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Support and development of small and new firms in rural areas: a case study of three regional initiatives



Magnus Klofsten¹  · Charlotte Norrman¹ · Eduardo Cadorin¹ · Hans Löfsten²

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Abstract

This paper is based on qualitative analysis and addresses the important topic of small business entrepreneurialism in rural areas and its special conditions and needs. Our aim is to present examples of and suggestions for how to encourage firm start-ups and the continuation possibly also the development and growth of existing firms. The paper is based on three cases that illustrate (1) challenges in the support system in rural areas, (2) various forms of support that could be used in rural areas, and (3) expectations that are eligible to put upon support activities designed for rural areas. The main findings are that (1) that successful support of rural businesses requires a critical mass of regional entrepreneurs, firms, and support actors, (2) diversity is critical, and the various actors must be coordinated to carry out the desired measures effectively, (3) expectations for growth and orientation of the firms must be realistic because broad support is more important than targeted support, and (4) we were able to show that a cross-boundary collaborative work culture that avoids both thought silos and business silos and places no value on prestige should pervade all areas of business support.

Keywords Firm support · Rural areas · Entrepreneurship

1 Introduction

Since the 1970 s, small firms have received significant attention from scholars and policymakers as playing important roles in employment and social development [1]. However, “small firms” is a heterogeneous group because the stage of maturity, business orientation, innovation level, and growth ambitions all differ [2–4]. Most small and young firms rarely have all the resources needed to perform and prerequisites for market introduction. This imbalance has received significant attention from policymakers as they have an important impact on an economy’s long-term development with the common goal of promoting the start-up and development of small firms as a stepping stone to future growth firms [5, 6]. However, not all firms attempt to or can grow [7, 8]. Their contribution may instead be greater local employment opportunities, a

more comprehensive selection of locally produced goods and services, and as a role model for individuals who may be considering starting and running a rural firm.

Rural entrepreneurship is characterised by the natural, cultural, historical, human, social and financial resources of a place which the business needs to support its future development [9, 10]. Koorsgard et al. [11] identify two ideal types of starting and running rural businesses: entrepreneurship in the rural and rural entrepreneurship. The first concept means entrepreneurial activities with constrained embeddedness enacting a profit-oriented and also mobile logic of space. The second concept highlights entrepreneurial activities that pull local resources to re-connect place to space. According to Koorsgaard et al. [11], the concept of rural entrepreneurship proposes that it is entrepreneurship and then something more: a “value-added” that has to do with

✉ Magnus Klofsten, magnus.klofsten@liu.se | ¹Department of Management and Engineering, Linköping University, Linköping, Sweden. ²Department of Technology Management and Economics, Chalmers University of Technology, Gothenburg, Sweden.



the socio-spatial category of the rural. Kalantaridis and Bika [12] state that in order to explore rural areas, local embeddedness is important. Kitchen and Marsden [13] provide a conceptual basis for an integrative model of rural development, which implies that entrepreneurial exercises are central of any development in rural areas [14]. Various government programmes are created to develop the entrepreneurship in rural areas in order to create economic and employment growth, and one of the crucial components of local economic development strategies is rural entrepreneurship [15, 16]. However, according to Salleh and Sidek [17], there is a gap in the research literature on rural entrepreneurs. In this paper, we aim to contribute to filling this gap through focusing on entrepreneurship and firms outside of metropolitan areas—what we call “rural entrepreneurship”. Rural firms have other prerequisites than firms in metropolitan areas, because of less developed rural innovation systems. Rural areas often have a scarcity of supplementary actors, which means that essential entrepreneurial competencies are often lacking or inaccessible. Distances between contact points, or between nodes, are longer, both geographically and mentally, which makes it more difficult to make business. Under these circumstances, the presence and contribution of each and every actor is important, and sometimes it is impossible to reach a critical mass of entrepreneurs, businesses, support actors, customers, and other social resources, which impedes development [18].

For these reasons, we think it is not realistic to expect the start-up of large numbers of innovative growth firms in rural areas. However, we are not saying that innovation does not occur in this context. Especially not if innovation is taken to mean the development of, in principle, new, original business ideas with the potential to change the world [19]. Thus, according to McKelvey and Zaring [20], entrepreneurship—which entails exposure to great risk—is not the most powerful tool for developing rural areas. Instead, we think rural firm development is a matter of making it easier for new and established small firms to access available knowledge and skills [21, 22].

Skills development and technique transfer are important tools for strengthening rural firms. Understanding and taking advantage of digitalisation, automation, servitization, and the possibilities afforded by globalisation are some of the new skills that may be needed. Small firms may need to develop new markets and new ways of doing business, rather than develop new innovative products or services.

This paper targets on small-firm entrepreneurialism in rural areas and its special conditions and needs. Our aim is to present examples of and suggestions for how

to encourage firm start-ups and the continuation possibly also the development and growth of existing firms.

2 Method and case selection

This paper presents three illustrative and complementary cases that discuss in a credible way:

- The challenges that the support system faces when creating activities which promote entrepreneurship in rural areas.
- Various forms of support that can be used in a rural context.
- The expectations that are possible and desirable for these types of programmes and support activities.

All three cases used are originated in other, previously conducted projects, and through this, we have been in the hold of a rich amount of data. In the previous studies, the cases have been analysed from the purposes of the particular studies, respectively. In this study a broader analysis with different research questions, covering all three cases has been undertaken. The cases that describe the sustainability-oriented rural incubator (Sustainability Incubator) and the Entrepreneurship Programme for a Green Economy (ENP Green Economy) are from the SHIFT project [see 23]. The third case, Innovative Growth, is based on an extension of a research assignment that was carried out as part of a project funded by the Agency for Regional and Economic Growth and the European Social Fund (ESF) during 2016–2018, which has also been the target of a study on how to support low performing SME firms conducted by the Organisation for Economic Co-operation and Development (OECD) study [24]. In all three cases, data were collected in case of interviews with and questionnaires to actors and participants involved in the described activities. Hence, the method has been mainly qualitative. Regarding the interviews, most of them have been conducted using semi-structured questionnaires. Over and above this, numerous documents have been consulted, such as operational plans, evaluations, applications, results reports, and other documents connected with the cases.

The first case, ENP Green Economy, is one of the few programmes of its kind that target small, sustainability-oriented firms in the green economy. The case is an example of how to support entrepreneurs in the green economy in a practical way and encourage them to take the next step towards a professional business. The programme was successfully conducted over a 6-year period and resulted in many types of businesses, some of which are very interesting in terms of business focus, aim and scope, even though they are small in scale. The second case, The Sustainability

Incubator, describes one of the few Swedish incubators that have had the ambition to develop entrepreneurs and ideas with an ecological, economical, and social orientation. Compared with incubators in larger cities, the success of the incubator is questionable since it was forced to modify its profile towards one with more general ambitions. The third case, Innovative Growth, describes the roles of regional support actors and their cooperation in a mutual agenda to create a working regional innovation system.

In all cases, support for each and every entrepreneur is an important part of the design, however, in somewhat different ways and for varying levels and target groups. We chose the cases because they are complementing each other and illustrate the dynamics of industrial growth in rural areas. Additionally, the access to data was exceptionally good since two of the authors were involved in the processes from start. The Entrepreneurship Programme could be used as a first step towards a sustainability-oriented incubator, in this way contributing to higher tenant inflow and the achievement of critical mass. The third case studies how actors in various roles can best work to the advantage of their target group.

3 Case descriptions

Below we describe the three illustrative cases that have been used for the analysis.

3.1 ENP green economy

The Entrepreneurship Programme for the Green Economy started in 2008 to support entrepreneurs with ideas in the green economy, for example, in the areas of energy, fish, farm animals, hunting, agriculture, food, the environment, gardening, and the entertainment industry. To participate in ENP Green Economy, applicants had to have a new idea and exhibit a strong driving force for starting a new business or a new section in an existing business. ENP Green Economy was also open for persons who already had a business, for example in agriculture, but who perhaps had found another niche that would complement and strengthen their existing business. Recruitment to ENP Green Economy was made through a written application and personal interview, and the applicant's driving force and engagement were considered more important than the quality of the idea itself. In other words, the entrepreneur/idea owner came ahead of the ideas in the selection process.

The main stakeholders in ENP Green Economy were the regional university, which was responsible for conducting the project, and a stakeholder organisation in agriculture

and green economy whose tasks were to anchor and market the programme. The county council acted as financial backer and overseer to ensure that ENP Green Economy fulfilled its stated goals. There was also an informal connection with a local network (comprising around 100 entrepreneurs) who, together with the university, had long experience of providing education, coaching, and mentoring in technology and knowledge-intensive entrepreneurship [25].

During 2008–2013, ENP Green Economy was conducted six times. Around 80 persons (aged 25–60 years, with over half women) in more than 70 projects participated, resulting in over 50 new firms or other business activities. Approximately 10–20 persons with as many ideas participated in each programme. Most of the participants were sole entrepreneurs, but occasionally, a team would participate. The programme was free of charge; however, participants paid their own travel and room and board expenses. The county council contributed SEK 400.000 per programme.

Below are some examples of the firms and business activities started in ENP Green Economy:

- Web-shop (shop for emotional motivators)
- Corporate farming (biodiesel production)
- Education and Visitor Centre (outdoor education)
- The Green Restaurant (locally grown, organic food and drink)
- Recreational horse riding (riding, riding lessons, and tourism)
- On-farm slaughterhouse (small-scale, stress-free slaughter)
- Sourdough bakery (home-made bread, café, and catering)
- Excavation contractor (contractor)
- Screen doors (import of mosquito-proof screen doors)
- Industrial resource (subcontractor in Computer Numerical Control—CNC-technology)
- Timber (wood crushing and processing)

As the programme progressed, one interesting observation was that the firms being started exhibited little growth in a number of employees and turnover in sales. The best examples, like the Green Restaurant and the on-farm slaughterhouse, hired just a few more persons and increased net sales by only a few million SEK (a few hundred thousand USD). This was in contrast to previous entrepreneurship programmes in metropolitan areas in sectors that were more technology oriented, and where a substantially higher percentage of firms with relatively strong, early growth had been started.

ENP Green Economy had a highly practical orientation. All resource persons in the programme, from workshop

leaders to coaches and mentors, had solid experience in starting and running a business—but not necessarily in the green economy. The resource persons came primarily from the local network, and all had previous collaboration experience from other entrepreneurship programmes with similar designs but other target groups. Much of the programme's success could be attributed to the use of entrepreneurs with just such experience, that is, from running their own business and from their experience in educating and training other entrepreneurs in a form such as this. The programme comprised the following three types of activities:

- Workshops focused on business planning, marketing, sales, soft factors in entrepreneurship, funding, presentation technique and rhetoric, practical use of the Internet, branding, and general leadership questions.
- Individual coaching sessions where the participants could meet an experienced entrepreneur who gave advice and guidance within the framework of the programme content.
- Mentorship where participant groups had access to an experienced entrepreneur, but where the design was not strictly guided by the structure and process of the programme but was more informal where the participants could set the agenda themselves.

The participants evaluated each section of the programme when the section was completed, and the evaluations showed unanimously that the programmes had given the participants much knowledge that was an advantage for their entrepreneurship processes. Below are some remarks taken from the evaluations:

I had no idea how to proceed with my idea. The programme helped me take a giant step forward.

My idea was questioned in a friendly and constructive way.

The programme gave me inspiration and a push forward to the next step in development.

The structure I was given for developing my idea was very valuable.

The quotes show that the programme gave the participants greater knowledge of business processes, but also inspired them to continue their entrepreneurship, which could be the development of an idea or letting go and changing the idea. What was also valued in the programme was the social networking, for example, during lunches and coffee breaks, the participants could discuss informally with each other, which in turn created strong relations between the participants. That is, the programme

enabled the participants to extend their resource base. As a new entrepreneur, with a new and perhaps different idea, especially in rural areas where actors in business and industry are fewer than in the cities, entrepreneurs often feel alone. The value of meeting other persons in a similar situation is even greater [26, 27]. Thus, the programme also became an important meeting place for exchange, learning, and bringing people into contact with each other.

3.2 The sustainability incubator

The sustainability-oriented rural incubator was started some ten years ago with the ambition to develop economically sound ideas with a sustainable focus, both ecologically and socially. The target group was entrepreneurs in new and established firms and organisations. The idea was to create a platform for the development of business opportunities in agriculture and the timber industry and, eventually, become a centre—a creative meeting place—for developing green industries. With that focus, the sustainability incubator was one of the first of its kind in Sweden.

The leading actor behind the incubator was the county administrative board, which was responsible for most of the investment and operation costs. Other central stakeholders who participated in the initiative were the Regional Council and the local university. These held seats on the board of the incubator and became important for its strategic development. The sustainability incubator was run by an operational director, a board, and many loosely connected resource persons with skills in both business development and green industries.

The incubator quickly began filling its spots with a handful of interested tenants. An agenda of seminars and workshops were arranged in, for example, business development, innovation, and effective use of resources. In the beginning, these attracted many participants. The incubator faced a rosy future. After a little more than two years, however, problems began to develop with its activities:

- It was difficult to maintain a positive inflow of entrepreneurs with sustainable ideas, and the incubator found it more and more difficult to keep to its original business idea.
- The incubator could not fulfil the requirement of the stakeholders to create sustainable growth firms; the incubator tenants did develop, but growth was not appreciable.
- Fewer and fewer participants attended the seminars and other activities, and those who did participate had often attended previously, so the inflow of new thoughts and ideas was low.

Although the Sustainability Incubator was located in an agricultural region near an extension campus of a larger university, there were great difficulties reaching out to and establishing a critical mass of potential entrepreneurs and idea holders. Naturally, the Incubator found it difficult to recruit from the group they had initially targeted. The result was that the stakeholders felt some kind of action was necessary. They decided to recast their idea as a combined incubator and business hotel with space for around 30 paying guests. Today, the incubator offers various types of services, not only to tenants but also others interested in acquiring access to competence and networks in their sector, for example, agriculture, egg production, effective food production, and bioenergy.

Events forced the sustainability incubator to change and broaden its original focus and accept other types of firms in order to retain their premises and a sufficient inflow of tenants. Today, the incubator is considered to have a modest profile in sustainable business start-ups.

3.3 Innovative growth

The studied region is one of the counties along the Swedish coast where tourism and agriculture are important business sectors—in some parts of the region, these sectors dominate. Two large industrial firms are located in the central areas, and a university campus in the county seat. The region lacks the critical mass and dynamics commonly found in the metropolitan areas; however, there are many small and medium-sized firms, both in tourism and in other areas that are protected and supported. The rural character of the region makes it difficult to arrange person-to-person meetings due to the distances and the somewhat poor road quality; collaboration between areas has been limited, and also within various areas. This situation has made it difficult for the region to create a functioning, cohesive system for supporting innovation. To address this, a project, “Innovative Growth”, was started to create a more cohesive and effective regional innovation support system.

Innovative Growth ran between 2015 and 2018; the Agency for Regional and Economic Growth financed the project with funds from the EU Regional Fund. The project budget was a little over SEK 7 million (approximately USD 800,000). The overall aim of the project, according to its application, was to create a permanent regional innovation system among the actors in the region to improve innovative sustainable growth in existing small and medium-sized firms. The project, which was led by the Regional Development Fund, had two main target groups: the primary target—small and medium-sized firms interested in innovation and growth and with ideas and development projects that need support from the regional

support system; and a secondary target—support actors, including those on the county level, who together comprise the regional support system.

As mentioned above, the reason for starting such a project was that the project applicants felt that the region lacked a functioning innovation support system. At the time of the application, there was almost no collaboration, at least not on a broad level, among the supporting actors in the region. There were support actors, but they were ineffective and uncoordinated, and their work often overlapped. Some of the actors possessed general competence and sometimes also specialist competence, but these were not made available in a cross-boundary manner. The owner–manager or entrepreneur could only hope to meet the right actor by coincidence. Some areas had other competence gaps, for example, medical technology and health. The system was described as silos with no external communication.

The application also revealed that small businesses and individuals with development ideas considered the system to be bureaucratic and difficult to navigate. During the course of the project, however, the regional support actors addressed this problem by creating an “innovation council” comprising representatives of the project stakeholders. The idea was that the council would give small- and medium-sized firms and idea holders an opportunity to present their ideas to all the stakeholders at the same time. After the presentations, feedback and advice on which stakeholder was best suited for the idea were given. To test the system, 22 “test pilots” (primarily the smaller of the small and medium-sized firms) were chosen. All test pilots were given the opportunity to present their ideas to the council, and about 17 were granted support. The support consisted of tailored counselling and small-scale funding up to SEK 50,000 (USD 6,000). Besides the activities of the innovation council, a seminar programme for training small business owners and idea holders was held. Over half of the test pilots attended these seminars, which were arranged around themes like marketing and sales, product development, and intellectual property. The test pilots were also given the opportunity to participate in trade fairs and make study visits. The stakeholders have been satisfied with what has been achieved, and work is now underway to make the programme permanent. Most likely, the innovation council will be managed by the Regional Council in the future.

To sum up, we can say that the Innovative Growth project seems to have been beneficial, partly by addressing a troubling problem—the fragmented and poorly functioning innovation support system—and partly by succeeding in working up, testing, and implementing a solution to the identified problem. The data on which the case descriptions are based also contain follow-ups of the innovation

pilots, and these indicated that also the target groups of firms were improving. The project succeeded in linking the stakeholders with each other, forcing them to interact more transparently, which resulted in clarifying their roles concerning the target groups. What is decisive for whether the programme can be considered successful is what happens in the future—long-term effects have not yet had a chance to appear. We also know that change work is challenging and that change management is necessary for the work to endure.

4 Discussion

Success in running an initiative that promotes entrepreneurship requires a sufficient number of idea holders, entrepreneurs, and firms within easy contact of each other. If not, a critical mass for carrying out the activity will not be reached, and the virtuous cycle of attraction will not happen. A minimum of participants is needed to proceed with the activities [26, 27] but also to create a favourable environment for attracting new incumbents. The Sustainability Incubator is the case that most clearly illustrates this phenomenon. Ambitions to attract new firms of sufficient quality were high, as were ambitions for the orientation and the scope of the incubator process. The case shows that, initially, due to a great need, incubator tenants that fit the chosen profile were easy to recruit. However, it soon became more difficult to find firms with the right profile. The explanation to this was that the catchment area was too small by means of critical mass—i.e. there were not a sufficient number of potential tenants present in the area. To remedy this, the Sustainability Incubator decided to rewrite its original idea and broaden activities so that it ended up with a very general profile with no clear orientation. This strategy solved the acute issue of recruitment, but the incubator gave up the sustainability profile that had placed it at the forefront of new thinking. The risk now is that sustainable firms with the potential to change the region may not be realised. To conclude, this case shows upon the difficulties that rural areas could experience due to the shortage of absorptive capacity. As example could be mention the capability to reach and encourage a sufficient number of individuals with ideas and entrepreneurial mindset.

A similar problem occurred in ENP Green Economy, but that project used another strategy to maintain recruitment—the catchment area was enlarged. Towards the end, the region being served was fairly large, and some of the participants had to travel long distances to attend the meetings. Expanding a catchment area requires good infrastructure, both roads and highways as well as information channels. Critical mass also depends on the quality of

the exchange between all parts—if no new blood joins, the flow of ideas and the exchange of knowledge will stagnate, as will the experienced advantage of participating in the activities. In the third case, Innovative Growth, the problem of critical mass occurred within stakeholder competence. Because the number of idea holders or firms that each stakeholder mentors is relatively few compared within metropolitan areas, it is more difficult to develop deep knowledge in specialised fields. In fact, the problem is not limited only to the lack of people to develop the activities, but rather to find and engage people with the right skills. Considering the difficulty in attracting skilled people from the metropolitan to rural areas [28], the set of options for stakeholder selection becomes limited. That means that it is not always possible to adequately support individual ideas in small sectors. As a consequence, in a worst-case scenario, the risk is that these entrepreneurs and firms will choose to establish their businesses in other regions that have a stronger innovation system. This case shows that when an initiative tries to overcome local shortage of motivated entrepreneurs and expand its catchment area, there is a risk that the initiative loose its home ground culture. This affects long-term networking, as proximity is an important network factor—both during and after the initiative.

In rural areas, it is important to adjust expectations and not make comparisons with metropolitan regions. As discussed above, there is a limited inflow of ideas and entrepreneurs in rural regions, and the regional innovation systems are in general less well developed. A large proportion of rural firms belong to what the OECD [29, p. 12] calls “the long tail of low productivity performance”—that is, firms that are not on the forefront of development but in general lack the innovative or market specialisation that is required to achieve fast growth in an expanding niche. For these firms, it is a matter of survival and, in the best-case scenario, creates moderate growth; stakeholders should focus on the transfer of knowledge instead of innovation.

It has also been recognised that new and small firms might not seek to grow, but may contain or “cap” their growth, with such decisions likely to take place in the early stages of the firm’s life, before it moves from small to a medium-sized firm [30]. An awareness that not all new firms can or wish to be growth firms is essential. Owner–managers’ characteristics also need to be analysed when considering small-firm growth. However, firms’ characteristics and the nature of their strategic planning and management processes are also important [3]. The dimensions that determine the capacity of small firms to grow are their owner–managers’ competence, entrepreneurial orientation, and strategic planning skills, and also how they manage the available resources [31]. The entrepreneurial orientation of the owner–manager works with the firm’s structure, including

the orientations of managers and environmental influences to determine growth [32]. Activities can then, instead, focus on starting up new small firms that will remain small. In such cases, it is reasonable to consider a regional perspective to measure success, since rural entrepreneurs have slightly different motivations than those in urban areas [33]. In rural areas, meeting certain local or even personal demands can be considered the desired success. ENP Green Economy created many small firms that have survived and support their owners, and perhaps a few more. The firms contribute to regional diversity, improve the selection of exciting products, and offer entertainment and experiences for the inhabitants of the region; these often provide the extra income that allows a family to continue to live in the countryside, away from metropolitan areas.

The Innovative Growth case shows how a “gutter cleaning problem” was uncovered and managed. The problem was that the regional stakeholders at times offered overlapping competencies while other parts of the system were experiencing competence gaps. By shining a light on the problem and trying to create solutions, work has begun to establish a more cohesive support system where idea holders and firm owners can contact the right actor directly. Testing the solution—an innovation council—on a relatively large group of test pilots meant that the new model was verified in both the support system and the target group. The innovation council provided a way to identify and take advantage of regional competences, and also deal with their pluralism so that the real needs of those seeking support could be met in a timely fashion. The design avoided the creation of “one-stop shops” where the actors compete for those seeking support and, due to territorial behaviour, become both the door in and the door out of the support process. To conclude the Innovative Growth case, it illustrates that the creation of a cohesive regional innovation system needs a monitoring function (in this case the innovation council) to create consensus around a common goal of direction and to create alignment between the actors in the region. However, in practice, there is a risk that the larger and resource strong actors dictate the agenda at the expense of the smaller actors, which then become less motivated and engaged. Therefore, it is important to be aware of that this type of processes could be both infected and take time. Hence, they require both devotion and endurance among the actors involved to succeed.

5 Conclusions and implications

Our conclusions link a number of areas with points that are equally important for supporting small business in rural areas effectively. These points concern achieving

critical mass in a number of activities, maintaining or developing diversity and variation in available resources, having realistic expectations of what is achievable, and taking advantage of new possibilities in a cross-boundary manner that includes others. With this background, we would like to make the following three concrete conclusions and recommendations. The first is to create a critical mass in the region to be able to carry out desired measures effectively. Critical mass can be achieved by changing the direction of an activity or project, its contents, and its scope. However, it must be attractive, able to entice others to participate. Critical mass can also be achieved by broadening the catchment area—which does, however, require good infrastructure in the form of travelled roads and highways and in digital communication channels. A diversity of stakeholders is central for creating dynamics and exchange between those participating in an activity—both among the organisers and the participants. Our advice is that support actors coordinate their work to enhance the attraction of their activities. As rural areas have relative advantages and disadvantages compared to urban areas [34], retention of qualified people can be exhausting work. Thus, our advice is that support actors coordinate their work to create attraction mechanisms, which generate a positive influx of skilled and talented people, instead of the attempt to find ways to retain such individuals in the region.

Secondly, it is important to have realistic expectations of the orientation and growth opportunities of the firms. Success is not always synonymous with a number of new employment positions, nor with radical new ideas; another, often overlooked, side of success includes soft values. We are speaking here of a strong and rich local economy where the inhabitants of the region are able to access a selection of products and services as well as a variation in alternative sources of income. So, in early development phases, the right idea is often to provide broad support in order to be open to the idea holders and firms that wish to participate. It is also about preserving, even transferring, existing knowledge so that small businesses can stay current and maintain their competitiveness. The Innovative Growth case also worked with established firms; it should not be forgotten these can also grow and develop if the right conditions are created.

Finally, there might be fruitful to establish a cross-boundary way of working that avoids prestige thinking and thought and business silos. This is a requirement for being able to develop the competence necessary for attracting the desired target group of firms and entrepreneurs. Otherwise, those involved may experience a non-transparent jungle of stakeholders with limited offerings where the risk of making the wrong choice is high.

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Compliance with ethical standards

Conflict of interest We hereby state that this paper does not contain any conflict of interest.

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