part of the labour force	0.005 (0.003)
Local market potential	Local market potential within the municipality, as defined in equation 1	4.479e+5 (1.33e+5)
Intra-regional market potential	Intra-regional market potential within the local labour market, as defined in equation 2	1.658e+6 (3.30e+6)
Inter-regional market potential	Inter-regional market potential within the rest of Sweden, as defined in equation 3	2.930e+5 (2.50e+5)
Unemployment rate	Share of labour force that is unemployed	0.030 (0.011)
MES	Mean establishment size	2.937 (1.155)

Table 10.3 Average entrepreneurship level in different regional categories

	<i>Metro-politan</i>	<i>Urban mun. good accessibility</i>	<i>Urban mun. low accessibility</i>	<i>Rural mun. good accessibility</i>	<i>Rural mun. low accessibility</i>	<i>Rural mun. very low accessibility</i>
Opp. entrepreneur	0.0117	0.0082	0.0091	0.0086	0.0106	0.0158
Nec. entrepreneur	0.0033	0.0034	0.0050	0.0053	0.0066	0.0098
Bivariate correlation between opp. and nec. entrepreneurship	0.4045	0.5179	0.6594	0.7053	0.6231	0.0856
<i>N</i> (municipalities)	29	103	28	70	45	15

the low unemployment rate) and the Swedish economy experienced a stable growth. The market potential follows the expected pattern, in which the intra-regional market potential is higher than was the potential of both local markets and inter-regional markets.

To understand how the regional hierarchy relates to the level of opportunity- and necessity-driven entrepreneurship, Table 10.3 illustrates the average level of entrepreneurship in the six different regional categories and shows the bivariate correlation between the two types of entrepreneurship across the urban–rural hierarchy.

The level of opportunity-driven entrepreneurship follows a U-shaped pattern along the urban–rural hierarchy. The average level is highest in the two

endpoints on the scale: most urban and most rural. For necessity-driven entrepreneurship, however, there is another pattern in which the level of necessity-driven entrepreneurship is a negative function of the level of urbanity. The most rural municipalities in Sweden have the highest average increase in individuals who become entrepreneurs out of necessity, which is unsurprising because rural areas in both Sweden and other developed countries constantly struggle with high unemployment, a lack of employment possibilities, and a shrinking population. In these places, a primary option to financially support oneself without relocating to a more populous area is to start a firm.

Most interesting is that the correlation between the two distinct types of entrepreneurship differs widely across the regional categories, all of which, despite substantial regional variation, show a positive bivariate correlation in which the overall bivariate correlation for all municipalities is 0.68.

### Estimations

Table 10.4 below shows the relationship between market demand and the level of opportunity and necessity entrepreneurship running an OLS for all municipalities, as the following equation describes:

$$Ent_i = \alpha + Market\ potential_i \beta + \chi_i \delta + \varepsilon \quad (4)$$

where *Ent* describes the entrepreneurship level (either opportunity or necessity) in municipality *i*, *Market potential* is a vector of the market potential measures,

Table 10.4 Market potential and its relation to opportunity and necessity entrepreneurship, OLS

VARIABLES	Opp. entrepreneurship	Nec. entrepreneurship
Local market potential (ln)	0.000728*** (0.000135)	0.000354** (0.000136)
Intra-regional market potential (ln)	-0.000794*** (8.67e-05)	-0.000595*** (7.42e-05)
Inter-regional market potential (ln)	-0.000701*** (0.000194)	-0.000382*** (0.000134)
Unemployment rate	-0.0568*** (0.0154)	-0.0210* (0.0111)
MES	-0.000642*** (0.000220)	-0.00117*** (0.000160)
Constant	0.0226*** (0.00227)	0.0172*** (0.00232)
Observations	290	290
R-squared	0.383	0.518

Robust standard errors in parentheses, \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$



$\chi$  is a vector of the control variables,  $\alpha$  is the intercept,  $\varepsilon$  is the error term, and  $\beta$  and  $\delta$  are the parameters to be estimated.

The local market potential is positively correlated with the level of both opportunity and necessity entrepreneurship, while the intra-regional and inter-regional market potential is negatively associated with the level of entrepreneurship. Thus, local demand is most important, and the demand from other adjacent places reflects the competition effect that Christaller (1966) described. Both the unemployment rate and the size of establishments are negatively associated with the rate of new firms.

Table 10.5 features the same estimation in Table 10.4 but is divided into different regional categories. The use of the six regional categories does not allow sufficient degrees of freedom for each of the estimations. To circumvent this problem, only three categories are used in Table 10.5: (i) metro: municipalities with less than 20% of the population in rural areas and with at least 500,000 inhabitants in neighbouring municipalities; (ii) urban: municipalities with less than 50% of the population residing in rural areas; and (iii) rural: municipalities with at least 50% of the population residing in rural areas. The results show that opportunity-driven entrepreneurship is positively related to the local demand in metro and urban municipalities but is insignificant in rural municipalities. Local demand for necessity-driven entrepreneurship is only associated with urban municipalities and appears insignificant for other municipalities. For the intra-regional market potential, again, we observe a negative relationship in most of the cases, regardless of regional category or type of entrepreneurship.

## Conclusions

This chapter focuses on rural entrepreneurship and how market potential is linked to the level of entrepreneurship. To nuance the level of entrepreneurship that occurs within regions, we differentiate between opportunity-based and necessity-based entrepreneurship because the mechanisms that initiate the process of becoming an entrepreneur out of necessity are different from those for opportunity-driven entrepreneurship. Because regions are inherently different and follow different growth trajectories, we assume that there are differences across the urban–rural landscape in how market potential relates to the two types of entrepreneurship.

By aggregating individuals who became entrepreneurs in 2016, while employed (opportunity) or while unemployed or experienced a firm closure (necessity) in 2015, we assess how the local, regional, and inter-regional market potential plays a role. When disregarding the type of region, both opportunity- and necessity-based entrepreneurship follow the same pattern: Local market potential is positively related and regional market potential is negatively related to the level of entrepreneurship. It is first when differentiating across the urban–rural landscape that differences occur; we find that opportunity-based entrepreneurship is mainly positively related to market

Table 10.5 Market potential and its relation to opportunity and necessity entrepreneurship, OLS, along the urban–rural hierarchy

<i>VARIABLES</i>	<i>Opp. Entrep., metro</i>	<i>Opp. Entrep., urban</i>	<i>Opp. Entrep., rural</i>	<i>Nec. Entrep., metro</i>	<i>Nec. Entrep., urban</i>	<i>Nec. Entrep., rural</i>
Local market potential (ln)	0.00102** (0.000406)	0.000464*** (0.000121)	–0.000121 (0.000352)	8.98e–06 (0.000159)	0.000229* (0.000124)	0.000351 (0.000325)
Intra-regional market potential (ln)	–0.000976***	–0.000732***	–0.000366	–0.000600***	–0.000370***	3.32e–05
Inter-regional market potential (ln)	(0.000234) –0.000450	(0.000123) –0.000335	(0.000332) –0.000477	(0.000147) –0.000239	(0.000113) –0.000342**	(0.000343) 5.81e–06
Unemployment rate	(0.000330) –0.0976***	(0.000211) –0.0472***	(0.000333) –0.0271	(0.000208) –0.0333***	(0.000146) –0.0261*	(0.000227) –0.0754**
MES	(0.0274) 0.000557	(0.0176) –0.000758***	(0.0372) –0.00209***	(0.0115) –0.000140	(0.0136) –0.00121***	(0.0322) –0.00264***
Constant	(0.000465) 0.0161*	(0.000161) 0.0199***	(0.000520) 0.0292***	(0.000205) 0.0168***	(0.000172) 0.0155***	(0.000522) 0.0117**
Observations	(0.00842) 85	(0.00188) 156	(0.00682) 49	(0.00507) 85	(0.00219) 156	(0.00467) 49
R-squared	0.410	0.387	0.438	0.406	0.501	0.489

Robust standard errors in parentheses, \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

potential in urban locations while there is no relationship between this type of entrepreneurship and rural areas. The results confirm our hypothesis because the rate of opportunity-driven entrepreneurship in a locality increases with the size of the locality's market potential and the richness of its economic milieu, defined as the urban locations. The findings highlight an interesting policy conclusion, namely, that the size of rural locations cannot foster opportunity-based entrepreneurship or that the market is not large enough to foster this type of entrepreneurship. Local policy-makers in these locations must emphasise and support other means forward, such as accessibility to other larger markets that an entrepreneur can satisfy in the rural location, while maintaining access to the larger market. Another possible means is to facilitate collaboration among firms for them to handle and share fixed costs.

Numerous prior studies have acknowledged and proven that these differences are visible across regions; our study confirms this pattern and highlights the vicious cycle that rural locations face, with a decreasing number of inhabitants whose purchasing power continues to strengthen. The lack of market potential fosters less entrepreneurship based upon economic opportunities.

Like most of the academic studies, our study is not without limitations. The *caveats* do, however, pave the way for future research to explore rural entrepreneurship in greater detail. The empirical design relies only upon two years' worth of data, and because we examine the change across multiple years, the data is cross-sectional. By using a longitudinal dataset, more empirical methods could be explored, such as controlling for unobserved heterogeneity in time-invariant factors across municipalities. This is important to assess because many locations, especially in rural locations, depend on natural amenities to spur local levels of entrepreneurship. We are unfortunately unable to control for land rents or land prices in the empirical design, and, hence, an inclusion of this factor in future studies will permit the modelling of the balance between operation costs and the size of local demand. Our study is conducted in Sweden, and future researchers can provide external validity of our findings in other developed countries with similar institutional settings, such as other Nordic countries, as well as other developed countries with different institutional settings, such as the United States.

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# 11 Entrepreneurship in rural areas

## Locational choices and embeddedness

*Essi Saarinen and Teemu Makkonen*

### Introduction

Structural changes, brought about by globalisation and technological change, facing rural areas have been transforming the ‘former cornerstone’ of the Finnish economy into a ‘subsidised periphery’ (Valtakari, 1999) in need of income transfers and supportive policies. The traditional livelihoods and work-places provided by the public sector have been diminishing in importance as the key employers in rural regions have been necessitating a search for new sources of income, but, in many cases, have led to outmigration. Novel approaches are, therefore, urgently needed for facilitating entrepreneurship and maintaining vitality, *i.e.*, the ability of the Finnish rural regions (Makkonen and Kahila, 2020a) to provide for the basic needs of its residents and the capacity to improve their lives (Drewes and van Aswegen, 2011).

Rural areas are now increasingly marketed as places for new innovative forms of entrepreneurship. This change has been, partly, facilitated by developments in transportation, which have physically reduced the time-distance between rural areas and urban centres, and by improvements in information and communication technologies (ICT) that enable ‘keeping in touch’ with distant partners (Andersson, 2000). The change is visible, for example, in the diversification of farms from mere sites of agricultural production to include also other types of entrepreneurship (Rantamäki-Lahtinen, 2013) and the re-use of former agricultural buildings by non-agricultural entrepreneurs (Daalhuizen, van Dam, and Goetgeluk, 2003). Therefore, entrepreneurship has gradually become a vital mechanism in creating economic activity in rural areas and an engine for rural development (Akgün *et al.*, 2010; Korsgaard, Ferguson, and Gaddefors, 2015). In many ways, cities are, nonetheless, the logical location for entrepreneurs as they can profit from the entrepreneurial environments, agglomeration benefits of other enterprises in similar and related industries, and the larger labour pools and markets in urban areas (see, *e.g.*, Sternberg and Litzenberger, 2004). Notwithstanding this, rural regions are not void from enterprises. In fact, 40% of the Finnish enterprises are located in rural areas (Ministry of Agriculture and Forestry of Finland, 2020).

The scholarly interest towards entrepreneurship in rural areas has been steadily growing over the past decades. However, despite the importance of the topic for the success of entrepreneurs in rural regions, their embeddedness has remained an understudied topic (Habersetzer *et al.*, 2021). What we do know from the scant earlier literature exploring the issue is that the choices of entrepreneurs – *entrepreneurs* are those persons who are running their own *enterprise* – to locate and stay in rural regions are influenced by their local embeddedness and, moreover, facilitated by non-local connections (Müller and Korsgaard, 2018). First, empirical studies have gauged the reasons behind the embeddedness of entrepreneurs in rural regions. This research suggests that particularly entrepreneurs using local resources, *e.g.*, agriculture, or entrepreneurs that have succeeded in the commodification of non-material and aesthetic values, *e.g.*, nature or agritourism, are embedded in rural regions. In other words, the use of tangible and intangible local natural resources is among the key factors that explain how entrepreneurs become embedded in rural regions (*e.g.*, Anderson, 2000; Akgün *et al.*, 2010). Second, from earlier studies we know that entrepreneurs can gain access to important resources that are commonly scarce in rural areas, such as funding and knowledge, *via* their embeddedness in extra-regional networks. Participation in these networks helps to overcome limitations related to their location outside urban cores (Copus, Dubois, and Hedström, 2011; Korsgaard, Ferguson, and Gaddefors, 2015; Farja, Gimmon, and Greenberg, 2017; Gretzinger *et al.*, 2018).

We therefore move beyond these better-known themes of resource-related embeddedness and extra-local networking. To this aim, we pose the following relevant research questions and discuss how and why entrepreneurs that do not necessarily need local resources in their day-to-day operations and are not tied to the land, such as agriculture, but locate and get embedded in a specific rural region:

1. What are the locational choices of these entrepreneurs for founding their enterprises in a specific rural region?
2. How committed are these entrepreneurs to stay in the rural region in question, and why?

Empirically our study is based on interview data, which were collected from North Karelia, Finland and content analysis. The remainder of this chapter will, hence, be organised as follows: The next section presents the literature review, including key definitions, followed by a section with the empirical case. The subsequent sections provide the results and conclude on the research questions posed.

### **Literature review: Theoretical premise and key definitions**

While traditionally ‘rural’ – relating to, *e.g.*, low population densities, agriculture and forestry – has been seen as something that is the direct opposite of

‘urban’, *i.e.*, those geographic areas that are located outside cities, there exists no universally agreed definition for ‘rural regions’ (Woods, 2005). Therefore, empirical studies rely on varying typologies on what is considered as rural (Pato and Teixeira, 2016). For example, the Urban–Rural typology by the Finnish Environment Institute (2020) is based on data on population, workplaces, accessibility, *etc.*; it is commonly utilised in Finland and, therefore, also used in this paper to label regions as either rural or urban. The same kind of ambiguity revolves around the definition of our second main term, ‘entrepreneurship’ (see, *e.g.*, Morrison, 2006; Kobia and Sikalieh, 2010). For example, it can be considered as a process or activity that involves discovering and exploiting opportunities to introduce new products, services, and processes. However, entrepreneurship may also be caused by a lack of alternative employment opportunities (Block *et al.*, 2015) and, thus, reflect necessity, and not just opportunity. Because complex definitions are not always easily operationalised into measurable items, definitions relating to the founding and managing of enterprises are commonly utilised in the literature (Goetz *et al.*, 2010; Baumgartner, Schulz, and Seidl, 2013; Schnell *et al.*, 2017). For practical purposes, we also use a simplified definition: Following Greve and Salaff (2003), we refer to entrepreneurs as those persons who have launched or acquired and are running an enterprise.

Based on the above, it comes as no surprise that there is no single definition for ‘rural entrepreneurship’ (for extensive overviews on the concept, see, *e.g.*, McElwee and Atherton, 2011; McElwee and Smith, 2014; Pato and Teixeira, 2016). In principle, rural entrepreneurship is related to entrepreneurial activity located in (Kalantaridis and Bika, 2006), employing people from, and creating an economic surplus to rural regions (Henry and McElwee, 2014). However, alternative, and more complex, definitions have also been provided with regard to rural entrepreneurship (Korsgaard, Müller, and Tanvig, 2015), leading us to the concept of ‘embeddedness’. Drawing from Granovetter’s (1985) notions, Akgün *et al.* (2010, p. 539) have defined rural embeddedness as ‘the nature, depth and extent of an entrepreneurs’ tie to a rural location’. Thus, embedding is the process where an entrepreneur becomes part of the local ‘structure’, creating business opportunities and enabling them to utilise latent rural resources otherwise not available to the entrepreneurs (Jack and Anderson, 2002). Therefore, entrepreneurs in rural areas should strive for rural embeddedness in order to survive and succeed (Akgün *et al.*, 2010). The discussion on rural entrepreneurship and rural embeddedness has led Korsgaard, Müller, and Tanvig (2015) to propose two ideal types of entrepreneurs in rural regions:

- 1) ‘Entrepreneurs in the rural’ refer to those entrepreneurs who have limited rural embeddedness, *i.e.*, rural regions are merely locations for their activities, and they do not have intensive exchange or relations in the rural region.
- 2) ‘Rural entrepreneurs’ refer to those entrepreneurs who are strongly embedded in their rural locality, *i.e.*, they leverage local resources and have strong interactions in the rural region.



Korsgaard, Müller, and Tanvig (2015) argue that the level of commitment on the part of the entrepreneurs for their home localities is based on this embeddedness: Entrepreneurs in the rural have a low commitment to the rural region and could relocate elsewhere, whereas rural entrepreneurs are highly committed and unlikely to relocate elsewhere even if economic rationality would suggest it. According to Pato and Teixeira (2018), the former type is by far the more common, while the latter presents only a small share of all entrepreneurs located in rural areas. Further, entrepreneurship in rural areas is mainly driven by necessity rather than opportunity: for example, based on European case study regions, Kalantaridis (2004) classified only approximately 6% of the entrepreneurs in rural areas as opportunity 'seeking'. However, the role of necessity-driven entrepreneurs in fostering regional development has been questioned (Baumgartner, Pütz, and Seidl, 2013). The positive economic impacts of opportunity-driven entrepreneurs are, indeed, higher than those of entrepreneurs driven by necessity (Acs and Varga, 2005). Notwithstanding this, the fact that most of the entrepreneurs in rural areas are not driven by opportunities but rather by the desire to make ends meet in their current home locations in order to avoid moving elsewhere is a powerful counter-argument against belittling the importance of necessity-driven entrepreneurs in the rural. Entrepreneurship can boost employment and economic development in rural areas, regardless of whether the entrepreneurs were initially motivated by opportunity or necessity (Valliere and Peterson, 2009; Urbano and Aparicio, 2016). Furthermore, motivations commonly change over time, and entrepreneurs are often driven by both opportunity and necessity (Williams and Williams, 2014). Hence, the reported limited magnitude of pure opportunity-driven rural entrepreneurship underlines the economic importance of necessity-driven entrepreneurs in the rural – constituting the bulk of entrepreneurship in rural areas – for the vitality of rural regions. Therefore, the utility of typologies that seem to elevate certain types of entrepreneurship on the pedestal can be questioned in terms of their relevance for designing policies to facilitate entrepreneurship in rural areas.

Basing on existing literature, we expect that the interviewed entrepreneurs are necessity- rather than opportunity-driven (Kalantaridis, 2004). We also expect that the lifestyle benefits of attractive rural environments (Stone and Stubbs, 2007) as well as traditional factors such as land costs (Bar-El and Felsenstein, 1990) affect the locational choices of the interviewees. Furthermore, we expect that the commitment of the entrepreneurs to their home localities stems from their high levels of existing rural embeddedness, *i.e.*, their personal roots and social ties to the specific rural region (Dahl and Sorenson, 2009). Therefore, we expect that the entrepreneurs are unwilling to relocate their enterprises elsewhere. In addition to these affectual bonds of the entrepreneurs, we also expect that past investments and prospective costs of relocation influence the decisions of entrepreneurs to stay in their current home locations (Stam, 2007). The issue will be explored empirically in the following sections.

Empirical case

Case study locations

The selected case study locations (municipalities) are situated in the eastern-most province of Finland, North Karelia. North Karelia is mainly rural, based on the Urban–Rural typology by the Finnish Environment Institute (2020). The only real exception is the city centre of the provincial capital, Joensuu. The province is strong, at least in relative terms, in industries such as food, metal, packaging products, and wood (Regional Council of North Karelia, 2017).

Three rural municipalities – Lieksa, Outokumpu, and Rääkkylä (Figure 11.1) – were chosen as the case study locations based on the differences in their ‘rurality’. Lieksa is a ‘local centre in rural area’ surrounded by a so-called ‘Sparsely Populated rural Area’ (SPA), while Outokumpu and Rääkkylä are a mixture of ‘rural heartland area’ and SPA (Finnish Environment Institute, 2020). What differentiates Outokumpu from Rääkkylä is that Outokumpu, a former mining town, has a ‘smallish’ town-like centre with an exceptionally strong metal industry agglomeration for a rural region. Contrarily, of our case study locations, Rääkkylä is the clearest example of a ‘traditional’ rural region

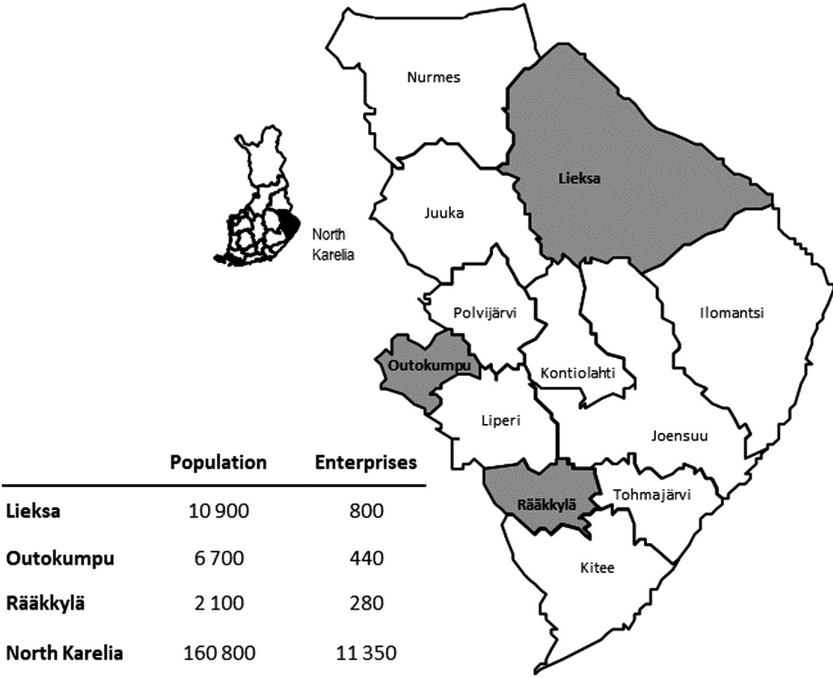


Figure 11.1 The case study locations: Lieksa, Outokumpu, and Rääkkylä. Source: Statistics Finland (2020)

because agriculture still has a relatively prominent role in the economy of the municipality.

### **Data and methods**

#### *Approach*

Departing from the traditional spatial quantitative analysis on finding the ‘optimal’ location for an enterprise, *i.e.*, finding a location where transportation in terms of access to raw materials and markets and land costs are minimised, while still ensuring access to other resources such as labour, knowledge, and physical infrastructure (Bar-El and Felsenstein, 1990), research on locational choices and rural entrepreneurship has moved to softer influencing factors such as a higher perceived quality of life in rural regions and personal motivations (Lafuente, Vaillant, and Serarols, 2010; Vaillant, Lafuente, and Serarols, 2012). While measuring regional entrepreneurship is already difficult in itself (Low and Isserman, 2015), these types of softer influencing factors are even harder to quantify. Therefore, we adopted a qualitative approach for the purposes of this study.

#### *Sample*

Because the locational choices of resource-embedded entrepreneurs, for example, in agriculture and tourism in rural areas are rather obvious (see the section with the literature review), the focus here was laid on manufacturing enterprises, which are, in practice, free to choose their location. The interviewees were selected based on the advice of an expert panel composed of five local business specialists: Two from the Centre for Economic Development, Transport and the Environment for North Karelia (ELY-Centre for North Karelia) and one from each regional development company active in our case study locations (Business Joensuu, Development Lieksa, and Central Karelia Development Company). The expert panel provided us with a pool of 41 entrepreneurs they considered as potentially interesting cases for our purposes. Out of these 41 entrepreneurs, we narrowed down our interview sample to 12 entrepreneurs, four from each municipality. The aim was to identify, based on available information, different types of enterprises (Table 11.1) per size (micro-enterprises and small companies), location (municipal centre or SPA), type (founders, family businesses, and acquirers), age (recent start-ups entrepreneurs and established business-owner entrepreneurs), the type of industry (food, metal, packaging products, and wood), and the gender of the entrepreneur (one woman from each municipality).

#### *Interviews*

The semi-structured interview framework is based on the literature review and consists of three interlinked sets of questions about: (1) background information; (2) the locational choices of the entrepreneurs; and (3) their commitment

Table 11.1 Information on the interviewed enterprises

<i>Enterprise</i>	<i>Entrepreneur</i>	<i>Size (employees)</i>	<i>Location</i>	<i>Age</i>	<i>Industry</i>
Liekksa 1	CEO/part owner	< 10	Municipal centre	16–25	Packaging
Liekksa 2	Acquisitor	10–20	Municipal centre	> 50	Food
Liekksa 3	Family business	10–20	Municipal centre	16–25	Food
Liekksa 4	Acquisitor	10–20	Municipal centre	6–15	Metal
Outokumpu 1	Founder	30–40	Municipal centre	0–5	Metal
Outokumpu 2	Acquisitor	< 10	SPA	26–35	Wood
Outokumpu 3	Family business	30–40	Municipal centre	26–35	Metal
Outokumpu 4	Family business	30–40	SPA	36–50	Metal
Rääkkylä 1	Founder	< 10	SPA	26–35	Wood
Rääkkylä 2	Founder	< 10	Municipal centre	0–5	Food
Rääkkylä 3	Family business	< 10	SPA	26–35	Food
Rääkkylä 4	Acquisitor	< 10	Municipal centre	26–35	Packaging

for and embeddedness with the region. The interviews were carried out by the first author in Finnish, conducted on site or *via* telephone; they took place between September and October 2019, lasted from about 20 up to 70 minutes, and were recorded and transcribed. Excerpts from the transcripts presented in this chapter were translated into English by the second author.

### *Content analysis*

The systematic and objective nature of content analysis (Prasad, 2008) guided our decision to apply it as our methodological tool to analyse the transcribed interview data. We specifically utilised a mixture of data and theory-driven content analysis (see, *e.g.*, Green, 2004), which means that the chosen categories were guided by our literature review, but ultimately, the categorisations were based on the data itself. The analysis followed the standard course of content analysis (Tuomi and Sarajärvi, 2018). The interview transcripts were carefully read by both authors to identify the main arguments for each question in order to reduce the data to a manageable size. These arguments were subsequently classified under the themes of ‘locational choices’ and ‘commitment and embeddedness’. Second, similarities and differences in the argumentation of the interviewees were identified pertaining to the themes explored. Third, these similarities and differences were interpreted by comparing them to our literature review to form generalisations that provide answers to our research questions.

## **Results**

### *Locational choices*

Eight out of the 12 interviewed entrepreneurs were born in the municipality where they are running the enterprise. Four of the interviewed entrepreneurs were, in

Table 11.2 Drivers and constraints for an enterprise to locate in a rural area in North Karelia, Finland

<i>Main drivers</i>	<i>Minor drivers</i>	<i>Constraints</i>
<ul style="list-style-type: none"> <li>• Domicile (place of birth; family business)</li> <li>• Structural change (diminishing profitability of small farms; lack of job opportunities)</li> </ul>	<ul style="list-style-type: none"> <li>• Cheap land prices and rents</li> <li>• Rural way of living (nature; peace)</li> <li>• Entrepreneur-friendly atmosphere of local authorities</li> <li>• Cooperation</li> </ul>	<ul style="list-style-type: none"> <li>• High transportation costs</li> <li>• Poor quality of infrastructure</li> <li>• Loss of vitality (lack of skilled workers; diminishing local customer base)</li> </ul>

fact, continuing their family businesses started by their parents (Table 11.1). Besides these family-business owners, many of the other interviewed entrepreneurs also have strong roots and ties to the current home location of their enterprise, which explains their decision to make a living in a rural region (Table 11.2):

Why is the enterprise located in Outokumpu? Well it got started precisely because our home is here, only ten kilometres away.

(Outokumpu)

The other main driver for the interviewees of founding or acquiring an enterprise located in a rural area was related to the structural changes facing the rural regions. The recent changes in agriculture have diminished the profitability, particularly for small farms, and thus the entrepreneurs needed alternative ways to secure their livelihood, which goes in tandem with the diminishing importance of agriculture. As the options for employment in the region were limited, they turned to entrepreneurship as a strategy to survive, as postulated also by Kalantaridis (2004), which is necessity-driven entrepreneurship:

We were engaged in agriculture back in the nineties. When we learned that Finland will join the EU, we realised that we are too small to survive, it is not profitable. Thus, we needed to come up with something else and as a result I became an entrepreneur in this field.

(Outokumpu)

My husband came here to start a business, and I started to consider also whether I could move here ... But the problem was how to employ myself, since there are not that many workplaces here. Thus, I got the idea to become an entrepreneur.

(Lieksa)

As expected, other points that some of the interviewees raised were related to the cheap land and rents available in rural areas (see Bar-El and Felsenstein,

1990) and the ‘rural way of living’ (see Stone and Stubbs, 2007). Affordable land and rents were considered to compensate for other potential disadvantages (see below). The lifestyle benefits relate to softer factors affecting locational choices and consist of peace and quietness as well as a closeness to nature that one cannot really get when living in an urban area. Finally, co-operation with the local authorities of a rural region – the same applies in the case of co-operating with other local enterprises – was deemed much more flexible than in large cities. This means that, for example, zoning issues are dealt with fast and most often in favour of the entrepreneurs. This entrepreneur-friendly atmosphere of local authorities in rural regions was considered as a definite plus in the locational decisions of the entrepreneurs interviewed:

Outokumpu is a very entrepreneur-friendly place. Every time I have been in contact about zoning and construction issues the co-operation has been smooth and positive.

(Outokumpu)

In large cities, I know Oulu for example, the co-operation with local administration is difficult.

(Lieksa)

The most commonly mentioned locational disadvantages that constrain entrepreneurs from locating in rural areas are connected to traditional factors (see Bar-El and Felsenstein, 1990) such as logistical challenges, *e.g.*, high transportation costs, related to the peripheral location and to the bad quality of road infrastructure outside the main highways:

What is a little challenging is that the transportation costs are getting higher year by year. Since we are so far off from the main roads, nobody transports freight through here regularly.

(Rääkkylä)

The only (negative) thing is the quality of roads. We have trucks coming in daily, so the only cause for migraine is that the country roads are in such a poor condition.

(Outokumpu)

The problems of the dwindling rural areas and loss of vitality (see Makkonen and Kahila, 2020a) were also frequently mentioned in relation to difficulties in the availability of skilled workers and the diminishing local customer base:

Well maybe, if one considers what is discouraging about our location, it is about the availability of skilled workers ... It is a challenge. Of course, the employees would more likely stay in their jobs if they lived here, close to the factory. Therefore, we would need to keep Outokumpu's

vitality at a level that people would move here. Workplaces we do have already.

(Outokumpu)

What is discouraging is that the rural areas are getting quieter and quieter. That is, the local customer base for rural enterprises is getting thinner and thinner.

(Rääkkylä)

### ***Commitment and embeddedness***

Many of the interviewees expressed a strong commitment for the home municipality of their enterprise: Six out of the eight interviewees who live in the same municipality where their enterprise is located declared that they do not have any or at least immediate plans to move to another municipality due to – as discussed also by Dahl and Sorenson (2009) – the social connections such as friends and family:

I have family and friends here so, not necessarily for the rest of my life, but I plan to stay here for decades. I am happily married to this (entrepreneurship).

(Lieksa)

Similarly, only two out of the 12 interviewed entrepreneurs were willing to consider relocating their enterprise elsewhere. These two interviewees that were contemplating relocating their enterprise, not immediately but maybe at some point, would move their enterprises closer to their customers to attract more business and to cut down on transportation costs. While plans to relocate the enterprise to another region were rare, selling off the enterprise to another entrepreneur was considered as an option, if the right buyer comes along and eventually due to retirement:

I am as committed to this as possible. But am I ready to sell this? Well, one does not fall in love with machines, equipment, and businesses that much that he/she would not sell if somebody pays a high enough price. For the right price, of course I will sell it (the enterprise).

(Outokumpu)

Most of the interviewees did point out that relocating the enterprise to another municipality was possible in theory, but in practice very difficult. The enterprises rely on the skills and know-how of local employees, who would to a high likelihood not move to another part of Finland or abroad just to follow their workplaces. Additionally, in cases where the production is based on, for example, large production facilities and machinery, relocation would be

extremely costly. Therefore, rather than relocating elsewhere, the interviewees were contemplating expanding to another municipality:

It could be possible but not sensible. I would rather see us expanding somewhere else, but I have no plans whatsoever to relocate the enterprise elsewhere.

(Outokumpu)

It would be extremely challenging and expensive, and the employees would not follow. So, relocating an enterprise in our field is very difficult and a huge decision.

(Outokumpu)

It could be possible in theory, but it is not in our strategy. It would be extremely challenging. As I said earlier: Technology is important for our enterprise, but know-how is equally important. It is very difficult to relocate know-how.

(Outokumpu)

Therefore, it was recognised that the embeddedness in the home location was due to necessity, *i.e.*, the high prospective costs of relocation, as also postulated by Stam (2007). This was considered as problematic by some of the interviewees, for example, in terms of their potential retirement plans and the changes of selling the enterprise to another entrepreneur. While most entrepreneurs were optimistic about finding a successor or already knew potential buyers, notably those entrepreneurs who run a family business or had built the enterprise on their home farm were in a particularly difficult position when considering their chances to sell the enterprise to another entrepreneur, for example, when they would wish to retire:

Well we have pretty much constructed everything based on the location of our farm, in and around it. The truth is that these facilities are hard to sell, if you try to sell them to an outsider.

(Rääkkylä)

Finally, the interviewees considered that they are making an important contribution to the local economy by providing workplaces. Therefore, the interviewees felt a certain 'loyalty' towards contributing to the vitality of rural regions and that their enterprise is embedded in the rural region as an important part of the local economy. *Vice versa*, they also felt that the locals are very supportive towards their enterprise. In rural regions, even an individual small enterprise can make a difference and they are, thus, recognised as important contributors to the vitality of rural regions (*cf.*, Makkonen and Kahila, 2020a), which is different to the situation in large cities where a relocation of one small enterprise does not affect the overall employment situation as much as in a rural region:



If we would not be here, Lieksa would lose a lot. And this was an important reason why I came here (and acquired this enterprise) ... I wanted to save and preserve this as it was. I feel very strongly about this.

(Lieksa)

In a small municipality even a small enterprise, like ours, is important.

(Rääkkylä)

The local community is supporting us. We have been well accepted here. Without it we would surely not be here.

(Rääkkylä)

## Conclusions

The main reason behind the founding or acquiring of an enterprise in a rural area relates to the domicile of the entrepreneurs, particularly in the case of family businesses. Entrepreneurs choose to locate their enterprises close to home. Another major driver is necessity, as the diminishing role of agriculture and a lack of job opportunities have led to entrepreneurship. Additional factors such as cheap land prices, the pursuit of rural lifestyles, entrepreneur-friendly local authorities, and the ease of business-to-business co-operation were also mentioned as minor drivers behind the locational choices of entrepreneurs in the rural (Table 11.2). The reasons why entrepreneurs are reluctant to move their enterprises somewhere else also relates, in part, to necessity, *i.e.*, the difficulty in relocating know-how and the high costs of relocating machinery: While, in theory, relocation could be possible, it would be extremely challenging to carry it out in practice. Contrary to these business rationales, the entrepreneurs themselves seem to stay in the rural region out of loyalty, which is due to the roots they have put down in their home locations and because of their social connections. In other words, they remain in the rural area due to embeddedness.

However, the interviewees also noted that there are naturally many shortcomings in being an entrepreneur in a rural area, *e.g.*, transportation issues, a lack of skilled workers, diminishing local customer base, *etc.* As even small enterprises have an important impact on the local economy and society in rural regions, convincing both opportunity- and necessity-driven entrepreneurs to stay is of utmost importance for maintaining the vitality of rural regions (Makkonen and Kahila, 2020a). Thus, local policy-makers should aim at facilitating an attractive entrepreneurial environment for current and potential new enterprises through, for instance, the following initiatives:

- Flexibility in zoning issues
- Investing in and/or lobbying for funds to improve local infrastructure such as roads
- Developing the vitality of the municipality as a whole

Hence, the municipality needs to be an attractive environment to enterprises through zoning and infrastructure, but it also needs to appeal to employees and potential customers as a good place to live. By focusing also on softer development values such as the well-being of the residents and the attractiveness of the local environment, rural regions can aim at countering or, at least, hindering the contemporary negative outmigration trends that many rural areas are facing (see Makkonen and Kahila, 2020b). As a piece of advice for entrepreneurs planning to sell their enterprise at some point, for instance, due to retirement, facilities should not be built on the same lot as their home or home farm. As stated by the interviewees, this significantly complicates the selling of the enterprise to an outsider. Finally, as the results are based on a single case-study setting, an interesting future research avenue is to compare the results presented here with other regions to deduce whether the observed high commitment of entrepreneurs in the rural areas of North Karelia is the rule in other rural regions as well or rather represents an exception, and whether the reasons for this rural embeddedness are the same in other rural regions or vary between rural areas.

While the ideal of luring opportunity-driven and embedded rural entrepreneurs (Korsgaard, Müller, and Tanvig, 2015) is appealing, the reality is, however, that most enterprises in rural areas are run by necessity-driven entrepreneurs in the rural (Pato and Texeira, 2018). Further, the results presented here show that entrepreneurs in the rural are, nevertheless, and contrary to what was expected based on the literature (Korsgaard, Müller and Tanvig, 2015), committed to and embedded in their rural locations. These results lead to interesting implications regarding the beneficiaries of rural entrepreneurship policies. While ‘picking winners’ is a commonly utilised procedure for selecting beneficiaries, *i.e.*, deciding which entrepreneurs are supported, the process is subject to criticism (see, *e.g.*, Taylor and Plummer, 2003). Public funds might be misallocated because predicting the success of entrepreneurs is extremely challenging. Further, favouring some entrepreneurs over others may crowd out viable alternatives (Autio and Rannikko, 2016; Buffart *et al.*, 2020). If picking winners is done based on such restrictive typologies, as the ones discussed in this paper, we risk losing sight of the majority of the entrepreneurs located in rural areas. This casts doubts on the efficacy of such academic typologies – that underline the positive economic impacts or embeddedness of only certain types of entrepreneurship and downplays the rest – in directing rural entrepreneurship policies.

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## 12 Entrepreneurship in rural Sweden

The role of weak ties, strong ties, and ‘good enough’ internet access

*Marcin Rataj, Marco Eimermann,  
and Rikard Eriksson*

### Introduction

Migrant entrepreneurs, who move nationally and internationally, are considered pivotal for entrepreneurship in rural regions. This is because entrepreneurs are generally characterised by strong locational and sectoral inertia. They tend to start their business activities in places and in industries they were living and working in prior to starting a company (Stam, 2010). Simultaneously, rural regions are usually characterised by lower diversity of skills and industries compared to urban centres. This implies that the efforts of migrant entrepreneurs in rural regions may incept new important capacities into the local economy. Therefore, increasing efforts are being made to attract non-local entrepreneurs to rural areas, even though this potentially revitalising effect is mitigated by relatively low survival rates of non-local entrepreneurs in rural economies (Brouder and Eriksson, 2013). Consequently, a better understanding of the factors that support and mitigate such entrepreneurship is highly relevant not only to research, but also to policy.

Despite the increasing awareness that not only metropolitan centres, but also rural locations are scenes for innovation and entrepreneurship (Stam, 2010; Carson *et al.*, 2018), systematic evidence on factors supporting rural resilience is still lacking. Most of our current knowledge is framed in a growth paradigm stressing productivity and innovativeness (often proxied by patenting activities) that is seldom applicable to rural regions, which are therefore poorly served by current policy paradigms (see, *e.g.*, Hassink and Gong’s (2019) assessment of the current Smart Specialisation Agenda in the EU). This is because rural economic scenes differ not only in their business environment, but also in the business operating practices and business aspirations. In this regard, rural locations may be advantageous for both slow innovators for whom ready access to information and knowledge is not as decisive (Shearmur, 2015) and migrants who prefer to live socially ‘richer’ lives and engage with society rather than focusing on profit and performance (Eimermann and Kordel, 2018; Eimermann *et al.*, 2020).

In a sparsely populated country like Sweden, considerable emphasis has been put on increasing the attractiveness of rural places and possibilities to maintain a vibrant business life through broadband provision, thus reducing the barriers of distance and facilitating the use of digital tools (Johansson, 2020). Recent literature shows that broadband provision can benefit smaller locations, allowing them to ‘borrow size’ (*i.e.*, gain the advantages, but not the costs, of large agglomerations) from larger cities (de Vos *et al.*, 2020). The working-from-home effect is considered to be the main underlying mechanism, as more distant locations become more residentially attractive when some work duties can be accomplished from the home office.

However, little is known about how such investments affect the geography of start-ups and to what extent they influence the business models of different entrepreneurs. Eriksson and Rataj (2019) show that local embeddedness is crucial, as high levels of social capital may play a compensational role in the case of rural and peripheral locations that potentially offset other missing resources. This is because local embeddedness can provide vital resources in the local community that otherwise can only be found on the market. Therefore, better internet infrastructure could help rural entrepreneurs utilise their links to further offset missing local resources. Still, for many entrepreneurs, there is a tension between local embeddedness and global connectivity, as maintaining connectivity requires investments and resources that are costly for small actors (Eimermann and Kordel, 2018). Better internet access may play an important role in lowering such costs and may be particularly useful for non-local entrepreneurs, who can benefit from maintaining connections with their former places of residence.

This chapter aims to assess to what extent broadband internet access and social capital influence entrepreneurship in rural areas. We accomplish this by combining a unique database on broadband access and business formation rates in Sweden with in-depth qualitative interviews with Dutch migrant entrepreneurs.

In the next sections, we present the quantitative investigation and the qualitative case study separately before discussing the combined results. First, we examine the relation between broadband internet penetration and business formation rates in Swedish municipalities by estimating multi-level models in data covering all Swedish municipalities between 2007 and 2012, the period analysed in the qualitative part of the chapter. This period is also particularly useful for investigating the relation between internet provision and start-up activities, due to the rapid investments in and large heterogeneity of internet access in similar types of municipalities (rural, peripheral) resulting from different local priorities, strategies, and provider selection (*cf.* Johansson, 2020; de Vos *et al.*, 2020).

The subsequent case study focuses on Dutch rural migrant tourism entrepreneurs and their business models and aspirations in Hagfors and Munkfors, Värmland County – two municipalities whose populations have decreased by about 35% over the past decades to around 12,000 and 3,700, respectively,

in 2016 (Statistics Sweden, 2017). Hence, this chapter provides insights into a rural part of Sweden that has suffered greatly from decades of manufacturing restructuring, insights that may be useful for similar European areas facing socioeconomic decline (Syssner, 2020). In the final section, we present our conclusions and suggest issues for further research and policy implications.

### The quantitative investigation

Sweden is characterised by great differences in population density, peripherality, and economic performance, thus enabling the comparison of very different metropolitan, urban, and rural locations. As shown in Figure 12.1A, most urban centres are found in the more densely populated southern part of Sweden and along the north-eastern coast. The inlands and particularly the mountain range in the west are sparsely populated. While a large part of the country is vulnerable to economic restructuring due to a sparse population and high economic specialisation (Eriksson and Hane-Weijman, 2017), Sweden maintains a relatively high level of social protection (Singer *et al.*, 2015) as well as a high share of capital-intensive industries, such as manufacturing (Vikström *et al.*, 2007). These factors mean that the overall start-up rate, particularly the level of necessity-driven entrepreneurship, is among the lowest in the advanced capitalist world (Singer *et al.*, 2015; Vikström *et al.*, 2007). A slight over-representation of entrepreneurship is found, however, in the more sparsely populated rural regions, which suggests a relative shortage of jobs and, hence, more necessity-like entrepreneurial efforts (Eriksson and Rataj, 2019). Nevertheless, using Swedish data allows us to observe entrepreneurial decisions that are chiefly driven by identified opportunity across very diverse geographical contexts.

In our empirical design, we follow de Vos *et al.*'s (2020) findings, showing that the ability of small rural regions to borrow size from urban centres is primarily driven by the overall penetration of broadband in the place of residence, rather than by broadband availability at the residence. Therefore, we calculate our main independent variable (broadband access) by calculating the number of locations of firms in each municipality with access to broadband internet (with an average transfer rate of at least 1 Mbit/s) and dividing it by the number of locations of all firms in each municipality.<sup>1</sup>

In a similar fashion, we calculate the concentration of general internet access (DSL, 3G, or broadband) to assess whether fibre or just connectivity matters. The distribution of these two types of connectivity is shown in Figure 12.1B (broadband) and 1C (internet). Municipalities with high broadband access are mainly found close to regional centres like Sundsvall, Umeå, and Luleå along the northern coast, but also Östersund in the mountain range. There is also a cluster of high coverage in rural areas close to Växjö in the south. Both Hagfors and Munkfors belong to the category with the lowest coverage in 2012 (1.5% and 2.8%, respectively). Comparing Figure 12.1B and 12.1C, some rural municipalities have relatively high broadband penetration rates and





While internet access provides individuals with global connectivity and facilitates links with multiple locations, it cannot replace more personal connections that embed individuals in local social and business environments. Another variable of interest is therefore local social capital, which can help establish and maintain links between individual entrepreneurs and the local community (Eriksson and Rataj, 2019; Westlund *et al.*, 2014). The abundance of local social capital is estimated by the number of associations (*per* 1,000 inhabitants) registered on the municipality level. Though not a direct measure of social capital, the number of associations *per capita* is considered to be a good regional measure of differences in social capital across space, as it allows us to compare how heterogeneous and inclusive societal networks are (*cf.*, Eriksson and Rataj, 2019).

We also use a set of control variables identified as important in the literature on regional entrepreneurial activities (Westlund *et al.*, 2014). These variables are levels of entrepreneurial culture and human capital, industrial specialisation, population density, and the share of foreign-born population, levels of unemployment, employment, and salary level in the public sector, and municipal contracts granted to private service providers.

The estimation results are presented in Table 12.1. All models have the same specification, but are estimated for different types of municipalities. Model 1 covers all Swedish municipalities; Model 2 is estimated for municipalities that are part of metropolitan regions (Stockholm, Gothenburg, and Malmö); Model 3 is estimated for smaller urban municipalities; while Model 4 is for rural areas only (see Figure 12.1A). According to the results of Model 1, broadband penetration is indeed a significant factor in explaining the variance in firm formation in Sweden. Similarly, it is a significant factor when the variance in firm formation between rural Swedish areas only is analysed. Still, it is not a significant factor in Model 2 and 3, which focus on metropolitan and urban areas, respectively. As the variables used in the models are in logarithm format, the magnitudes of their relations with start-up rates can be compared. In this regard, broadband penetration is indeed of great importance, particularly in rural areas. At the national level (Model 1), the relation between broadband penetration and start-up activities is roughly just as important as the role of regional social capital. Additionally, broadband access seems to be an irrelevant factor in explaining the differences in start-up activities in the case of metropolitan and urban areas – where factors such as entrepreneurial culture, social capital, human capital, and public-sector incomes play a greater role. In the case of rural areas, the effect of broadband access is almost four times that of social capital.

These results are in line with the ‘borrowing size’ concept, as they indicate the significance of broadband access for rural areas, which face the greatest disadvantages related to population size. Nevertheless, considering the cost of investments in broadband infrastructure in rural areas, it is still valid to ask whether more limited internet connections are also beneficial for business activities. To verify this, models using general internet penetration rate (DSL,

Table 12.1 Multi-level models on the role of broadband access in regional start-ups 2007–2012

	(1)	(2)	(3)	(4)
	Metropolitan		Urban	Rural
<i>Y</i> = <i>Start-up level</i>	<i>B</i>	<i>SE</i>	<i>B</i>	<i>SE</i>
Broadband access	0.10*	(0.06)	0.02	(0.06)
Entre culture	0.05***	(0.02)	0.07**	(0.03)
Social capital	0.11***	(0.02)	0.12***	(0.03)
Human capital	0.20***	(0.05)	0.09	(0.04)
Specialisation	-0.14**	(0.06)	0.27***	(0.06)
Density	-0.13***	(0.01)	-0.04	(0.13)
Foreign population	0.04	(0.03)	-0.22***	(0.01)
Unemployed	0.02***	(0.01)	0.03	(0.14)
Public employed	-0.02	(0.05)	0.02*	(0.02)
Public salary	0.18**	(0.08)	-0.06	(0.05)
Municipal contracts	0.08***	(0.02)	0.06	(0.01)
Constant	2.68**	(1.15)	0.08***	(0.07)
Between-region S.D.	-2.19***	(0.18)	0.08***	(0.12)
Between-municipality S.D.	-1.80***	(0.05)	4.82***	(0.16)
Between-year S.D.	-2.19***	(0.02)	-2.24***	(0.22)
Observations	1734	498	-2.04***	(0.08)
			-2.12***	(0.03)
			810	426

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

#G, or broadband) instead of broadband penetration were calculated (Table 12.2). The results suggest that general access to internet still explained the variance in firm formation in Sweden, more universally as well as regarding the magnitude and statistical significance. This finding suggests that a ‘good enough’ approach might be a good strategy for municipalities facing the problem of limited resources for infrastructure investments.

### **Case study: Dutch lifestyle migrant entrepreneurs in Värmland**

To assess in more detail whether internet connectivity actually matters for entrepreneurs in rural areas and how the internet is used in their daily operations, we conduct a qualitative case study on Dutch entrepreneurs in the municipalities of Hagfors and Munkfors in Värmland. As shown in Figure 12.1A, Hagfors is categorised as rural remote, while Munkfors to the south is classified as urban dense (due to its location within commuting distance of the county capital Karlstad), but near the rural remote area. Since the 1990s, economically active Dutch migrants have increasingly migrated to Värmland (Swedish National Rural Development Agency, 2008, pp. 46–51), many of them seeking a more tranquil way of life. This has caused agencies like ‘Invest in Värmland’ and ALMI (a national investor in young growth companies) to encourage Dutch and other entrepreneurial migrants to advance Värmland’s transformation from a traditional manufacturing region toward more diversification (Swedish Agency for Economic and Regional Growth, 2013). Hence, the case of Värmland provides a clear example of using local policies to attract non-local (foreign) entrepreneurs.

To understand this particular case, we first explain the type of migration under study. This type of migration can be called ‘lifestyle migration’, as it concerns an ‘escape *from* somewhere / something, *to* self-fulfillment and a new life. A recreation, restoration or rediscovery of oneself, of personal potential or of one’s “true” desires’ (Benson and O’Reilly, 2009, pp. 2–3, original italics). Lifestyle migration often involves a combination of a search for healthier, more tranquil surroundings, Bohemian lifestyles, cheaper housing, and supposed close-knit communities (Benson and O’Reilly, 2009, 2016).

To date, there are no studies on the role of internet access in encouraging lifestyle migrant entrepreneurs to move to rural Sweden. There are, however, studies of these migrants’ social ties, social networks, social capital, intercultural communication, and embeddedness. Strong ties exist with reliable people, such as personal contacts, friends, and family members, who have similar views, beliefs, and problem-solving techniques (Granovetter, 1973). Weak ties exist with people who offer useful information, but otherwise operate outside the individual’s immediate network. These are co-ethnic suppliers, customers, and business colleagues who speak the same language, and through whom migrant entrepreneurs can receive business advice or recruit co-ethnic workers who are willing to work for a modest wage (Granovetter, 1973).

Table 12.2 Multi-level models of the role of internet access in regional start-ups 2007–2012

	(1)			(2)			(3)			(4)		
	Sweden			Metropolitan			Urban			Rural		
<i>Y = Start-up level</i>	<i>B</i>	<i>SE</i>		<i>B</i>	<i>SE</i>		<i>B</i>	<i>SE</i>		<i>B</i>	<i>SE</i>	
Internet access	0.27***	(0.07)		-0.24	(0.18)		0.31***	(0.12)		0.46***	(0.12)	
Entre culture	0.05***	(0.02)		0.07***	(0.03)		0.02	(0.03)		0.06**	(0.03)	
Social capital	0.13***	(0.02)		0.12***	(0.04)		0.04	(0.03)		0.11***	(0.04)	
Human capital	0.20***	(0.05)		0.10	(0.07)		0.28***	(0.06)		0.21**	(0.08)	
Specialisation	-0.13**	(0.06)		-0.24**	(0.10)		-0.05	(0.14)		-0.07	(0.13)	
Density	-0.14***	(0.01)		-0.02	(0.02)		-0.22***	(0.02)		-0.18***	(0.02)	
Foreign population	0.02	(0.03)		-0.24***	(0.06)		0.02	(0.05)		0.07*	(0.04)	
Unemployed	0.03***	(0.01)		0.05***	(0.01)		0.02**	(0.01)		0.03**	(0.01)	
Public employed	-0.05	(0.05)		0.03	(0.08)		-0.09	(0.07)		-0.05	(0.10)	
Public salary	0.15*	(0.08)		0.49***	(0.14)		-0.04	(0.12)		0.01	(0.16)	
Municipal contracts	0.08***	(0.02)		0.03	(0.03)		0.08***	(0.02)		0.07***	(0.03)	
Constant	2.80**	(1.13)		-2.07	(1.96)		5.76***	(1.65)		4.73**	(2.12)	
Between-region S.D.	-2.19***	(0.18)		-2.65***	(0.56)		-2.26***	(0.22)		-1.75***	(0.15)	
Between-municipality S.D.	-1.81***	(0.05)		-1.81***	(0.09)		-2.07***	(0.08)		-2.72***	(0.25)	
Between-year S.D.	-2.20***	(0.02)		-2.52***	(0.04)		-2.13***	(0.03)		-2.09***	(0.04)	
Observations	1734			498			810			426		

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

A basic social network analysis of Dutch lifestyle migrant entrepreneurs in Värmland assessed the local and non-local interactions between migrants and non-migrants (Eimermann and Carson, 2018). Many migrant entrepreneurs viewed local networks with co-ethnics as more rewarding for their businesses, although some deliberately sought to engage more in other networks, *e.g.*, with local Swedes. Their trans-local embeddedness evolved through processes in which local and extra-local interpersonal relationships complemented each other (Hedberg and Do Carmo, 2012). This stresses that embedded relations can be developed across multiple localities (Hess, 2004), as migrant entrepreneurs can be engaged in multiple flows of economic and social relations.

### ***Methodological considerations***

The case study presented here focuses on 12 interviews with Dutch migrants operating a tourism business (*e.g.*, restaurants, cafés, bed-and-breakfast pensions (B&Bs), hotels) with rural development potential (Lundmark *et al.*, 2014). Some have more consumptive lifestyle goals (enjoying a less stressful life in natural surroundings), while others are more driven by business growth and profitmaking – still others combine a consumptive lifestyle with productive business goals (Carlsen *et al.*, 2008; Bredvold and Skålen, 2016; Eimermann *et al.*, 2019).

The novel focus here concerns the role of internet access compared with that of social capital (analysed as weak or strong ties) when migrating, starting, and operating a micro-enterprise in Värmland. The 60- to 120-minute-long in-depth interviews provided information about 23 migrant entrepreneurs aged 36 to 55 at migration, revealing that six had pre-migration entrepreneurial experience. All had at least some work experience in different pre-migration occupations, and some combined various occupations simultaneously both pre- and post-migration.

The interview guide included questions on the motivations for migrating to Värmland and running a tourism enterprise there. Concrete questions were: ‘How did you obtain information on this property (local contacts, the internet, otherwise)?’ and ‘If you were to face challenges [in Sweden], where would you turn for help (local entrepreneurs, friends, the internet, ALMI, *etc.*)?’ The interviews were conducted in 2014–2015 and concerned the migration process (between 2005 and 2014). The interviewees operated micro-enterprises with no or very few employees (mainly during events, weekends, or high seasons).

One point of caution considers the relatively instable status of these enterprises. For instance, two interviewees closed or changed their enterprises shortly after the interviews. This shows the volatile nature of such businesses and the difficulties rural regions experience in building a stable entrepreneurial ecosystem. Brouder and Eriksson (2013) also report that none of the non-local tourism micro-entrepreneurs in the four northernmost counties in Sweden remained in business five years after start-up.

### ***Motivations to migrate and become an entrepreneur***

The decision to work as an entrepreneur in tourism often symbolised a clean break from past occupations. Explaining their migration to Värmland, the interviewees said it had enabled them to make a living from their hobby and to buy freedom and space. Many of them faced challenges like long distances to clients and suppliers as well as few partners to collaborate with in the immediate area.

Here, we analyse the interviewees' reasoning around internet access and strong/weak ties found in their answers to the interview question: 'How did you obtain information on this property?' They said that both the internet and social contacts were important. Many had derived information from specific real estate agents' websites, or through sites offering an overview of objects for sale. This shows the importance of the internet in the prospective migrant entrepreneurs' first contacts with potential destination areas. As Anders and Emma said:

We wanted to move to France but houses were too expensive there. A Dutch real estate agent promoting houses in Värmland caught our interest. This Dutchman and his Swedish colleague participated in expos and information meetings in the Netherlands. We were quite impulsive.

Other interviewees also explicitly mentioned spontaneous local contacts, which we view as weak ties. Both Jacob and Shirley indicated this social fabric using a Dutch expression ('via via'), described by Jacob as 'local contacts: Swedish friends who knew this house would soon be for sale'. A very down-to-earth explanation came from Paul and Shirley: 'There was a note on the door, saying this café would close in December. Early February we got the key and in March we opened the café'. But to see the note in the first place, they had to be there, rather than searching on the internet and sending emails to people ('who seldom reply'). Adam and Hanna indicated how weak ties can become strong ties:

We got to know some friends a while ago and they kept an eye on our holiday house when we were away. We have celebrated Christmas and Swedish midsummer with them, and we have been fishing and hunting together. They told us that this restaurant would be for sale.

In sum, answers to this first question indicated a two-step process: the internet is important for general and internationally accessible information, while transnational and local social capital are more important for specific inside and hands-on information.

The other interview question concerned post-migration issues: 'In case you have questions or challenges, where would you turn for help?' More growth-oriented lifestyle migrants (like Johanna) referred to their websites to describe

the kind of products, services, and packages they offer, indicating that they use the internet strategically for business purposes. Johanna said she benefited from skills (e.g., constructing websites) acquired in previous jobs. Tim and Anna explained how their attempts to develop initiatives like local and regional hiking and biking trails with the municipality's tourism office were useless: 'We presented our ideas neatly on a sheet, but this has been lying in a drawer for five years now'. Tim and Anna developed their ideas themselves instead, and promoted them on their newly built website (linking with their existing hotel website). Tim worked with online IT management and applications as a side activity, which according to him went well 'as the bandwidth appropriately offers hotel guests good internet connections' (this was a rare occasion of an interviewee directly mentioning broadband). Tim said: 'If we move to another country, we can easily bring this side activity with us'. Some years later, they did.

Less growth-oriented interviewees mainly used the internet's basic functions for announcing menus and events on their websites. Peter and Hermione were satisfied with their B&B's website: 'It's linked to several local, regional, Swedish, and international tourism sites. We try to connect to as many free sites as possible; otherwise it costs us a fortune!' Their cousin was developing a new website, which they planned to link to social media for increased visibility on smartphones. 'But as long as people can find us, we're happy'. Similar entrepreneurs, like Max and Lindy, mentioned enabling economic factors:

On websites for geocaching, we can see what they write about us. Sometimes it says 'bought a cup of coffee at the restaurant', which is free advertisement. People also do geocaching over several days and rent our rooms, which is a new target group!

Emma does 'an awful lot of ordering *via* the internet'. Given the long distances in Sweden, buying something locally could cost €400, while they can purchase the same product online for half that amount. She failed to mention whether this included shipping, but nonetheless reported using the internet for cost reduction.

Entrepreneurs also mentioned constraining economic factors for internet use. For instance, Yvonne was thinking of constructing a website for her knitting café to sell yarn online (an innovation to compete with similar cafés elsewhere), but this was difficult because 'shipping costs are high in Sweden, and these would be some really expensive balls of yarn!'

These quotes indicate that less growth-oriented Dutch tourism entrepreneurs also expect a certain standard of internet-related services (based on their previous habits and internet access in their areas of origin), but these should be affordable.

There was also more profound critique, which we relate to Värmland's unfavourable socio-economic circumstances. Max and Lindy reported on an



occasion when their smartphones didn't work because the internet provider had turned off the cell (transmission) tower. They switched to another provider, only to notice that a week later, their original provider was using the tower again. This contributed to their learning process, as they started using several providers to spread the risks, because for any type of information, 'the internet is one of the first things to consult'. At the time of the interview (2014), Peter and Hermione had not had internet for seven weeks. They were frustrated:

It feels like we aren't taken seriously! I had contacted the Swedish Consumer Agency for help, who referred me to the municipality, who sent us to Karlstad. Our contact at the local tourist office said that our small rural municipality is not prioritised in these matters. This would have been easily solved if this had happened in Stockholm. The general trend here is rather phlegmatic: 'we can't help it anyway, it happens to us, all we can do is accept it'. Now some politicians want the whole of the municipality to be upgraded to broadband. But we are sceptical.

#### ***Important weak ties at various scales***

While official procedures can be sluggish, the interviewees praised local and regional weak ties. Robert and Yvonne had good experiences with ALMI: 'The Dutch guy there advised us on the requirements for our website, rules and regulations, *e.g.*, regarding bank accounts'. On a more local scale, Anders and Emma had learned from local Swedes about practices like opening hours, Paul and Shirley were content with their knowledgeable Swedish accountant, and Max and Lindy reported good local support from friends and other (Swedish) entrepreneurs:

We ran out of soft drinks on a Sunday while the next delivery was not until Tuesday. We turned to the local pizzeria and they said, 'you can get some cans from us'. We asked how much we owed them, but they simply wanted to help out. Some days later, we returned the favor and brought some cans to them.

Such local assistance is often offered, for example, when people help with the dishes.

Finally, interviewees also developed ways to combine local, international, and transnational practices in their lifestyle migration and business aspirations. Robert and Yvonne incorporated travel to the Netherlands with purchasing products for their knitting café: 'We buy chocolate, goodies, and yarn at our Dutch supplier's store, and we have found a new supplier in Germany. We travel by camper and we visit three suppliers during our trips'. They preferred physically visiting the suppliers to buying *via* the internet, as they wanted to feel and see the yarn rather than basing their selection on pictures.

### **Conclusion: Internet combined with social capital**

This chapter assessed to what extent broadband internet access and social capital influence entrepreneurship in rural Sweden. This was accomplished using multiple methods. We quantitatively assessed the relation between broadband access and start-up rates of micro-enterprises in Swedish municipalities 2007–2012, and we conducted a qualitative case study on Dutch lifestyle migrants to assess whether broadband provision had influenced their decision to migrate and start a business and to what extent different internet-based digital resources are used in their business activities.

Our results demonstrate that broadband access is indeed positively correlated with entrepreneurial efforts in rural Sweden compared to larger urban regions. Complementary regressions, however, suggest that broadband *per se* is not pivotal, but rather access to the internet (through, *e.g.*, 3G/4G and DSL). Hence, the level of ‘good enough’ access is sufficient, but there is a lower limit of basic functions the internet must provide. This is evident from the qualitative analysis, as even the less growth-oriented lifestyle migrant entrepreneurs need to access the internet for marketing and support, but not necessarily for more advanced functions. One important factor here is to offer affordable alternatives to reduce vulnerability, as private providers do not always prioritise the sparsely populated regions in the country.

In combination with the basic functions of the internet, other factors like regional social capital are also important to regional variations in start-up rates (*cf.*, Eriksson and Rataj, 2019). This finding is supported by the interviewees who reported that social capital (at various scales) is at least as important. This entails local, regional, and transnational networks, in which trust-building takes time (Eimermann and Carson, 2018). Further research on the entrepreneurial pre-conditions in rural areas could thus focus more on different types of social capital, embeddedness, and social networks (Hedberg and Do Carmo, 2012; Eimermann and Kordel, 2018). Such studies should also include the degree of internet access in the areas of origin and the migrants’ pre-migration internet habits, as these factors influence their expectations.

In sum, our results suggest that it is important for start-up locations to provide a combination of various types of social embeddedness and technical connectivity on a satisfactory, but not necessarily high level. Such locations could allow entrepreneurs to take advantage of synergies and create resilient business strategies based on local resources. It is, however, difficult for entrepreneurs to function in locations where a certain type of embeddedness or connectivity is lacking. In fact, the global embeddedness of regions depends largely on the individual embeddedness of its entrepreneurs into wider social networks. This implies, for example, that positive aspects of internet access can be undermined by high shipping costs. Similarly, investment in broadband internet may be futile if the dialogue between local businesses and authorities is lacking. In other words, merely securing access to broadband is not sufficient for rural entrepreneurship; there must also be a satisfactory business and social climate

in the region. This is crucial to attracting foreign entrepreneurs, because they need to be able to tap into existing place-specific networks. In this regard, the open question for future research is to what extent successful local low-cost strategies, such as the 'good enough' approach, result from a good social climate and understanding of local business needs or are an accidental outcome of disregarding the need for better internet access.

## Note

- 1 We are indebted to Duco de Vos, who granted us access to this data.

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# 13 Tourism micro-enterprises and entrepreneurship in rural Norway

## Opportunities and constraints

*Ingeborg Nordbø*

### Introduction

And at the beginning of August I often think, ‘Oh, I hope summer ends soon’. You have no time for yourself, no leisure time. They can be very demanding, they are on holiday and they often think ‘you must do my bidding, I’m a guest, I’m a customer. When I ask, you must come here, now’. Most of the time this is fine, but sometimes I get really sick of it.

(Elizabeth)

The tourism industry is, numerically speaking, dominated by micro-enterprises, *i.e.*, businesses with fewer than ten employees (Baines and Wheelock, 1998). Micro-enterprises constitute an extensive and vital part of the global tourism system (Thomas *et al.*, 2011). In a European context, Middleton (2001, p. 199) argues that they make up 95% of all tourism enterprises. The dominance of micro-enterprises in tourism is especially visible in the rural tourism sector (Komppula, 2014; Yachin and Ioannides, 2020; Mura and Kljucnikov, 2018).

Small businesses, micro-enterprises, and entrepreneurship in tourism are given high importance in policy debates in terms of their assumed contribution to rural and economic development (Nordbø, 2009; Jaafar *et al.*, 2011; Cunha *et al.*, 2018), because they are commonly recognised as a gateway to economic independency, community empowerment, and capacity building (Zhao *et al.*, 2011). However, as highlighted by Koens and Thomas (2015), the limited research on the subject does not provide evidence *pro* or *contra* such claims (Joppe and Brooker, 2013). According to Zhao *et al.* (2011), the most obvious form of entrepreneurship is that of starting up new businesses, but in rural tourism, many micro-enterprises never make it beyond the entrepreneurial stage.

A majority of the research on tourism entrepreneurship has centred on identifying the goals and objectives of the entrepreneurs, establishing that, in general, tourism entrepreneurs are not as growth-oriented as the more usual business entrepreneurs, and that they often initiate tourism enterprises on the basis of the goal of realising a particular lifestyle that balances economic, family,

and social needs (Ateljevic and Doorne, 2000; Carlsen *et al.*, 2008), and a lesser concern on the accumulation of personal wealth (Shaw and Williams, 1998). Still, however, governmental policies and funding opportunities focus almost entirely on growth-oriented entrepreneurs.

There is obviously a mismatch between what research shows and public priorities and support schemes say when it comes to rural tourism, and the role of micro-enterprises and entrepreneurship in terms of innovation and economic development of rural areas. Power *et al.* (2017) rightly pinpoint that the topic of tourism entrepreneurship deserves more rigorous academic attention than it has received until now. Through a case study of 11 tourism micro-enterprises in the municipality of Tinn in rural Norway, we address this mismatch and convey a better understanding of the more complex amalgam of factors underlying the high failure rate among rural tourism entrepreneurs. We focus on the following research question: What are the main factors determining whether the micro-enterprises in rural tourism make it beyond the entrepreneurial stage?

In order to answer the research question, the chapter is organised in the following manner: The next section presents the theoretical perspectives related to micro-enterprises and entrepreneurship in rural tourism. In the subsequent section, the methodology consisting of a case study of 11 micro-enterprises and entrepreneurs in a rural location in Norway is elaborated, followed by another section presenting the findings. Finally, the last section consists of a discussion and conclusion on the subject, presenting the contributions, limitations, policy recommendations, and potentials for future research.

## Theoretical background

Rural locations offer idyllic settings for tourism, but are reported to be particularly challenging for entrepreneurs, given their distance from larger markets, skilled labour, and their more dispersed business networks (Bosworth and Fannell, 2011). The majority of rural tourism enterprises tend to be lifestyle firms (Li, 2008; Ateljevic, 2009; Joppe and Brooker, 2013), which Burns (2001) describes as enterprises or businesses set up primarily either to undertake an activity that the owner-manager enjoys or to achieve a certain level of activity that provides adequate income. Bransgrove and King (1996) indicate that what they label lifestyle goals are twice as frequent in rural areas, compared to other regions.

Related to the discussion of lifestyle entrepreneurs to rural areas are the 'lifestyle migrants' or 'amenity migrants' (Carlsen *et al.*, 2008; Iversen and Steen Jakobsen, 2016; Vuin *et al.*, 2016), understood as the migration of people to places of extra-ordinary physical, recreational, and cultural amenities (Moss, 2006). While some entrepreneurs thus have migrated to the rural location specifically to start a business, others already live there. Hence, rural tourism entrepreneurs are either *pulled* (amenity migrants) or *pushed* (long-term residents) into tourism as an economic means to initiate, change, or maintain an

everyday life and a rural lifestyle (Nordbø, 2009). In between the two main groups of rural tourism entrepreneurs, we find the ‘back movers’, which are (often young) entrepreneurs who have taken an active lifestyle choice to move back to the rural community where they grew up. Operating a rural enterprise arguably makes the role of the entrepreneur even more critical within the local context (Benneworth, 2004).

Many rural tourism enterprises also tend to be family oriented (Banki *et al.*, 2016; Kallmuenzer and Peters, 2018), where a great concern is expressed not only towards the long-term survival of such firms but also their innovative capacity (Nordbø, 2009). Morrison (2006) characterised these small family-owned enterprises as having relatively low professional skills and financial barriers to entry, which are also attractive qualities for individuals seeking alternative careers. Joppe and Brooker (2013) argue that the rural tourism enterprises are often led by mature individuals and/or families, who do not prioritise innovation but prefer to combine business with lifestyle. In most cases, they do not achieve the necessary levels of critical mass then required to make investments in capital and technology financially worthwhile.

The micro-enterprises in tourism are characterised by economic marginalisation, informal management, a lack of formal marketing strategies, short-term planning span, low skills within and knowledge about the tourism business, and very different employment experiences (Shaw, 2004; Getz and Carlsen, 2005; Nordbø, 2009). The entrepreneurs are portrayed as lacking vital tacit and codified knowledge, as expressed through a lack of formal education and relevant experience from entrepreneurship, management, and tourism (Nordbø, 2009). The study by Joppe and Brooker (2013) suggests that rural tourism is a homogenous sector, challenged by the mindset of the individual operator and a lack of support and leadership. Getz and Nilsson (2004) report that several micro-enterprises experience extreme seasonality, meaning that 50% or more of the total visitor arrivals appear in the peak season. This implies that the entrepreneurs are often forced to minimise labour costs by maximising their own input and taking on multiple roles within the business. Apart from minimal financial rewards, owner-managers have also complained about long hours, disruptions to family life, and the lack of ability to preserve privacy as major issues (Mendonsa, 1983). On the other side, and from a visitor’s point of view, such host–guest interactions in the entrepreneur’s or family’s home or property are fundamental for visitor satisfaction, and thus, they cannot be easily replaced (Clarke, 2004; Nordbø, 2009; Joppe and Brooker, 2013). The overall approach results in a focus on survival rather than thriving (Brooker *et al.*, 2012), given the moderating factors that impact the growth potential.

## Method

The aim of this study was to get a better understanding of the main factors determining whether the micro-enterprises in rural tourism make it beyond the entrepreneurial stage. To do so, the research was set up as a case study

allowing for the study of a phenomenon within its real-life context (Yin, 2003). It explores 11 micro-enterprises located within a specific municipality in rural Norway. The municipality of Tinn in south-eastern Norway was chosen as the case area due to two main reasons: Firstly, the municipality is considered the 'cradle of tourism' in Norway and is known for its scenic beauty and rich cultural heritage. Secondly, the municipality has for decades attracted immigrants from other parts of the country and abroad, who have been pulled to settle in the area in order to practice their hobbies (such as ice climbing, hiking, bungee jumping, handicrafts, small-scale farming, *etc.*) or in search of an alternative lifestyle. The micro-enterprises were chosen based on the researcher's former knowledge of the tourism industry in the municipality and suggestions of relevant enterprises from the local destination marketing organisation (DMO) and municipality administration. The 11 enterprises were selected through representative sampling, and the sample reflects the variety of the tourism micro-enterprises in the municipality (see Table 13.1).

Data regarding the enterprises was collected through the three main channels of participant observation, a total of 15 in-depth interviews, and secondary sources (home pages, company information in national registries, online databases holding economic information, newspapers, *etc.*). The interviews were conducted with the founders of the enterprises (*i.e.*, the entrepreneurs) or with both founders in the two cases where the business was established by the couple in conjunction. Furthermore, one interview was conducted with the local DMO, one with a representative from the county administration, and two with representatives from the municipality administration. The respondents represent a huge variety in terms of tourism offers and span from ice climbing, camping, hiking, traditional farms/summer pastures, to small hotels. The main data was collected between 2004 and 2005 and followed up by company visits and a desk study in 2019 and 2020. The interviews ranged from around one to two hours in length, and they were all recorded and transcribed. Notes and short memos were written during and after participant observations as well as after each company visit.

## **Findings**

The analysis of the different data demonstrates that it is possible to identify two main categories determining the success or failure of the micro-enterprises beyond the entrepreneurial stage. The first group deals with the entrepreneurs themselves, while the second group deals with a number of issues related to operating a micro-enterprise in the field of rural tourism. Below we will present some of the main findings within each category.

### ***The characteristics of the entrepreneurs***

In the first group dealing with the characteristics of the owner-managers, we identified three subcategories. The first subcategory addresses the education



Table 13.1 Characteristics and development of the tourism micro-enterprises and entrepreneurs in 2003/2004 compared with 2019/2020.

Type of Enterprise	Experience providers			Farm tourism		Mountain Pasture		Accommodation			
	1	2	3	4	5	6	7	8	9	10	11
Company no.											
Year of establishment	1998	2001	2002	1993	1995	1995	1995	2005	2002	1995	2003
Company type: Sole proprietorship (SP)/ Joint Stock Company (Ltd.)	SP	Ltd.	SP	SP	SP	SP	SP	SP	Ltd.	-	Ltd.
Management	F	M	M	F	M	Joint	F	F	M	F	Joint
Firm established by current owner (Y/N)	Y	Y	Y	Y	Y	Y	Y	Y	Y	(Y) <sup>1</sup>	Y
Immigrant (I)/Moved Back (MB)/Never Moved (NM)	I	I	I	I	NM	NM	MB	MB	NM	NM	I
Still in operation 2019–20 (Y/N)	N	Y	N	N	N	Y	Y	Y	Y	N	Y
No. of employees in 2020	-	9	-	-	-	N/A	0	2	20	N/A	0

and work experience of the different entrepreneurs, the second subcategory relates to their specific entrepreneurial personality, and the third subcategory deals with the benefits of being an immigrant entrepreneur in this specific rural context.

### ***Knowledge: Education and experience***

At the start of the study in 2004/2005, few of the entrepreneurs could report on any formal education in tourism or in small business management, one exemption being one of the co-preneurs<sup>2</sup> in company 2: 'I've studied hotel management and culture at the The Norwegian School of Sport Sciences'. However, some of the other owner-managers had higher education from fields other than tourism, either directly related to the type of tourism craft they were performing (*e.g.*, education in outdoor life) or a management or business education. Among those who did not have any formal education or any specific training in tourism or hospitality when they initiated their businesses, several of them have later attended more applied tourism classes or courses: 'I took travel school very quickly. And it was very useful. The course was fabulous' (company 4); 'I've been on many courses, I have learnt a bit about the craft of being a host for tourists' (company 5). Furthermore, several of the owner-managers had job experience prior to tourism that they highlighted had been very useful in operating their business. The female co-owner at company 11 used to be a business developer and personnel manager for a large enterprise in the Netherlands, and the owner-manager at company 10 says: 'I wasn't the manager officially, but I felt as though I was running the place almost on my own, with 50 members of staff and I've learnt an incredible amount up there ... So I got a lot free from her'.

### ***Passion and proactivity: About not taking 'no' for an answer***

The second subcategory deals with the mindset of the entrepreneurs and, more importantly, the difference between having and not having a proactive attitude towards the development of the enterprise. Whilst some of the entrepreneurs recounted how they actively sought out opportunities and pushed through processes; others were more passive during enterprise development. Several of the entrepreneurs also highlight that a passion and commitment to what they do is what keeps them in business (company 2, 7, 8, 11): 'I think it is a lot about passion. You can't learn passion, right. You need an idea. You can never learn that idea, so you must have the necessary passion. And you need to try and fail on your own' (company 2).

### ***The benefits of being an immigrant***

The third subcategory deals with the fact that being a migrant entrepreneur was found to be an advantage in terms of enterprise development. Because

while several of the locally born entrepreneurs expressed frustration with a lack of backing and recognition from the local authorities and inhabitants, the immigrant entrepreneurs told about the warm welcome and open attitude with which they had met:

From the moment I moved here, I feel I've been welcomed with open arms, truly I do. Incredibly supportive, incredibly positive, a lovely place to settle down in the way one has been welcomed with new ideas, thoughts, seeing opportunities. I think it's probably hard to have a vision if you're so close to home, but coming from outside the area and seeing the opportunities is easier.

(company 2)

### ***The operational characteristics of small-scale rural tourism***

The second main group of factors determining the success or failure of the tourism micro-enterprises beyond the entrepreneurial stage deals with a number of subcategories that are not directly related to the entrepreneurs themselves, but rather to the operating of a micro-enterprise in rural tourism.

### ***Employment issues: Price, availability, and dependency***

The first subcategory identified here deals with the fact that tourism is not a very attractive place to seek employment due to low salaries, awkward working hours and seasonality. The entrepreneurs report that such issues affect them in multiple ways, *e.g.*, in terms of difficulties in finding skilled workers for short periods of time, and high prices for employers in peak seasons. As a result, the entrepreneurs often have to rely on family members and friends to help with the daily operations: 'I couldn't find a cook, but my mother and a friend of mine were kind and worked up there for a lot of the time that summer ... And then I hired someone in from a temping agency. For 15,000 kroner a week. But that was the only possibility there and then' (company 10). Others report that due to the seasonality and because they cannot afford to hire permanent staff, they are highly dependent on voluntary work from family and friends (company 4, 6, 7, 8).

### ***Multi-tasking in all its beauty***

The second subcategory refers to the extensive multi-tasking involved in running a micro-enterprise in rural tourism and is partly related to the employment issues as identified above, as the following quotation highlights: 'there are so many things you have to do here to maintain the place and he does all the re-building, landscaping, and lawn-mowing ... And for the most part we do all the cleaning ourselves, all the toilets, cabins, *etc.*' (company 11). As also highlighted in the quote presented in the introduction, multi-tasking is,

of course, most pronounced or acute during the peak season, but also during the 'low season' when owner-managers and family members have to fulfil a number of, if not most, functions and roles such as marketing, booking, accounting, maintenance, *etc.* This also implies that they are often forced to perform a number of functions they do not like (for instance, writing applications for funding, booking, *etc.*) or for which they do not have the skills (such as marketing, accounting, *etc.*). Several of the entrepreneurs highlight that the amount of work and multi-tasking involved in running a micro-enterprise in the field of tourism wears them out, and they state that they often feel like they are drowning in the day-to-day business operations. They report that there is never the time or the energy for long-term strategic business planning. Two of the female entrepreneurs also report that the multi-tasking also means that they constantly have bad consciences, because they feel they have too little time and energy for their own children.

### ***The extended family: Living with staff and clients***

We have labelled the third subcategory 'the extended family', which is a concept used to describe the difficulties in keeping privacy when operating a tourism micro-enterprise: 'We live on top of one another, the staff, we're together from seven in the morning until we go to bed in the evening. You've never got a minute to yourself' (company 11). Several of the owner-managers highlight that, although most clients are very nice, they tend to be very demanding and expect them to be there for them 24 hours a day and seven days a week and that they have to attend them with a smile no matter how they feel: 'You can't treat them negatively, even if you're damn sick of it, you have to be service-minded' (company 5). Other owner-managers recount that some tourists tend to walk in and out of their homes and private areas as if they were living there, and that they often want to have a say in the daily operations of the business and have many opinions about everything. One of the female entrepreneurs also reports that the customers interfere in the upbringing of her child: 'And they sneak her chocolate, ice cream, loads of that kind of thing ... people think they are just being kind, but that's not the way we see it' (company 10).

### ***Pricing of services and experiences: How much can you charge for a cuddle?***

Related to the 'extended family dimension' is also the fact that several of the entrepreneurs find it hard to charge for some of the experiences that are part of the product they offer. Some of the farm and mountain pastures where people normally are used to paying only for food or accommodation highlight that it is difficult to know when and when not to charge for a product, such as a fishing trip or storytelling because of the close guest–host interaction where the guests turn into friends instead of customers. The entrepreneurs are very aware of the need to generate income from the business, but at the same time they employ a variety of cognitive 'justification strategies' to explain why they under-price

or do no charge for parts of their products at all: 'I do it because it's fun and I get to go on the fishing trip, too ... If you just think about money all the time, it all becomes rather dull, I think' (company 5).

### ***Lack of participation or interest from family members***

Several entrepreneurs state that the fact that their children or other family members are not really interested in getting involved in the business hinders them in developing their concept: 'If Kristin had been very interested in making food and that kind of thing ... We could have had buses come up here and served lunch, told them a bit about the history' (company 5). Others highlight that family members are not willing to get involved in the kind of lifestyle that running the tourism enterprise implies: 'But it's difficult to get someone to take it over, y' know, because you have to be up there all the time, and like what are you going to do for the rest of the year' (company 4).

## **Discussion**

In this chapter, we explore the research question of why so many micro-enterprises in rural tourism do not make it beyond the entrepreneurial stage. If we thus study *what happened to the tourism micro-enterprises over a span of 15 years*, Table 13.1 provides a good indication. Most of the enterprises in the study had started operating shortly prior to the first visit in 2004/2005, but in 2019/2020, five of them were no longer in business. Table 13.1 also illustrates that most of the tourism micro-enterprises studied were established as sole proprietorship (SP), and only three as joint stock companies (Ltds). In 2019–2020, five of the eight sole proprietorships were closed, while two out of three Ltds have expanded into rather successful enterprises, as indicated by the number of employees in 2019–2020. We could argue that business success and failure, at first glance, is related to the type of company established with the enterprise, where Ltds at the time would imply an investment of 100,000 kroner and therefore a larger commitment on the part of the owners, but as we will discuss below, the picture is more complex.

As reported by other researchers (Ateljevic and Doorne, 2000; Carlsen *et al.*, 2008; Jaafar *et al.*, 2011; Shaw, 2004), lifestyle motives are also dominant among the rural tourism entrepreneurs in this study, and among the migrant entrepreneurs, they are predominant. Among the 11 enterprises, five are amenity migrants (Moss, 2006), of which all were still in business in 2019–2020. There are two main groups of motives found with these entrepreneurs. For the first group, tourism is an economic means to *improve* one's everyday life (including work situation) by moving or moving back to a rural location (amenity migrants and 'moving back' entrepreneurs), whilst for the second group, entering tourism is an economic means to be able to *maintain* a rural everyday life and lifestyle (permanent residents). The majority of the entrepreneurs are reluctant to grow their business, which is in line with the observations made

by other researchers (Ateljevic and Doorne, 2000; Brooker *et al.*, 2012; Dias *et al.*, 2020), as this is perceived to lead to possible burnout and the loss of passion or devotion to their crafts. They highlight that operating a small-scale tourism enterprise is a balancing act, and it becomes a *way of life*, where the search for profit is not the main driver. However, despite the fact that the majority of the studied entrepreneurs do not follow economic motives, their contribution to settlement, job creation, and destination development is visible (see Table 13.1).

Furthermore, this study shows that one of the most important *personal characteristics of the entrepreneurs* in terms of success or failure beyond the entrepreneurial stage is what we have labelled passion and a sense of devotion to what the entrepreneurs do. In order to withstand the economic marginality and the tough ‘everyday life’ of running a micro-enterprise in rural tourism, one needs to have a special sort of drive and a proactive attitude, which ultimately will have a major say in whether the entrepreneur ‘survives’ in the long term or not. From the study, we thus see that the ‘passionate’ entrepreneurs are still in business in 2019–2020. An interesting finding is also that, compared to the findings of many other studies (Shaw, 2004; Getz and Carlsen, 2005), the entrepreneurs in the undertaken study have both relevant knowledge and managerial experience. Contrary to common beliefs, the findings illustrate that, in order to operate a micro-enterprise in tourism successfully in the long-term, sufficient tacit and/or codified knowledge is essential. The most successful enterprises have entrepreneurs with higher education from either the field of management and business development or related to their business’s core competence (*e.g.*, mountaineering), or relevant work experience (mainly from management or business development). Another interesting finding is that being a migrant entrepreneur to a rural location in Norway might be advantageous in terms of unfamiliarity with cultural manifestations such as the *Bygdedyr* and *Jantelov*<sup>3</sup> (often described as central characteristics of the Norwegian countryside), and in terms of the backing from local authorities and supportive agencies.

When it comes to the second group of challenges for survival beyond the entrepreneurial stage, cyclic demand (Getz and Nilsson, 2004) is often reported to be the main barrier, and that entrepreneurs would prefer to expand the peak season, as this would improve their financial positions a great deal. The entrepreneurs in this study, however, report that, in order to resist the hectic working conditions during the peak season, it is important for them to have long holidays or periods of rest during their low season. In this respect, several of the entrepreneurs argue that they do not see pluri-activity as an option for supplementing their income, since it would not allow for such long breaks. The lack of time for strategic planning and enterprise development is reported to be a bigger challenge than limited financial resources due to cyclic demand. Other operational characteristics are more challenging than economic issues, such as difficulties in finding qualified and reliable staff, the extensive multi-tasking, the tough working conditions during peak season, and a number of issues related to what we have labelled the ‘family

aspect' of rural tourism. Furthermore, several of the entrepreneurs state that it is difficult to hand over the craft as a tourism host in rural tourism to just anybody, because it is too intertwined with the personality and character of the entrepreneurs themselves. The 'family branding', the personal contact and smallness are central features of the attractiveness of rural tourism, and thus cannot be replaced easily. An interesting finding from the study is also that the factors that the entrepreneurs report as the most exhausting about working with tourism ('the extended family', seasonality, *etc.*) are also those that are the most rewarding.

### **Conclusion, implications, limitations, and research outlook**

The chapter sets out to gain a better understanding of the main factors determining whether the micro-enterprises in rural tourism make it beyond the entrepreneurial stage. We found that, despite what many authors have claimed, a lifestyle- or family-orientation of tourism entrepreneurs does not *per se* result in financial suicide, lack of innovation, or stagnation of the rural enterprise. In line with the existing literature, we also demonstrated that entrepreneurs enter rural tourism as a means to be able to move to or stay in a specific rural location, and that through such initiatives they do contribute to community development.

The business failure in this study is related to two main reasons, the lack of interest of family members to take over, and operational characteristics related to the 'general wear and tear' of rural tourism. This study thus also shows that if micro-enterprises in tourism are to become catalysts for economic development in rural areas, policy incentives need to be changed from a focus on the growth-oriented entrepreneurs to embrace the lifestyle and amenity orientation of rural tourism entrepreneurs. Therefore, for micro-enterprises in rural tourism to thrive, government policies and support mechanisms guiding policies need to be changed from an orientation of the classical capitalist perspective of growth and profit towards a focus on organised accessibility to sources of codified and tacit knowledge to ease the multi-tasking and shortcomings of the entrepreneurs. An example of such initiatives would be to provide the entrepreneurs with access to a pool of qualified second-home owners in the rural municipality, which could either be represented on company boards or serve as mentors. Moreover, policy initiatives could simply grant the entrepreneurs access to a joint marketing advisor or accountant specialising in micro-enterprises and/or tourism. Hence, further research needs to be directed towards identifying such support schemes, modes, and mechanisms that micro-enterprises and entrepreneurs in rural tourism would benefit from.

### **Notes**

- 1 The accommodation infrastructure is owned by the Norwegian Trekking Association (DNT), but the day-to-day operations were run and organised as a micro-enterprise.

- 2 Co-preneurs refers in this paper to a business initiated by a couple together, *e.g.*, husband and wife.
- 3 The Law of Jante. An expression formulated by A. Sandemose in the novel *En flyktning krysser sitt spor*, after the little town *Jante*, where the main character grows up. It is denoting people's narrow-minded, tyrannical pressuring of the individual.

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# 14 Entrepreneurial knowledge strategies in specialty food innovations<sup>1</sup>

*Gesine Tuitjer*

## Introduction

Entrepreneurship and innovation are key to regional growth, and in rural areas, small businesses are also important for resilience to shocks and adaption to changes (Atterton, 2016; Steiner and Atterton, 2014). A key resource on which innovation, again, relies is ‘knowledge’. Enterprises and entrepreneurs in rural and peripheral locations are usually thought to be impaired by various locational disadvantages, such as a difficult access to knowledge. Universities and KIBS (knowledge-intensive business services) are scant; there is no critical mass of buyers, consumers, or other enterprises with whom to network or profit from spill-overs. In general, rural areas are thought to be institutionally ‘thin’ places (Tödtling and Trippl, 2005) and the enterprises located here exhibit a lower propensity to innovate (Rypestøl and Aarstad, 2018). However, this clear-cut theoretical model of innovation as a function of space and density of interaction is not so unambiguous empirically.

Indeed, part of the differences in innovation activities between rural and urban enterprises might be an artefact of research methods and interests (Küpper and Margarian, 2012; Shearmur, 2017). On the one hand, rural areas are not monitored to the same extent with regard to innovative activities as are agglomerations, clusters, or high-tech industries. On the other hand, innovation processes in very small and small (rural) enterprises might look quite different from those in other types of enterprises. While patent-based measurements of innovation are biased towards large enterprises with R&D expenditures, innovation in rural and small enterprises is thought to be a process of *bricolage* (Baker and Nelson, 2005), *i.e.*, driven by the ability to make do with whatever is at hand, to solve problems popping up in the daily operations. Rural enterprises are predominantly smaller and belong to less innovative, mature industries, for example, food production. This text is focused on the innovation processes taking place in micro-enterprises from the food sector. Against the background of a ‘thin’ rural environment, we ask how these enterprises can become innovative, what knowledge they source, and where they source it from.

The remainder of the article is structured as follows: the next section introduces the concept of regional innovation systems and the knowledge-based approach in innovation with a focus on the importance of symbolic knowledge in rural areas. Then, we proceed to our case study of innovative craft-food enterprises and their knowledge-sourcing procedures. We conclude with some implications for practitioners and policy-makers.

### **Knowledge base, knowledge sourcing and innovation in the rural economy**

Regions and industries possess different knowledge bases, and, therefore, the regional and or industrial patterns of innovation differ (Asheim and Gertler, 2006). Asheim *et al.* (2007) distinguish between an analytical knowledge base found especially in science, a synthetic knowledge base found in manufacturing, and a symbolic knowledge base found in creative industries such as marketing. While the knowledge-base literature has been criticised for its rather static dealing with knowledge and the neglect of re-combinations of various sources of knowledge in innovation processes, more recent approaches focus on the evolutionary and re-combinatory development of regional advantages (Boschma, 2018).

Crevoisier and Jeannerat (2009) introduce a framework of territorial knowledge dynamics as an ‘update’ to territorial models of innovation processes (TIMs). The framework is centred around the relevance of symbolic knowledge, the mobility of knowledge and other production factors, and natural and cultural resources in economic processes. Hence, their model of regionalised innovation is much more suitable to processes of learning and innovation in the service sector and cultural economy, to which also some tourism activities in rural areas belong. While the re-combination of various types of knowledge (*e.g.*, technical and analytical) and from different sectors and locations (local and global) is a central aspect of TIMs, Crevoisier and Jeannerat (2009) point to the growth of symbolic knowledge in the rise of the experience economy (Pine and Gilmore, 2013). Here, the focus is on the consumer’s contribution to the value of products through emotional attachment or the *eventisation* of everyday practices. The ‘turn to quality’ (Murdoch *et al.*, 2000) in food consumption and production, and the diversification of the tourism industry, are two areas in which this increasing relevance of symbolic knowledge becomes visible in rural areas. Symbolic knowledge refers to group-specific, socio-cultural constructions about the value or the meaning of things, for example, of certain foods, ingredients, production methods, *etc.* (Manniche and Larsen, 2013). The shared knowledge is expressed in formal idioms in marketing and advertising. Advertising, for example, often calls on socially shared latent concepts of an idyllic rurality, healthy lifestyles, and diets. Just like tacit (technical) knowledge, symbolic knowledge can be conjunctive, *i.e.*, difficult to express or define verbally, because it is embodied and self-evident, sometimes pre-reflexive to its holders (Bohnsack *et al.*, 2010). It is group-specific and can, of course, also

be place-specific. Christopher Ray (1999) has highlighted how rural areas can use symbolic knowledge to re-value historical, cultural, or natural resources both for the formation of regional identity and regional development. In the last years, consumer demand for quality-food production and consumption has been rising (Murdoch *et al.*, 2000). This includes organic, but also regional foods, specialities, or food products connected to ‘alternative’ lifestyles such as vegan diets and so-called ‘alternative agrifoods’ (Renting *et al.*, 2003). These processes can be beneficial for rural areas if they are able to develop themselves as new tourism destinations or quality-food regions (Lee *et al.*, 2015; Novelli *et al.*, 2006). Indeed, Margarian (2018) points out that peripheral regions have advantages for growth, primarily in newly established markets or industries, while their potential to catch-up to economically strong regions with well-developed regional knowledge networks and competitive advantages is rather small. Thus, innovative food production is a development strategy for some rural areas. Manniche and Larsen (2013), in a seminal case study, show how a collective process turned the island of Bornholm into Denmark’s top food location, while inventing an entirely new quality-food culture. While alternative foods and the business (networks) behind them are receiving strong academic attention (for a summary, see Tregear, 2011), little is known about the place-specificity of the entrepreneurial strategies behind such food-businesses. It is important to note that agriculture and patterns of quality food can look quite different across rural areas (Manniche and Sæther, 2017; Siebert and Laschewski, 2010; Tregear *et al.*, 2007).

Against this background, our research question is how do these small food enterprises become innovative in areas which are not known as centres of cultural creativity? How do they source the knowledge they need for innovative food products and where do they source it from?

## Case study

The case study presented here is based upon a larger research project accompanying a federal pilot funding scheme for rural development. The funding scheme was intended to foster economic development in rural areas across Germany. In total, 13 German regions received funding. Vorpommern-Rugia, the region under focus here, decided to focus on entrepreneurship in the food sector and to foster regional business networks.

Vorpommern-Rugia is one of the largest and least populated counties in Germany with 70 inhabitants *per square kilometre* (INKAR, 2017), located on Germany’s eastern shore of the Baltic Sea. The coastal zone’s tourism economy is well-established, with almost ten million overnight stays in the year 2017 (INKAR, 2017). Recently, the county’s hinterland has likewise been experiencing growing tourism. Because it is one of the sunniest areas in Germany, there is also some in-migration of retirees. Besides agriculture (crop), further regionally important industries are maritime industries with shipbuilding. Agriculture in the entire north-east of Germany is characterised by very large

plots, and land-ownership of institutional actors and large enterprises (Tietz, 2017). This pattern sets the north-east apart from other agricultural areas in Germany, especially the south and west of the country, which are dominated by much smaller estates often held by family farmers (DESTATIS, 2011). Historically, the region barely industrialised but has rather remained an agricultural area, with large estates run with the help of peons' labour. The region has been thinly populated since the wake of Christianisation and continues to be so, experiencing considerable outmigration to the growing centres of the heartland in the period of industrialisation and, again, after the German reunification (Foißner, 2000). Given the regional agricultural structure, foods such as EU-certified products of certified origin or food processing do not play a relevant role in the regional economy. In an important case study of the region, Siebert and Laschewski (2010) show that only after the Re-Unification, has a new food culture been established slowly with organic agriculture. The general knowledge infrastructure of the region, however, is comparatively well-developed with two old universities in Greifswald and Rostock and some agricultural research facilities across the region.

Five of the eight entrepreneurs covered in this chapter are in-migrants to the area. Some of them arrived directly around or shortly before the fall of the Berlin Wall; others settled within the last ten years. Before they set up a craft- or specialty-food enterprise, they had been self-employed. Areas of activity are, *e.g.*, the production of coffee from roasted grain and legumes (protein plants), fermented vegetables, mustard and oils, and cheese and bread. The entrepreneurs share an environmentally conscious mindset and run their business with the intention of minimising harmful environmental impacts. They do so by using predominantly local resources and raw produce, which many of them cultivate themselves. They are certified as organic businesses or adhere to organic principles without certification. While their products set them apart from the more traditional artisan food producers (such as bakeries), they are not an uncommon group of actors in rural development schemes. Indeed, quality production of oil and mustard can be found in almost any rural region with a minimum degree of tourism. Thus, the entrepreneurs of this study are not representative of all rural enterprises, but make up a widespread group of rural entrepreneurs.

## Data and methods

Between 2015 and 2019, 21 interviews were conducted with eight craft- and specialty-food entrepreneurs as well as regional experts from the business sector, tourism, and regional development. The entrepreneurs were chosen because they were involved in the above-mentioned funding scheme and had produced innovative (*i.e.*, new to the region) food products. Collected data comprises various forms of interviews. Innovation biographies (Butzin *et al.*, 2012) were conducted with entrepreneurs to learn about the development of the innovative food product from the development of the idea to

the realisation and distribution of the new product. The biographic, narrative character of the interviews provides a subjective account of the innovation process, which is very valuable in order to detect hindrances, problems, and detours within the process. The possibility of interviewing some entrepreneurs repeatedly over the course of three years (because they received funding throughout this time) allowed for short retrospective episodes and a very close monitoring of the oftentimes challenging process of innovation. In addition, a group discussion was held with some of the entrepreneurs concerning the regional locational conditions for entrepreneurship and enterprises.

The interviews were transcribed and coded for the different research questions. The main areas of interest were the innovation process in small enterprises, the knowledge flows behind the innovation, and the networks surrounding the innovation and enterprise development process.

## **Results**

The interviews reveal a pattern of knowledge sourcing and networking which basically builds on global symbolic knowledge sourced along wide-spanning loose networks and social media, which is put into practice and implemented at the local scale with the help of locally bound networks of like-minded entrepreneurs. The locally sourced knowledge is technical but also the knowing-who is very important for the realisation process. We will exemplify these processes further below.

### ***Ubiquitous access to global symbolic knowledge***

In general, trial-and-error processes in the development of the food product and making do with what is at hand played a central part in the enterprise development process, as has been previously highlighted by other authors (Baker and Nelson, 2005; Yachin and Ioannides, 2020). Therefore, we will focus on the acquisition and dissemination of symbolic knowledge in the small enterprises here.

In this case study, some of the craft- and specialty-food products are quite innovative, in that they are new to the region (such as high-quality oil and mustard), or comparatively new on the German food market (such as coffee from legumes or fermented vegetables such as kimchi). Certainly, the products are no radical innovations, but the specific production methods, the produce, or the recipes distinguish them as specialty food. The inspiration for the products often stems from another regional or subculture cuisine (Korean kimchi, Mediterranean fish delicacies, or vegan or purely regional products such as coffee made from legumes). The products are thus niche products, targeting mainly tourists and non-local consumers *via* online stores. The marketing and wrapping is directed to this clientele, and the materials, colours, and designs employed call on concepts of sustainability, nature, rurality, and artisanship.

The presentation of websites similarly displays symbolic knowledge of a certain niche market geared towards sustainability and 'Slow Food'.

With regard to the knowledge flows and knowledge-sourcing activities, the entrepreneurs regularly visit 'buzzing' places (Bathelt *et al.*, 2004) such as conferences, food stalls, and workshops. Furthermore, they also organise temporarily buzzing places on their premises by, *e.g.*, inviting young chefs.

[they went to a food fair in Copenhagen]: It was important for us to go there, to Copenhagen because we do not have a local advantage there and to see how our product sells at a place where nobody knows us. We were wondering if people would test and like our product ... And people from all over the world came to our stall.

The product has two unique selling points: one is the raw material the coffee is made of – legume is considered to be a healthier (caffeine-free) and more sustainable substitute to coffee. The other aspect, which makes the products special, is the high 'vertical integration' of the product, that is, the produce is grown and harvested by the roasters themselves and turned into coffee.

Another important gateway to global or placeless knowledge is the internet, on which the entrepreneurs rely heavily for desk research on technical solutions to problems that pop up in the production processes. Also for 'know-who', that is, identifying entrepreneurs and enterprises which are important to the innovation's development, such as the producers of speciality roasting machinery, *etc.* Besides research on specific problems, the internet, and especially YouTube, also serve as a permanent link into a community of practice, for example, of small-scale gardening.

They recently invented the internet. And there are Youtube channels – there are so many ways to get information where they show you down to the last cent how other gardeners work. Really, it is about, for example, how many grams of seeds you need for 100 meter planting zone and things like this. The most precise information is available through [the] Internet, on great YouTube channels ... you can watch all of this and it is so inspiring.

These examples show nicely how information and communication technologies (ICT) can be used in communities of practice (Lave and Wenger, 1991) to exchange even embodied knowledge of using specialised farming equipment, regardless of the location.

The relevance of symbolic knowledge is, furthermore, visible in the marketing strategies entailing the wrapping and presentation of products. Here, the presentation of the entrepreneurs and the businesses plays an important role within the marketing strategies of the 'experience economy'. Elements of a collectively shared idea of a rural idyll are re-created in the formal styles of home pages and wrapping, appealing to the idea of hand-made, crafted



food products, which are likewise sustainable and healthy. On their webpages, the entrepreneurs present themselves and the places of production, which are oftentimes also their homesteads. Three of the entrepreneurs give guided tours of their production sites on which they live. This way, they not only actively share technical knowledge about the production process with their customers, but they also offer an insight into their lifestyle practices, and the close connections between work and private life become visible. Hence, the entrepreneurs enact symbolic knowledge about the qualities and values of 'homemade' food (Ott, 2020). In one case, even the recipe to produce the craft food at home is provided. Transparency and 'short' (or direct) relations to the producers of specialty products are what characterise alternative agri-food products (Marsden *et al.*, 2000). This is reflected in the websites and Facebook pages as well as the marketing strategies of the entrepreneurs.

While these flows of symbolic knowledge circulated in a rather closed circuit among the entrepreneurs and the consumers of their specialties, the entrepreneurs furthermore play an important role in disseminating symbolic knowledge within their region. Some of the entrepreneurs co-operate to organise collective outlets for their products, such as a weekly market and two small stores. At the start of the businesses, tourists and markets in the touristic places of the region were essential for the growth of their enterprises. Later, the local population had become interested in the specialty production. Through their presence and visibility through a weekly market, the entrepreneurs potentially disseminate symbolic knowledge about the value of specialty food throughout the area.

In the beginning we thought that a market like this [exclusively with organic and specialty foods] would need some three years to pick up. But from the first day on, the local population was so happy and grateful that finally someone put up something decent here. So the market was met with gratitude. The local press coverage was very positive and the locals supported us. You know, it is always the same people, who come here. By now, you recognise the people that visit the market. They are happy that this market exists.

Another example of the spread of symbolic knowledge in the area is the development of two of the enterprises, which were already around in the 1990s. At this time, the organic farms started the marketing of their products (cheese, meat) to one specialised retailer for organic products in Berlin. Only recently, however (within the last five years), and partly inspired through the co-operation with other craft-food entrepreneurs in the network and their 'open factories', have these older businesses decided to establish local outlets for their product. The organic farm developed into an 'open farm' with café and farm shop. While in the 1990s they were dependent on affluent and conscious urban consumers, they are now able to make increasing revenues within their local area. Thus, with alternative food practices becoming more mainstream, the



businesses both profit from rising symbolic knowledge at the local scale and both effectively work to its proliferation through the new outlets.

Although the entrepreneurs' dissemination practices of the product are potentially able to influence the location through the spread of symbolic knowledge in an indirect manner, more direct activities geared at knowledge sharing only take place within the local network of like-minded craft-food entrepreneurs. As mentioned above, the entrepreneurs in this case study can be labelled as life-style entrepreneurs who identify strongly with their product and the production processes (Tregear, 2005). In this vein, some of them enjoy publicly sharing (through websites, blogs, *etc.*) recipes or insights into the production processes with their customers. However, some entrepreneurs would rather entertain memberships in local, sectoral networks – but these prove to be less satisfactory to them, partly due to incompatible symbolic and synthetic knowledge bases (*e.g.*, using different machinery because of different plot sizes, plant types, *etc.*).

Asked about the relevance of a regional association of gardeners and farmers, the interviewee complained that his colleagues are not interested in using special equipment from Japan, which is, according to him, more efficient and has a smaller impact on the environment.

In general, German gardeners either arduously plant by hand or use planting machinery towed by heavy tractors which ruin the soil. Planting distance is determined solely by technological factors through the machinery, but not by the physiology of the plant and this way we can only yield half of land use and harvest half of what would be possible if we would use different machinery. And this makes me furious. In Japan, they have the right equipment [he uses one of them] – but when I tell this to my colleagues they look at me in amazement but that's about it. They are just not interested.

Arguably, as other members in the formal business network of gardeners and farmer have much larger farms and produce different vegetables, there is only very limited interest in the specialised equipment of the niche enterprise interviewed here. Furthermore, this example highlights the entanglement of synthetic knowledge, that is knowledge about the correct use of a planting machine, *e.g.*, with the knowledge in terms of the relevance of using the machine apart from economic benefits. We will explore the machine-related synthetic knowledge further below.

In sum, whether the entrepreneurs have the potential to serve as knowledge outlets for the wider sector-specific business community in the region is questionable and points to the limits of exclusively place-based networking strategies.

### ***Specialised machinery and know-how as nodes in the local niche network***

The following section explores the role of synthetic knowledge in the enterprise development process. This 'how-to-do' knowledge becomes mostly

visible in relation to the use of specific machinery in the production process of the food specialties. Although the enterprises are very small, they possess specialised equipment, for example, for the extraction of oil, the roasting of coffee and grain, *etc.* These customised machines can be understood as an influx of highly specialised technical knowledge into rural areas.

Based upon the example of the legume coffee, we show the knowledge exchange between the entrepreneur and the enterprise, which built the roasting machine. The coffee entrepreneurs received funding to develop a roasting machine, which would be able to processes not only coffee, but also other produce, including grains and legumes:

We had to learn, however, that most of the enterprises producing roasting machines do not have a development division, so we finally contacted the most expensive enterprise because we knew they had a development division ... So we asked them [if it would be possible to build a machine which can process different produce] and they were really open-minded about the idea. They said they had never tried this before but that they were willing to try out. ... And then they put me through so I could talk directly to the engineers ... and they really wanted to know the produce and I really liked that. And they were so eager to make it work. [A few months later the machine was built and personally installed by the head engineer who constructed the machine.] This year, we already had three other roaster-colleagues from all over Germany here, who were interested in our customised machine. The roasting-machine enterprise asked us if we were willing to show the machine to other roasters.

The customised roasting machine allowed for remarkable growth of the enterprise, both through portfolio diversification and increases in the quality of the product. Furthermore, the machinery and the knowledge of how to use it plays an important role for co-operation and networking. It can facilitate co-operation, for example, between the roasting house, a brewery, and an organic farmer. The three now jointly produce a regional Gin beverage and thereby broadened their portfolios.

### ***'Knowing who' is essential in a 'thin' environment***

Throughout the realisation phase of the innovation, it has been important to know others who can be accessed in the search of resources or know-how. Given the local 'thin' institutional setting with only a limited choice of other enterprises, farmers, and scant business services and administrative support to new ventures and entrepreneurs, knowing whom to contact is even more important. The following quote exemplifies how using truly localised or place-specific knowledge can have a cost advantage. The entrepreneur bought an old warehouse, which is to be re-built to house the production site of the craft-food business and serve as a café and marketing space.

We needed an architect for the construction permit [of the production site of craft-food products], so I looked for one who I thought looked nice. He had long hair and a Man Bun so I thought he was for sure 'a greenie' [adhering to a sustainable lifestyle], he fits with us. [His estimation of costs exceeded the budget by far, so the entrepreneur had to search for a new architect.] And then I found somebody else. I had talked to the woman before, but she was so fuzzy and confused that I didn't think I could work with her. But I called her again because she was an engineer in the GDR-times, back then ... She used to build these large warehouses for the LPGs [Agricultural Production Cooperative, *i.e.*, collectivised farms]. She knew just how much load a pillar like this could carry, what size the window has, and how a wall like this is built. All the warehouses back then were identical, so she just knew [how to rebuild the warehouse efficiently and at a low price into a production place for the craft-foods].

A place-specific asset of the hinterlands of this eastern German region is the availability of old warehouses which can be re-used for different purposes at low prices. Knowing how to do this in a low-cost and efficient way is furthermore an advantage. This example shows how (some) synthetic knowledge can be 'local' and contextualised in nature (Fonte, 2008), even though the locality of origin of this type of knowledge covers the entire former German Democratic Republic.

## **Conclusion**

The chapter has asked how entrepreneurs with their small enterprises and niche markets in rural areas can become innovative, which knowledge they source, and where do they source it from. We were able to show that symbolic knowledge is the source for an innovative idea and for the marketing of the craft-food products. During the realisation and processing phase, however, synthetic knowledge and 'knowing-who' are important forms of localised knowledge. Symbolic knowledge, in this case study, entails globally shared social constructs about the value of certain foods and 'alternative' modes of production and consumption. While symbolic knowledge is ubiquitously available to the entrepreneurs through their varied, extra-regional networks and ICT, they have to rely on regionally based networks to implement their innovations and grow. Synthetic knowledge is acquired through local and non-local sources, for example, in the form of specialised machinery (non-local, branch-specific knowledge) or architectural knowledge (branch-specific, regional). Finally, subsidies to acquire this customised machinery have allowed the entrepreneurs to put their (symbolic) knowledge into use and grow their enterprises through vertical integration. While the sharing of knowledge and resources within the group of craft-food entrepreneurs is common, the knowledge exchange outside the niche has proven to be difficult.

The case study has highlighted how endogenous resources can be put into value through ‘global’ knowledge of food subcultures. In the same vein, the case study highlights the many difficulties and challenges for endogenous regional development and local networking, pointing to the limits of cross-sectoral regional networking and knowledge flows, and a lack of absorptive capacities and the highly contextualised intelligibility of symbolic knowledge. Arguably, spatial proximity, as pointed out by Boschma (2005), among enterprises of different sizes and philosophies is not sufficient for regional networking – nor is ‘embeddedness’ into a regional culture or regional business institutions. This has some implications for policy-making for rural development. Most importantly, rural areas would benefit from knowledge or network brokers, who are able to bridge different knowledge bases between industries and enterprises in one region and to facilitate the creative re-combination of knowledge. Moreover, rural development schemes should not only support the building of strong local networks but also enhance the access to global or extra-regional knowledge. As has been pointed out before, regions differ in their capacity to exploit knowledge and to gainfully re-combine many forms of knowledge (Crevoisier and Jeannerat, 2009; Oughton *et al.*, 2002). The entrepreneur’s role in these processes deserves more attention, and further research should investigate how entrepreneurs can be supported in disseminating knowledge locally for rural development.

## Note

- 1 Earlier research based upon this case study has been published as Tuitjer (2020) and Tuitjer and Küpper (2020).

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# 15 Combining local and international embeddedness in a rural context

*Eva Jenny B. Jørgensen*

## Introduction

Ideas about the internationalisation of enterprises lie at heart of the economic development of many rural regions, whether in the KwaZulu-Natal province in South Africa (Lekhanya, 2014), in rural Cumbria in England (Kalantaridis and Bika, 2006), or in the borderland between Norway and Russia (Jørgensen, 2014). The internationalisation of small- and medium-sized enterprises (SMEs), or what I, in this chapter, also refer to as international entrepreneurship, can be a powerful tool for economic development in these regions. International entrepreneurship takes place across diverse national contexts, and it has been argued in the international entrepreneurship literature that it is critical to account for the context in which the enterprises operate (Zahra and George, 2002). For example, it has been quite common to consider specific country cultures (Terjesen *et al.*, 2016) and institutions (Szyliowicz and Galvin, 2010) or distinguish between developed and emerging economies (Kiss *et al.*, 2012). However, previous studies have not made a distinction between rural and urban international SMEs (Westhead *et al.*, 2004), so the distinctiveness of international entrepreneurship in a rural setting has been rather underexplored.

Researchers in the field of entrepreneurship have emphasised the topic of embeddedness to consider the context in which the entrepreneurial process takes place (Pato and Teixeira, 2016; Wigren-Kristofersen *et al.*, 2019). International SMEs in rural regions are both locally and internationally embedded. This study is inspired by the ideas of dual embeddedness from international business (Figueiredo, 2011) and trans-local embeddedness from rural geography (Dubois, 2016). The interesting question is not whether enterprises are locally or internationally embedded, but how they are able to combine these two forms of embeddedness. The research question addressed in this study is therefore: how are international SMEs in a rural context locally and internationally embedded, and how do they combine these forms of embeddedness?

To answer this research question, the rest of this chapter is organised as follows. First, I present the theoretical perspectives related to international entrepreneurship, rural entrepreneurship, and embeddedness that form the background for this study. Then, the methodology is presented. In this study,

I adopt a case study approach of six Norwegian SMEs that are developing international opportunities across the border to Russia. The following section presents the findings. Finally, the contributions of this study and its limitations are discussed, along with potential future research.

## **Theoretical background**

### ***International entrepreneurship in rural areas***

International SMEs in rural areas are both international and rural. Central to the understanding of the international aspects are perspectives from international entrepreneurship. In this literature, the characteristics of speed, scale, and scope create certain patterns of internationalisation for young and small firms (Kuivalainen *et al.*, 2012a, b; Zahra and George, 2002). Today, there are multiple definitions and perspectives in the field, but much focus is on enterprises that are involved in rapid internationalisation (they internationalise from start-up) and with a global geographical scope of their activities, also labelled as new international ventures (Oviatt and McDougall, 1994) or 'born globals' (Knight and Cavusgil, 2004). In this chapter, I will use the concept of international SMEs and build on an understanding of international entrepreneurship as 'the discovery, enactment, evaluation, and exploitation of opportunities – across national borders – to create future goods and services' (Oviatt and McDougall, 2005). This definition represents an opportunity-based perspective, which treats the processes of developing international opportunities as central (Di Gregorio *et al.*, 2008; Mainela *et al.*, 2014).

International entrepreneurship is a fundamentally contextualised phenomenon that manifests differently in different contexts (Wigren-Kristofersen *et al.*, 2019). Towards better understanding the rural aspect, I build on insight from perspectives in rural entrepreneurship. In the literature on this topic, entrepreneurship is connected to all forms of entrepreneurial activities that take place in areas characterised by large open spaces and small population relative to the national level (Kalantaridis and Bika, 2006). Further, rural entrepreneurship is perceived as spatially bound, thus involving the creation of new value by re-combining resources from a given environment (Korsgaard *et al.*, 2015b; Anderson, 2000). However, while rural entrepreneurship often is seen as connected to one spatial context, a central characteristic of international entrepreneurship is that by definition it involves two or more spatial contexts. Based on this, international entrepreneurship in a rural area is perceived as a process of developing international opportunities that are spatially bound to one local (national) context and one (or more) international contexts and that combine resources from these contexts.

### ***Local and international embeddedness***

To explore the distinctiveness of international entrepreneurship in a rural context, I will use theoretical perspectives on embeddedness. Understanding of



embeddedness is grounded in the idea that economic actions are embedded in structures of social relationships (Granovetter, 1985). In this study, embeddedness is broadly perceived as the nature, depth, and extent of the enterprise's network ties in and across the involved national contexts. In rural entrepreneurship research, embeddedness is identified as a main sub-topic and refers to the nature, depth, and extent of entrepreneurs' ties to a rural location (Pato and Teixeira, 2016) and is centred on the importance of understanding how these ties enable or constrain entrepreneurial activities (Stathopoulou *et al.*, 2004). Existing research has demonstrated that being embedded can help SMEs to develop unique opportunities (Korsgaard *et al.*, 2015a) and to make use of specific resources available in the local area (Muller and Korsgaard, 2018). Embeddedness can also help firms in rural regions to overcome distance-related obstacles (Greenberg *et al.*, 2018). Embeddedness is about creating and maintaining relationships in space and place, and is the mechanism whereby an SME becomes part of the context (Jack and Anderson, 2002). In this study, the focus is on how the SMEs are embedded in the structural contexts (McKeever *et al.*, 2014) in combination with a territorial or spatial view (Hess, 2004; Jørgensen, 2014). Hence, embeddedness at each level – local and international – is perceived as the structure and extent of external network relationships and how these relationships are manifested in space.

Further, from an international business perspective, prior research has demonstrated that enterprises also are internally embedded across the border through relationships with parent or sister companies (Ciabuschi *et al.*, 2011; Garcia-Pont *et al.*, 2009; Yamin and Andersson, 2011; Asakawa *et al.*, 2018). The concept of dual embeddedness has also been introduced, which concerns the balancing of simultaneous external and internal embeddedness (Figueiredo, 2011; Ciabuschi *et al.*, 2014). Through dual embeddedness, which is also very similar to trans-local embeddedness (Dubois, 2016) or double-layered network embeddedness (Greenberg *et al.*, 2018), resources from local and international external ties are combined and transferred across borders. However, we still have limited knowledge of how local and international embeddedness are combined. One possibility is that international SMEs in rural areas are either mostly locally or mostly internationally embedded and that internationalisation is a threat to the rural entrepreneurs' local embeddedness. Another possibility is that local and international embeddedness is combined in different ways as cohesive processes, leading to the re-configuration of local interactions rather than as a disruptive force dismantling them (Dubois, 2016).

## Methodology

### *Research design*

This study adopts a theory-building case study design (Eisenhardt, 1989; Eisenhardt and Graebner, 2007). The selected cases are six Norwegian SMEs starting their internationalisation by crossing only one national border – the

border between Norway and Russia. This design was chosen because a limited number of cases makes it possible to collect rich data from multiple sources and because multiple cases permit a replication logic in which explanations from one case can be compared to the explanations from the others (Yin, 2003). The selection of cases was based on theoretical reasoning (Eisenhardt, 1989; Glaser and Strauss, 1967) rather than random or representative sampling. The selection was based on three criteria. First, the enterprises must have started their internationalisation only by crossing the border between Norway and Russia. Second, more than 50% of their total activity had to be related to internationalisation. Third, the enterprises had to be SMEs according to the EU standard, *i.e.*, have less than 250 employees (European Commission, 2020). A survey identified nearly 80 Norwegian enterprises engaged in activity across the border to Russia (Stålsett, 2006). When conducting multiple-case studies, researchers are advised to select from four to 10 cases (Eisenhardt, 1989). Based on the selection criteria and information from this survey, six cases were selected.

### ***Research setting***

During the Cold War, the border between Norway and Russia was the only northern border between the old Soviet Union and a NATO country, and it was effectively sealed and heavily guarded. In that period, there was practically no contact between business partners across the border. When the border reopened around 1992, it provided some new entrepreneurial opportunities, and in the following years many enterprises, particularly on the Norwegian side, were created to exploit these opportunities. In recent years, however, sanctions and a cold political climate between Norway and Russia have led to a deterioration of the situation, and business activities across the border have decreased. And now, due to the recent COVID-19 pandemic, the border crossings have, again, stopped. This setting was attractive for the study of how international SMEs in a rural context are embedded because the enterprises had to build all of their international activities and cross-border linkages from the ground up. Hence, the setting provides a unique opportunity to study how enterprises are locally and internationally embedded.

### ***Presentation of cases, data sources, and analysis of data***

Table 15.1 presents basic start-up information concerning the case companies and the data sources employed in the study.

Data was collected from three different sources. First, the main data source comprised 20 in-depth interviews with key informants from the case companies. The interviews were conducted over a period of four years, from November 2008 to December 2012. The interviews, which ranged from around one to two hours in length, were all recorded and transcribed. Second, the enterprises were also visited both in Norway and in Russia, some of them several times.

Table 15.1 Case companies and data sources

<i>Enterprise</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>F</i>
<b>Basic information</b>						
Industry segment	Ship agency services	International business support	Manufacturing of concrete	Fish trade	Consulting	Manufacturing of electronic equipment
Employees	5	14	220	10	15	57
Start-up year	1998	2002	1974	1998	1993	1993
First international activity	1998	2002	2006	1998	1993	1999
Degree of international activity	55% of total sales	80% of total sales	More than 50% of total investments	100% of total sales	More than 80% of total sales	100% of total production
<b>Data sources</b>						
Case interviews	3	2	2	2	4	4
Informants (time of interview in parenthesis)	The key entrepreneur (2008, 2010) The key entrepreneur + a Russian employee (2012)	The Norwegian entrepreneur (2008, 2010)	The key entrepreneur (2010, 2012)	The entrepreneur (2009, 2012)	The key entrepreneur (2012) Russian general director (2010, 2012) Norwegian regional director (2010)	The founding entrepreneur (2012) Norwegian general director (2010, 2012) A Russian employee (2012)
Company visits (time of visit in parenthesis)	Norway (2008, 2012)	Russia (2008, 2010)	Russia (2010, 2012)	Norway (2009, 2012), Russia (2012)	Norway (2010), Russia (2010, 2012)	Norway (2010, 2012), Russia (2010)

(Continued)

Table 15.1 (Continued)

<i>Enterprise</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>F</i>
<b>Basic information</b>						
Status in 2020	The share of Russian customers has declined but still many international customers	In 2016 the Norwegian entrepreneur passed away and Firm B has become a local Russian firm	Growth in Russia (from 20 to 33 employees)	Firm D closed down in 2015 due to export/import sanctions	The activity in Norway, Russia, and Finland has continued	Firm F still has many international customers and the production in Norway and Russia has continued
Other sources:						
- homepages	X	X	X		X	X
- economic info	X		X	X	X	X
- presentations		X	X			X
- newspaper articles	X	X	X		X	X

Short memos were written after each visit. Third, data was also collected from other sources, such as home pages, a database holding economic information, presentations, and newspaper articles. In addition, the enterprises' homepages and results of Google searches have been used to update information about the status of the case companies in 2020.

### ***Analysis of data***

A project was created in QSR's NVivo, and all the data was uploaded within this software. To get a first overview of the case companies, chronological case histories were written. Then the interviews were coded in NVivo. The following codes were used: 'local embeddedness in Northern Norway', 'international embeddedness in Northwest Russia', and 'combinations of local and international embeddedness'. Building on Jørgensen (2014), both local and international embeddedness were coded along three dimensions: external business ties, employee relationships, and the entrepreneurs' engagement in the local/international society. When coding combinations of embeddedness, the focus was on internal cross-border linkages between business units and the balance of local and international resources. Following Leppäaho *et al.* (2018), the type, locality, strength, and importance of the ties were considered. To identify patterns within and across cases, the data was displayed and summarised in a table (Miles *et al.*, 2014). This ensured a focus on similar information to be compared between all cases (Shane, 2000).

### **Findings**

The analysis demonstrates that it is possible to identify three main ways in which the SMEs were combining local and international embeddedness. An overview is given in Table 15.2 and these ways are described in more detail below.

#### ***Taking advantage of being dis-embedded***

It can be extremely demanding for a rural SME to embed entrepreneurial activities in two (or more) national contexts, and the first distinct way of coping with this challenge is about being more or less dis-embedded from one of the contexts. This means that the enterprise base has external network ties, whether local or international, mainly in the context of one country. It has no internal cross-border ties and is to a very limited extent combining local and international resources. This was the case for both enterprise A and enterprise B. Enterprise A was established in northern Norway in 1998, in a small town not far from the Russian border. Since the beginning, enterprise A has provided port agency services related to freight, customs, warehouse, and crew-changes to Russian customers coming to northern Norway in their vessels. By the end of the data collection in 2012, they had five employees, three of whom

Table 15.2 Combining local and international embeddedness

Enter-prise	Location	Local embeddedness in Northern Norway	International embeddedness in North-west Russia	Combining local and international embeddedness
A	Norway	<p><i>Strong embeddedness</i></p> <p>Many local and national suppliers</p> <p>All employees (5) are on the Norwegian side</p> <p>Ties to many regional and national actors, but the entrepreneurs are particularly engaged in a local cluster of international SMEs with activities in Russia</p>	<p><i>Weak embeddedness</i></p> <p>Close social ties to a few large Russian customers</p> <p>Member of a Norwegian–Russian business association</p>	<p><i>Dis-embeddedness in Russia</i></p> <p>No internal ties between Norway and Russia</p>
B	Russia	<p><i>Weak embeddedness</i></p> <p>Norwegian business customers, close relationships to some of them</p>	<p><i>Strong embeddedness</i></p> <p>Many local suppliers and 25 employees</p> <p>The Norwegian key entrepreneur lived in Russia until 2016</p> <p>He was engaged in the international business milieu and the local cultural life</p>	<p><i>Dis-embeddedness in Norway</i></p> <p>No internal ties between Norway and Russia</p>
C	Norway and Russia	<p><i>Strong embeddedness</i></p> <p>Headquarter in Norway with around 200 employees</p>	<p><i>Strong embeddedness</i></p> <p>Many local Russian customers and suppliers</p> <p>Plant in Russia with 20 employees</p> <p>The entrepreneur moved temporarily to Russia but his local engagement there was limited</p>	<p><i>Balancing embeddedness</i></p> <p>Strong internal tie between the Norwegian headquarters and the Russian subsidiary which has combined international market opportunities with a solid base of knowledge and financial resources</p>

D	Norway and Russia	<i>Strong embeddedness</i> Suppliers	<i>Strong embeddedness</i> Customers, logistic providers, and custom authorities Main sales office with 10 employees The Norwegian entrepreneur speaks Russian fluently and knows the culture	<i>Balancing embeddedness</i> Internal ties between the Norwegian and the two Russian business units The entrepreneur has a central role in combining the supplies from Norway with Russian customers
E	Russia and Finland	<i>Weak embeddedness</i> Ties to a few Norwegian customers in public and private sector	<i>Strong embeddedness</i> Headquarter with around 12 employees Customers and other external business relationships	<i>Reinforcing further internationalization</i> Used the internal ties between business units in Norway and Russia to reinforce the establishment of new international relationships in Finland
F	Norway, Russia, and Brazil	<i>Strong embeddedness</i> Customers and suppliers Test and logistics centre with around 20 employees Belongs to a local cluster of international SMEs with activities in Russia	<i>Strong embeddedness</i> A plant with around 50 employees Close ties to Russian customs authorities The entrepreneur has a large personal network here	<i>Reinforcing further internationalization</i> Used the internal tie between Norway and Russia to reinforce the establishment of new international relationships in Germany, South Korea, and Brazil

spoke Russian fluently. Enterprise A has been strongly locally embedded in the northern Norwegian context since start-up. In addition to being located close to the border and having many linkages to regional and national actors, the key entrepreneur emphasised the value of belonging to a local cluster of rural SMEs engaged in international activity with Russia. This is an informal group, which together has rather extensive experience with and knowledge of doing business in Russia. The SMEs supported each other and recognised very early on when something was not right. However, enterprise A has been, and still is, rather weakly embedded in Russia. The key entrepreneur has close relationships to a few Russian customers, large shipping companies located on the other side of the border. He has occasionally visited these customers in Russia. However, enterprise A had no internal linkages to Russia.

Enterprise B has also taken advantage of being embedded in only one context. However, in contrast to enterprise A, it was dis-embedded on the Norwegian side. The main idea behind enterprise B was to sell support services to Norwegian business customers in Russia, such as interpretation, translation, arrangement, accounting, and juridical services. Enterprise B was created on the Russian side of the border in 2002 as a spin-off from a Norwegian enterprise. At the same time, the key entrepreneur migrated to Russia. He searched for and found a Russian partner and together they acquired an existing Russian company. In 2016, the key entrepreneur passed away and the Russian partner took over. Firm B has since become more and more like a local Russian travel agency. In terms of embeddedness, enterprise B was strongly embedded internationally and rather weakly embedded in the local Norwegian context at the time of data collection. In the Russian context, it was established with around 25 employees and many local suppliers. The entrepreneur said that it was better to be located on the Russian side than on the Norwegian side so that he could more easily meet with customers in person. In addition, the key entrepreneur had many connections to actors in the international business and cultural milieu. The local embeddedness on the Norwegian side weakened as Norwegian customers were replaced with other international or Russian customers. Enterprise B had no internal linkages to Norway.

### ***Balancing local and international embeddedness***

Two of the case companies, enterprises C and D, are strongly embedded in both their local environment in Norway and the international context in Russia. They both have internal linkages across the border and combine local and international embeddedness to develop international opportunities. Enterprise C is a family firm and was founded in 1974 in a rural community on the west coast of Norway. The enterprise produces and sells diverse concrete products. Until 2006, enterprise C had only domestic operations and was strongly embedded in Norway. Over the years, its activities have gradually been moved from south-western to northern Norway. In 2006, the entrepreneur crossed the border to Russia for the first time. Since then, the enterprise has undertaken quite heavy



investments in building a new plant in Murmansk and has built up a base of Russian customers, suppliers, and other important partners. By the end of the data collection, they had 20 employees in Russia and by 2020 the number of employees had increased to 33. The key entrepreneur said that it has been a tedious process to become internationally embedded in Russia. Enterprise C has experienced both slowness and problems related to corruption when trying to build new relationships and gain access to the resources that they need. Until 2016, the key entrepreneur lived in Russia for approximately 70% of his time. His local engagement in the Russian context has been limited, as he said that he needed to spend his time working within the company. The activity on the Norwegian side has continued as before, with around 200 employees, and has been rather unaffected by the establishment in Russia. The strong internal linkage between the headquarters in Norway has provided the subsidiary in Russia with knowledge and financial resources, which, in combination with the entrepreneur's authority, has made it possible for them grow and to develop new international opportunities.

Enterprise D is also an example of an international SME that balances local and international embeddedness. Since its start-up in 1998, enterprise D was organised with a Norwegian and Russian business unit. They also had a subsidiary in Moscow, owned by the business unit in Murmansk. The business idea was to buy fish on the Norwegian side of the border and sell it on the Russian market. Due to heavy sanctions related to export/import between Norway and Russia, this activity closed down in 2016. The core point related to combining embeddedness is that enterprise D combined a network of suppliers in Norway with a network of customers, logistics providers, and customs authorities in Russia. On the Russian side, where most of the activity took place, they had ten employees. For enterprise D, the entrepreneur had a central role in combining embeddedness. He lives in Norway but lived and worked in Russia for many years before he started the company. He spent two to three working days in Russia each week. He speaks Russian fluently and has good knowledge of Russia and Russian business culture. He said in one of the interviews that his Russian employees no longer consider him a Norwegian.

### ***Reinforcing further Internationalisation***

Finally, for the two last enterprises in this study, E and F, the central issue is that they have used their local and international embeddedness to reinforce new international activity. Enterprise E was established in Norway in 1993 as a business consulting company, and has since then assisted many Norwegian business establishments and project developments in northwest Russia. Enterprise E has a chequered history, with shifting Norwegian owners. At the end of the data collection, one Norwegian solo entrepreneur, who also was strongly involved in the start-up and first period, is the main owner and the key entrepreneur. According to their web pages, this is still the situation in 2020. The headquarters is located in Russia and by the end of the data collection had 12

employees. The key entrepreneur and two partners live in Finland and together they have large personal networks there. Gradually, the enterprise has gained more Finnish customers, whom they have helped to establish border-crossing business activity in Russia. This new international market is connected to the knowledge and resources they have acquired by supporting Norwegian business establishments in Russia. Until 2011, enterprise E was strongly embedded in the Norwegian context. However, the development of their new activities in Finland seems to have been at the expense of their local embeddedness in northern Norway, having resulted in a declining number of customers there. In contrast to the other entrepreneurs in this study, the key entrepreneur in firm E has an extensive international background with working experience from the U.S., U.K., Norway, Russia, and Finland. However, he said that his working 'place' has been in Russia ever since the start-up of the enterprise.

Enterprise F has been developing and manufacturing electronics for customers in the market for lighting and heating since 1993. The enterprise has since developed into a globally embedded company with strong external linkages to business partners in such dispersed countries as Norway, Russia, Germany, South Korea, and Brazil. A solo entrepreneur founded the enterprise in Norway, and after about six years, it had its first activity in Russia, after which the enterprise started production of electronic equipment there. They have about 50 employees in Russia. The Russian business unit has close cooperation with the Russian customs authorities, and the founding entrepreneur says that he has a personal network with contacts able to help if something goes wrong. Enterprise F has its headquarters, as well as both customers and suppliers, in Norway and a test and logistics centre with around 20 employees. Similar to enterprise A, enterprise F was embedded in the local cluster of international SMEs with Russia-related activities. The entrepreneur and his team live and have their main residencies in Norway. Enterprise F has recently entered markets in Germany and South Korea and has established activities in Brazil. In Germany, it has a close relationship with one large customer, covering two different contracts. The linkage to the market in South Korea is through a local agent. In Brazil, the demand by authorities for 'local content' has resulted in the establishment of a business unit there. So far, there is only one employee in Brazil and no production. The internal linkage, which combines the local and international embeddedness, has reinforced more international activity.

## **Discussion and conclusion**

In this chapter, I have posed a research question about how international SMEs in rural areas are embedded in their local and international contexts, and how they combine these forms of embeddedness. A detailed description of how these enterprises are embedded across the Norwegian–Russian border is offered and three distinct ways of combining embeddedness are identified. This study thereby contributes to the literature on both international and rural entrepreneurship. The contribution to the literature on international entrepreneurship

mainly relates to contextualising international opportunity development to a rural context. The study offers a definition of rural international entrepreneurship in rural areas, and addresses the demand for more knowledge about this issue (Westhead *et al.*, 2004). The findings clearly demonstrate that SME internationalisation in a rural context is also about being locally embedded at home, and that this embeddedness provides important resources for establishing relationships abroad. When it comes to the contributions to the rural entrepreneurship literature, the present study identifies some distinct ways of how local and international embeddedness can be combined. As such, it gives some content to the concepts of dual, trans-local, or double embeddedness (Figueiredo, 2011; Dubois, 2016; Greenberg *et al.*, 2018), as well as some new ideas about the interactions that are going on within them.

The findings may have some practical implications for both entrepreneurs and policy-makers. To establish and maintain relationships where knowledge and other resources can flow in and across diverse country contexts seems to be of crucial importance for the development of international opportunities. However, for SMEs with limited resources, it is costly to create and maintain these relationships. It seems to be important for these enterprises to find the right combination of local and international embeddedness, and the various ways of doing this identified in this study can perhaps guide and inspire international entrepreneurs. Moreover, while internationalisation lies at the heart of economic development of rural regions, the findings demonstrate that many SMEs struggle to embed activities abroad and to combine international activity across national borders. Regional and national policy-makers must, therefore, secure safe and smooth flows of people, goods, and other resources across borders.

Finally, I will point to some limitations of this study and possibilities for further research. One limitation is related to the use of a structural perspective on embeddedness. To understand more about how SMEs in rural contexts can combine local and international embeddedness, further research is needed with a relationally oriented perspective on embeddedness (Gulati, 1998; Rowley *et al.*, 2000). Alternatively, further research could view embeddedness as a process or investigating the performance implications of being embedded (McKeever *et al.*, 2014). Another limitation of this study is related to the selection of only six cases; therefore, other designs and samples may provide more insight on these topics. The possibilities for research on SMEs that are both rural and international stretch beyond the limitations of this study. For example, from an international entrepreneurship perspective, we still have limited knowledge of the internationalisation of SMEs in rural regions and what makes these processes similar or different compared to internationalisation of SMEs in urban regions.

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## **Part IV**

# **The rural enterprise economy**

Conclusions and implications





# 16 The rural enterprise economy

## Conclusions and implications

*Birgit Leick, Susanne Gretzinger, and Teemu Makkonen*

### Main lessons learnt

The present book set out with the aim of exploring the rural enterprise economy from a business and economics perspective through the study of state-of-the-art cases from various European countries. The underlying question around which the book is organised is whether a specific type of enterprise that we call a ‘rural enterprise’ actually exists, and, if so, how it can be described and understood in relation to its context, *i.e.*, the rural enterprise economy. A general finding of the contributions in this book concerning this question is that, while empirical research seems to point to core differences between the ‘rural’ *versus* the ‘urban’ context, we cannot find evidence for the hypothesis that rural enterprises might be strikingly different from their counterparts in the urban regions. Ultimately, from a business and economics perspective, rural enterprises face the same generic challenges concerning their short- and long-term profitability, innovativeness, and the innovation outcomes, as well as their marketing, strategic, and leadership approaches, *etc.*, as all enterprises do, irrespective of their location. In a similar vein, new start-up businesses (entrepreneurship in the traditional sense) in rural areas operate in similar ways to start-up businesses in other types of regions. Nevertheless, the rural contexts in which enterprises start their operations and continue to develop after the start-up period are evidently associated not only with a different set of opportunities, but also with a different set of challenges, which reside in the connections of the entrepreneurs and their enterprises with the local rural economy. It is important to note that this overarching finding of the various cases collected in this book refers to specific countries, such as the Nordic countries (Denmark, Norway, Sweden, Finland, and Iceland), Germany, and Portugal. Therefore, we do not claim that these cases might be representative of ‘the rural enterprise’ across other regions of the world, for instance, in the Global South.

In addition, we are able to conclude that it is notable that rural entrepreneurship, as the process to start a business activity as a self-employed profession in a rural region and develop an enterprise in such a location after the start-up stage, is driven by factors which are related to rural attributes, such as the local amenities and lifestyles of rural communities. Hence, the rural enterprise

economy is shaped by rural entrepreneurship, on the one hand, which seems to represent an idiosyncratic phenomenon in the rural context, and rural enterprise development, on the other, which responds to the opportunities and challenges for the growth and performance of enterprises after the start-up period, the same as anywhere else.

## Research outlook

Bearing the above-mentioned important observations in mind, the case studies discussed in this volume open up several avenues for future research.

- Firstly, the authors tentatively conclude that most of the empirical research on rural entrepreneurship focuses either on the context of developing countries or on selected regions in Western industrialised countries, *e.g.*, Europe, while no sound conceptual underpinning of the concept itself exists which might provide insights into the pre-conditions and driving factors of, and barriers to, rural entrepreneurship (except for some very scattered publications that offer conceptual ideas, *cf.*, Chapter 1). The authors of this volume believe that theory-driven research on this subject will be helpful to respond to the call for a more contextualised understanding of entrepreneurship in the specific rural and regional context. Hence, future research should seek to explore whether a specific notion of rural entrepreneurship exists, and how regional entrepreneurs, regional managers, policy-makers, and other stakeholders in the rural enterprise economy can exploit rural entrepreneurship as a lever to enhance societal and community development in rural areas, given that regional disparities within countries across the world continue to be on the rise, and the effects of value creation with globalisation and digitalisation are unequally distributed across countries and regions. As this book shows, rural entrepreneurship may serve as a tool for the stabilisation and revitalisation of rural regions.
- Secondly, the book presents a preliminary, and not exhaustive, answer to the question of whether we should speak about ‘entrepreneurs and enterprises in the rural context’ or ‘rural entrepreneurs and enterprises’. The empirical evidence collected in this volume seems to point to a co-existence of these phenomena. On the one hand, ‘entrepreneurs and enterprises in the rural context’ refers to entrepreneurs and their enterprises with limited rural embeddedness, and where rural regions are merely the locations for their operations, in which there is only a limited exchange or relationship with the rural enterprise economy. However, on the other hand, ‘rural entrepreneurs and enterprises’ are those entrepreneurs that are strongly embedded in the rural locality and its communities, and thus form an integral and organic part of the rural enterprise economy with their enterprises because they leverage resources through interactions in the rural region and stabilise the rural local economy through their relationships and

resourceful interactions. In order to analyse the importance of the two different types of entrepreneurs for the rural enterprise economy, it would be necessary to discuss a similar question for entrepreneurship and enterprises in urban locations, as the literature seems to operate mostly with dichotomous categories of 'the rural' *versus* the 'urban' contexts; this begs the analogous question of whether we can talk of 'urban entrepreneurship' *versus* 'entrepreneurs in the urban context'. To the best of our knowledge, such a finely grained discussion is, however, not taking place with regard to entrepreneurship and enterprise development in urban contexts. As we observe, the theories in the academic discussion often focus on the supply- and demand-side market considerations of urban locations, instead of on such integrating notions as the embeddedness, the relational attachment, and the resource interactions of entrepreneurs with their urban communities.

- Thirdly, another avenue for future research will be the study of failures and closures in the rural enterprise economy, both for entrepreneurship in rural areas and the development and growth perspectives of incumbent enterprises in this context. This study should allow important lessons to be learned about the pre-conditions that will need to be fulfilled for enterprises to survive and thrive in such contexts. Both practically and technically, however, the study of failures will pose difficulties, as it is harder to identify failures and retrieve information about them than it is to be informed about success stories in the contexts to be studied. Closure may not necessarily represent a failure for the individual entrepreneur because it might be associated with an acquisition, relocation, or serial entrepreneurship, *etc.*, and can offer advantages from which to learn and improve a business idea or concept. However, closure might have very negative implications for the rural enterprise economy, and, thus, the topic represents an important research avenue for scholars and practitioners interested in rural development.
- Fourthly, in a similar vein, large enterprises with roots in rural regions deserve more attention in order to explore the driving forces that enable them to remain in the rural region and the factors that influence their growth and expansion both in and away from the location. Large and incumbent enterprises are important players in rural regions and gain a considerable power position when it comes to influencing regional economic growth and development based upon their locational, employment and investment strategies. A related sub-type of rural enterprises is family-owned enterprises located in rural areas. Their growth and expansion both in and away from the location is sometimes put in jeopardy when there is a change in ownership and/or management, for example, due to the retirement of the owner-managers who both started and developed the enterprises in the past. Here, the rural enterprise economy becomes highly dependent upon managerial decisions, as is the case with large enterprises. Both topics are, to the best of the authors' knowledge, under-represented

in the existing research strands in small business management and entrepreneurship topics.

- Finally, further studies on the rural enterprise economy will need to examine in greater detail the role of other relevant stakeholders besides those of the enterprises and entrepreneurs. Such stakeholders include the policy domain with regional authorities, intermediaries between the private businesses and the policy domain, such as business and industry organisations, and the fourth sector, which consists of non-profit organisations, such as organised groups of citizens. The support of actors from the policy domain and the fourth sector might be decisive for the facilitation of the rural enterprise economy, as the basis for private commitment beyond the business activities of enterprises is typically limited in rural regions. Emphasis should also be placed on the role of individuals within these organisations, such as project managers of rural development programmes, not just on the organisations as a whole. Even single individuals can have a huge impact on the success of the development work carried out by the organisations, because the infrastructure of such organisations in rural areas is generally considered to be less developed. Accordingly, due to the important role played by individual entrepreneurs in enhancing regional development and vitality through their networking and commitment, further research on potentially effective ways to support entrepreneurs in rural locations is urgently needed.

Altogether, future empirical work should engage in more conceptual and theoretical contributions (*cf.*, Chapter 3) that challenge the prevalent urban-biased perspectives on enterprises and entrepreneurship and help to overcome the common dichotomous representations of ‘the rural’ *versus* the ‘urban’ context in order to underpin the theoretical knowledge about the rural enterprise economy.

With regard to the limitations of the research collected in this book, we acknowledge that both the volume and its contents are mainly based upon case studies. Hence, the chapters presented clearly leave room for future comparative work with regard to testing the appropriateness and transferability of the results in other geographical, sectoral, and institutional contexts with larger samples of interviewed, surveyed, or examined rural enterprises and entrepreneurs. Similarly, when studying the impact of sudden changes to the rural enterprise economy, such as the COVID-19 pandemic, time-series data are needed to establish the long-term effects that they might impose on individual enterprises or entrepreneurs. The same holds true, for example, when analysing the impact of the locational decisions of enterprises and entrepreneurs: The analyses would benefit from longitudinal approaches to infer the causal relations between the phenomena studied.

### **Policy and managerial implications**

The chapters in this book provide several points of departure, which have specific implications for both public policy and managers. When it comes to

*rural enterprise development*, Chapter 2 concludes that, in particular, specialised advanced resources are specific to enterprises, and rural enterprises may build upon and exploit such resources, which are less easy to replicate and imitate, in order to sustain their competitive advantage in the rural location. As an example, small labour markets might motivate rural enterprises to build, develop, and retain skills in the enterprise as well as in the region, and, by this token, secure a basis for long-term competitiveness in the location. Furthermore, the SME-based rural enterprises with the ability to grow into ‘hidden champions’ (Chapter 3), *i.e.*, those enterprises with high market shares in a profitable, and often technology-based, niche market, should be promoted in rural regions because they are not necessarily dependent on urban environments for their growth and development through innovation. However, in order to manage their innovation strategies in a regional context, potential ‘hidden champions’, particularly in technology-based industries, should rely on internal capacities and secrecy guides for their partner selection, rather than embarking on local collaboration opportunities alone. This, in turn, requires the rural enterprises to span network relationships for collaboration more widely, *e.g.*, internationally. For ‘hidden champions’ in the rural enterprise economy, the recruitment and re-skilling and up-skilling strategies of their existing workforce, as well as mobility schemes to attract a labour force external to the region, would seem to be further crucial tasks for managers. However, managers might require policy support in order to be successful with their efforts to keep a skilled, specialised workforce in the rural location.

Chapter 4 demonstrates how the need to change business practices by adopting more digital tools almost overnight in the current COVID-19 pandemic affected rural enterprises. Some enterprises became more experiential, and adopted digital tools more easily due to the enforced changes, which opened up new market opportunities to some of them. Policy measures should thus support the adoption of ICT skills and applications by rural enterprises, such as sharing-economy applications and online tools to reach out to a wider circle of customers and users, and thereby diversify their business model. Trust-based collaboration between regional actors, including enterprises, and the support of all micro-enterprises to overcome a threshold of adopting more ICT tools, and infrastructure development for ICT applications, are all important pre-requisites to strengthen the position of rural enterprises in the digital business world. While a quick switch to new business practices might be enforced by a sudden crisis situation, place-dependent rural enterprises might need to re-consider and re-organise their business strategies in order to remain competitive in the rural location, given the often difficult circumstances due to population ageing and the outmigration of youth. However, as Chapter 5 highlights, even if rural enterprises embark on a path to re-defining their strategies, national, supranational, and global policies might force them to re-consider their entire business model. The penetration of a limited market with a priority on tight customer relationships and regional engagement can overcome such drastic strategic changes. Policies might favour place-dependent rural enterprises by

alleviating the switch to a new business model that takes into account, for instance, the need to penetrate and develop a local market, through incentives.

Chapter 6 takes this argument one step further by highlighting that rural enterprises with successful business models represent important players in the rural region, but are also pieces in a bigger puzzle. In other words, the enterprises enjoy location-specific opportunities, which can be interpreted as positive externalities and competitiveness advantages because of the rural location. In normal times, but particularly in crises, rural enterprises can represent the core players of a regional economy if it is based upon collaboration and common resources and amenities. By developing relations among all the stakeholders in the local rural economy, entrepreneurs and enterprises may strengthen both their own business-specific and regional competitiveness. Chapter 7 casts light on the marketing challenges of rural wine producers, showing that a dedicated marketing approach on the part of the producers and other service providers in such traditional sectors represents an important strategy by which to enhance sustainable regional development. Collaboration between the producers and other stakeholders concerning the marketing of their products and their destination is described as a way of rendering the region more attractive for visitors. In addition, awareness should be created among the different producers and stakeholders that coordination and collaboration in marketing are a road to regional economic development. However, this coordination requires strong local governance and policy support in order to bring together the various stakeholders and instigate their joint initiatives.

Collaboration among stakeholders, however, also produces tensions, as Chapter 8 shows. Stakeholder participation represents a way to channel tensions that such collaboration involves or generates. Thus, the project managers of regional collaboration projects need to understand how the different priorities and interests of the stakeholders involved may lead to tensions, but also what implications this has for the management of these projects. It is, therefore, essential that such stakeholders understand their balancing role by means of constructive dialogue, which may prove to be the source of new solutions and competitiveness. Beyond a participative style of interaction, the flexibility of the project management is vital for balancing competing priorities and interests.

Chapter 9 places specific emphasis on the role of the rural authorities for the regional development support of the rural enterprise economy. The administrative burden of business support should be reduced for both the rural enterprises with their entrepreneurs and the authorities in the rural regions. To this aim, the culture of handling regional development programmes from supra-national levels (*e.g.*, the EU) should be changed into a culture that creates an 'enabling rural authority', which is expected to consider entrepreneurs as equal partners and support the entrepreneurial process broadly through its own functions and regional development programmes.

Concerning *rural entrepreneurship*, the book highlights the following policy conclusions: As Chapter 10 stresses, the size of rural locations, compared to

urban regions, cannot foster opportunity-based entrepreneurship, and the market in rural regions is not large enough to foster this type of entrepreneurship. Thus, local policy-makers in these locations must emphasise and support other means to advance their businesses, such as accessibility to other larger markets. The entrepreneurs in rural regions need to be able to satisfy their customers in the rural location while maintaining access to larger markets outside their rural confines. Moreover, facilitating collaboration among firms in order to share fixed costs in the location is another policy initiative that can be taken. This view is complemented by Chapter 11, which shows that rural entrepreneurs actually choose to locate their start-up enterprises close to their homes. In addition, they are driven by necessity since the diminishing role of labour and a lack of other job opportunities encourage them to work in a self-employed profession. Moreover, cheap land prices and rural lifestyles, as well as entrepreneur-friendly authorities and collaboration opportunities, are push factors for rural entrepreneurship. Later, during their enterprise development period after the start-up stage, rural entrepreneurs become reluctant to relocate their enterprise, which would involve costs, although they meet the challenges in the rural region, such as transportation issues, lack of skilled workers, and small, often diminishing, local customer bases. Hence, policy-makers should strive to encourage both opportunity- and necessity-driven entrepreneurship in rural regions in order to maintain local vitality. It is also essential that the rural location, that is to say, the municipality in the rural region, offers an attractive place to live and work to attract not only entrepreneurs, but also employees and customers. In short, policy-makers should try to enhance the embeddedness of rural entrepreneurs in the rural economy.

Technical connectivity, *e.g.*, through broadband access, at a satisfactory level – not necessarily the highest possible level – is vital, particularly to attract migrant entrepreneurs from other parts of the country or from abroad to start their business in the rural location, as Chapter 12 emphasises. However, sufficient technical connectivity and infrastructure is not enough, as migrant entrepreneurs settling in rural regions need to be embedded in the existing business and social networks as well. Hence, policy-makers should work on improving both technical connectivity towards an at least acceptable level and on helping migrant entrepreneurs to become embedded in local networks. Chapter 13 further underlines the importance of integration in the existing rural communities: Migrant entrepreneurs are attracted to remote rural locations by rural lifestyles and want to contribute to community development. Although their sustainability and viability over time might be at stake, particularly if they remain micro-businesses, supporting such micro-entrepreneurs within the framework of local and regional policy-making seems to be a promising road to rural community and economic development.

Finally, rural entrepreneurship is dependent on knowledge transfer from both local and external sources in order to make entrepreneurs innovate and bring new services and products to the markets. Chapter 14 shows that endogenous resources for knowledge creation might not be sufficient for rural

entrepreneurs, but need to be supplemented by ‘global’ knowledge sources in order to be put into value. This is because there are limits to local networking, especially when entrepreneurs in rural locations are operating in an industry that has no traditional roots in the rural region. In such cases, cross-sectoral regional networking might provide limited knowledge for entrepreneurs. This chapter, indeed, points to the limitations of rural entrepreneurship even if the rural enterprise economy and local networks are used to the fullest. The next chapter (Chapter 15), thus, points to internationalisation according to embeddedness considerations as a strategy of rural entrepreneurs to stabilise their enterprises in the rural region over time. SMEs, in particular in the rural context with their limited resources, need to balance local and international embeddedness carefully, for instance, through location decisions and target country considerations for exports, cooperative relationships, and investments abroad. It is essential that rural entrepreneurs can benefit from the safe and smooth flows of people, goods, and other resources across borders to make this strategy work.

### **Final remarks**

With this book, we, the editors and the chapter authors, have highlighted that there is no reason why rural enterprises or entrepreneurs should in any way be ‘inferior’ to their urban counterparts – despite their differences in locational and contextual factors. Quite to the contrary, this book has underlined the importance of the contribution that (even single) entrepreneurs can make to enhancing rural vitality in terms of social and economic development. This leads to a policy conclusion that entrepreneurship should most definitely be viewed as a tool for facilitating rural development. The current mega-trends, particularly the recent and ongoing COVID-19 pandemic, tentatively show that counter-urbanisation is taking place. Although this observation is not yet an absolute one, and a longer timeframe will be needed to prove or disprove it, we are convinced that rural enterprise development and rural entrepreneurship may serve as two important approaches that reflect and potentially reinforce this counter-urbanisation. Finally, we hope that this book on the rural enterprise economy will stimulate more research on this hitherto understudied topic.