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A comparative study of entrepreneurial responses and local development on three islands:

# Facing business challenges with the Stockholm Archipelago as a context

by **Paulina Rytönen, Tommy Larsson-Segerlind, Gustaf Onn, Lars Degerstedt, and Mauri Kaipainen**

The Stockholm Archipelago is often considered a remote rural area in Sweden comparable to and no different than other rural areas. Recently, however, some official documents have concluded that the Stockholm Archipelago (hereafter called the Archipelago) differs widely from what normally is seen as a remote rural area. Therefore, to make accurate decisions and to develop policies suited for the Archipelago it is necessary to broaden current official Swedish socio-geographical classifications with a new category that grasps the actual conditions and characteristics of the Archipelago.<sup>1</sup>

The Archipelago is located within the most dynamic economic region in Sweden (and the world according to different rankings). In spite of their proximity to the largest market in Sweden, local businesses in the Archipelago to a large extent operate in the shadow of the urban capital.

Over the last decades, a number of policy initiatives, strategies, and development projects have been launched to support sustainable socio-economic development in the Archipelago. A common feature of policies and initiatives is that the Archipelago is approached as a homogenous region. Policies recognize that improving transport and accessibility to islands without bridges is important for the future,

## abstract

By conducting a comparative qualitative and systematic study of the local (island) pre-conditions for creating sustainable socio-economic development through entrepreneurship, here defined as a process of identifying, evaluating, and exploiting entrepreneurial opportunities, this study aims to shed light on entrepreneurial responses to challenges and opportunities on three islands in the Stockholm Archipelago and how context influences these responses.

**KEY WORDS:** entrepreneurship, archipelago, business challenges, local development

but actual investments have until now failed and most other aspects, including economic development, have been considered under the same frame as rural businesses and areas on the mainland, with no considerations to the geospatial features of the Archipelago. For example, investments to overcome the geospatial challenges in the Archipelago are insignificant, and all of the appointed development hubs are urban. At the same time, the physical attractiveness of the Archipelago is highlighted as crucial for attracting tourists to Stockholm.<sup>2</sup> Thus, the subordination of the Archipelago vis-à-vis the urban area of Stockholm is constantly reproduced by policies. In addition, when looking at the industries highlighted in development plans and policies, a key argument is that the heavy dependence on tourism needs to be broken;<sup>3</sup> however, most public investments are directed towards promoting the tourism industry, while important future industries, such as energy and cleantech, IT-based service industries, and consultancies have until now been neglected.<sup>4</sup> Therefore, one question raised in this study is if the Archipelago should be perceived as a homogeneous region or if it is better to use a more local perspective and level of analysis to capture, explain, and/or promote entrepreneurial and economic opportunities and obstacles in the Archipelago.



Stockholm Archipelago. Map by Mona Petersson.

To our knowledge, there are no previous studies or reports that highlight differences in entrepreneurial dynamics and outcomes within and between islands, but a pilot study conducted at an early stage in our project indicates that business owners on some islands have managed to create a more dynamic local environment and have achieved some interesting entrepreneurial outcomes, while inhabitants on other islands are still struggling with the same problems as they were decades ago.<sup>5</sup> These differences cannot easily be dismissed as a result of differences in physical infrastructure or spatial geographical differences, and they can also be the result of local institutions, they can be defined as formal and informal rules and constraints, and they can be connected to local contextual issues, all of which cause more or less path-dependent behavior among business owners and entrepreneurs.

In fact, in an overview conducted by King in 2009,<sup>6</sup> he concludes that the outsider and inward-looking perspective of scholars leads to a focus on geographical concepts such as time and space and/or geographical features. Some recurring themes and explanatory variables are smallness, insularity, and economic handicaps. Thus, most studies miss out on islanders' outward-looking orientation and by doing so they also miss out on single agent's or groups of agents' agency.

We are aware that we, as scholars, are outsiders in relation to the Archipelago, but we have tried to "bring the entrepreneur and the island back in" by highlighting their perspective and thus taking into consideration the critique issued by King.<sup>7</sup> The research process leading up to this article was therefore mostly

inductive, letting entrepreneurs and groups of entrepreneurs on the islands present their issues, their concerns, and their ideas. In addition, our approach differs from previous studies by offering a new way to study entrepreneurship on islands and by problematizing concepts that are new to this discussion.

By conducting a comparative, qualitative, and systematic study of the local (island) pre-conditions for creating sustainable socio-economic development through entrepreneurship, here defined as a process of identifying, evaluating, and exploiting entrepreneurial opportunities,<sup>8</sup> this study aims to shed light on entrepreneurial responses to challenges and opportunities on three islands in the Archipelago and how context influences these responses. The following questions will be addressed: What makes entrepreneurial responses/communities on some islands in the archipelago vibrant and resilient and others less so? In what ways do context and social capital influence individual and collective business decisions and outcomes? What are the causes behind negative lock-in mechanisms and (risk of) failure?

## Methods and sources

The methodology behind this article rests on two approaches. First, the data collection departed from an inductive, qualitative case study approach by studying "a spatially or temporarily delimited phenomenon (a unit) observed at a single point in time or over some period of time"<sup>9</sup> and relying on naturalistic (real-life) data, triangulation, group interviews and in-depth interviews with the objects of study (entrepreneurs), and literature reviews.<sup>10</sup> To increase the internal validity and help us systematize the analysis process, we also employed a comparative approach. Comparisons contribute to the conceptualization of results and to the development of new theory departing from a more or less inductive approach.<sup>11</sup> In this article the comparison is implemented at one level, namely the *comparison of interviews from different groups* (i.e. results from respondents from different islands). Comparative entrepreneurial studies can contribute to understand the contextual differences within and between regions, local groups, and individual firms.<sup>12</sup> The method was also influenced by a phenomenographic approach<sup>13</sup> in the sense that we departed from an inductive approach and that we were trying to identify variations in the perceptions between groups and individuals. The latter was done by using phenomenography to elaborate on the interview answers<sup>14</sup>.

To secure the robustness, credibility, and confirmability of the study, we implemented triangulation of methods (phenomenography, triangulation, comparison) and of sources (interviewing business owners both individually and as groups, business organization representatives, and public officers involved in business development in the Archipelago). Rather than triangulating theories, we implemented an inductive approach with the ambition to find better tools to analyze entrepreneurship in the Archipelago. To ensure the dependability of the data, the results from the study were presented to and discussed with the partners in Finland who performed the same study on the Finn-

ish side of the Archipelago. We also shared our results with some of the firms after the results were summarized and anonymized. Because it was not possible to get feedback from all firms, we focused on requesting feedback from and discussing our results with business association representatives. Although we recognize that the study has a limited geographical focus, we believe that departing from the width and depth of previous literature allows us some ground for transferability.

While most previous analyses and studies have treated the Archipelago as a uniform body and as one unit and region with the same challenges and opportunities, this article studies the dynamics and differences in the Archipelago from within, thus allowing us to shed light on the differences within and between different parts of the Archipelago.

The initial sources used are a database containing information about 1,599 firms in the Archipelago in 2014. The content of the database offers valuable input to understand the structure and composition of the supply side of the market. We complemented the database with updated data about the businesses on the three islands in focus, and we conducted in-depth interviews with business owners (either in groups or individually) on the three islands (I1, I2, I3). Additional interviews were conducted with business development officers in the municipalities in which the islands are located. I1 is located in municipality 1 (M1), and I2 and I3 are located in municipality M2. We also used public policy reports. Due to ethical considerations, our informants were anonymized using a code for each island and for each informant. The interviews are accounted for below in Table 1.

### Entrepreneurship on islands

“Island entrepreneurship” has been coined as a concept to highlight and include the specific challenges experienced by entrepreneurs running businesses in island environments. Islandness means that businesses have limited amounts of resources, including land and natural resources, that it is difficult to achieve agglomeration effects, and that access to the local market and logistics are limited due to the physical characteristics of islands.<sup>15</sup> In general terms, this also applies to the Archipelago. However, archipelago entrepreneurship differs from entrepreneurship on single islands because the geospatial features of archipelagos also include local contextual aspects of several islands and the interactions between islands and the mainland.

There is wide consensus in previous research that agglomeration, access to markets and resources, reasonable infrastructure, the presence of human capital, moderate competition over available resources, a formal and reasonably high educational level and/or the presence of needed skills and know-how, high levels of employment, financial stability and availability of capital, technological progress, a tax level and tax structure that helps stimulate businesses, relatively stable prices, and favorable institutions that stimulate the allocation of activities and resources, decrease incentives for over bureaucratizing society, and prevent corruption are important determining factors behind successful entrepreneurial development.<sup>16</sup> An additional pre-condition or determining factor behind entrepreneurial development

Table 1. Group interviews

Municipality	Orientation of participants	Date
M1	Boat workshop/shipyard (1), Restaurant and hotel (1), Shipping and logistics (2), Convenience store (1), Gift shop (1), Activity tourism (1)	13/10 2017
M2	Shipping/commuter boat (1), Taxi business (1), Gas station and convenience store (1), Shipyard (1), IT- infrastructure and software development (1), Hotel/restaurant, B&B (1).	16/11 2017
M2	Representatives from the municipality (2) Tourism destination businesses (2), Cottage rental (2), Restaurant/hotel (1), Brewery (1), Boat taxi (1), Gift and clothing store (1).	1/6 2017

Table 2. Individual in-depth interviews and orientation of businesses

Municipality	Business orientation*
M2	Brewery/food artisan
M2	Fish and vegetable production
M2	Hotel and restaurant
M2	Tourism, cottages, conferences, and carpentry
M2	Tourism destination businesses
M2	Boat taxi
M2	Shipping/commuter boat
M2	Taxi company
M2	Gas station and convenience store
M2	Boat workshop/shipyard
M2	Digitalization infrastructure and software development
M2	Restaurant and food artisan
M2	Tourist office/destination development and construction company
M1	Sales of handicrafts, local art, and maritime and local souvenirs
M1	Tourism and destination development
M1	Retail
M1	Boat workshop/shipyard
M1	Hotel and restaurant
M1	Management consultancy, logistics, shipping, and related activities
M1	Tourism and destination development

\* Orientation was defined from the official description in the company's registration certificate

highlighted in recent decades is globalization – a force that is claimed to either promote or hamper entrepreneurship.<sup>17</sup>

To cope with the shortcomings of islandness under the specific geospatial characteristics of the Archipelago, the state (at the regional level) has developed and applied different policies to either compensate for spatial and contextual challenges or to reinforce underlying factors that create favorable business conditions.<sup>18</sup> Such policies are not unique for the Archipelago; in fact, the state has for decades systematically favored entrepreneurship as a tool for meeting the challenges of globalization in rural and remote areas.<sup>19</sup> However, as Nuur and Laestadius stated in 2010, the impact of these strategies on local and regional development has seldom been studied.

The Archipelago is characterized by several distinctive features that increase the complexity of the area. In addition to its remoteness (i.e. most islands can only be reached by boat), the Archipelago is officially classified as an economically less favored/marginal area. One of its main challenges is that it is located within the same regional boundaries of the larger Stockholm County; therefore, the Archipelago exists in the shadow of the dynamic urban economic center. The structural dependence of the Archipelago on the economy of the capital city shows signs of a classic case of core-periphery dynamics.<sup>20</sup>

According to public reports, some of the main challenges for businesses in the Archipelago are a heavy dependence on tourism, short seasons, high logistical and transportation costs, the inability to reach the majority of islands other than by boat, an ageing population, sparse social infrastructure (hospitals, schools, elderly homes, etc.), a steadily decreasing number of people in the workforce, a negative migration ratio,<sup>21</sup> unsuitable environmental regulations, and poor information and communication technology infrastructure.<sup>22</sup>

New policies to promote and enable entrepreneurship are launched every few years, but although regional and state policies are the same for the entire Archipelago, our empirical results show that when islands with similar availability (can be reached by boat or by bridge), infrastructure (or lack of infrastructure), population size, etc., are compared, the outcomes in terms of entrepreneurial responses (and thereby also economic results) vary widely.<sup>23</sup>

In the academic literature, different types of entrepreneurship are highlighted, namely innovative, imitative, and unproductive.<sup>24</sup> In the case of the Archipelago, the differences observed between islands can be classified as innovative entrepreneurship (i.e. combining available resources in new ways and finding new ways to achieve economic success) or as passive business ownership (i.e. just running a business as it always has been done, showing clear signs of resistance against change, and not responding to opportunities and challenges), with many different combinations of these two in between. There are also signs of unproductive entrepreneurship, which is exemplified by the actions of businesses that are located outside the region and that use the Archipelago brand and its resources without contributing to the creation of income in local communities in the Archipelago. One specific example is the presence of “rib

boats” that take on food and tourists in central Stockholm and visit the Archipelago but leave only waste and environmental damage to the seabed and the islands. There are also large international cruise ships that are allowed to dump their grey water just outside the Archipelago when they pass through to central Stockholm.<sup>25</sup>

### Analytical framework

Within the field of island studies,<sup>26</sup> it is argued that entrepreneurial success on islands is related to local ownership, small firms, an export-oriented industry (that produces commodities rather than services), and technologies adapted to local conditions. Thus, the explanatory factors are related to the structure of the economy rather than the causes behind the structure. Other scholars highlight the role of social embeddedness as a vehicle to promote or hamper entrepreneurship, where personal relations and exchange are key features. This line of research problematizes the effects of differences or similarities between company/personal goals and community goals.<sup>27</sup> At the same time, although social embeddedness might help us to understand what individual entrepreneurial decisions are related to, i.e. how they reproduce path-dependency,<sup>28</sup> social embeddedness is not equipped to help us understand the underlying causes of entrepreneurial responses and patterns. Thus, we argue that there is a need to develop new theoretical concepts for studying islands. In addition, it is also essential to emphasize here the fact that this study has an archipelago as its object of study; therefore, any conceptual tool used in the analysis needs to include and embrace the “bigger picture” and all those aspects that might influence each island within the Archipelago differently. This is why our search for an analytical framework starts off from context.

Societies, regions, and individual firms engage in entrepreneurial responses depending on many different contextual, spatial, endogenous, and exogenous aspects.<sup>29</sup> Some of the most critical aspects of entrepreneurship, e.g. identifying and exploiting economic opportunities under conditions of genuine uncertainty,<sup>30</sup> are enabled by the characteristics of the opportunity combined with the nature of the habitus/social capital in the local community becoming the vehicle that enables or hampers entrepreneurship.<sup>31</sup> There is currently an intense debate that argues for the need to contextualize the study of entrepreneurship.<sup>32</sup> Scholars propose that context should be the main unit of analysis instead of entrepreneurs and outcomes and that the focus on context will avoid the objectification of entrepreneurship and open up for discussing the becoming entrepreneurship.<sup>33</sup> Business context – i.e. the existence of different types of capital, institutional settings, and policies – influences business activities in different ways, and social (values, skills, priorities, and attitudes), cultural, political, geographical, and economic contexts can positively or negatively affect the way in which business act and perform.<sup>34</sup>

One argument is that the possibility of discovering and exploiting opportunities is always context dependent. External conditions in society might promote or hamper entrepreneurship and thereby also influence economic development at any

level of aggregation. Jelinek and Litterer<sup>35</sup> argue that the study of entrepreneurship needs to highlight cognitive aspects of society and context in order to make sense of entrepreneurial actions and responses (or lack thereof). The mentioned arguments have gained recognition among scholars who increasingly underline the role of context as pivotal to the study of entrepreneurship.<sup>36</sup>

Contextualization implies the consideration of situational and temporal boundaries and opportunities for entrepreneurship – theoretically as well as methodologically. Welter proposes the operationalization of context departing from four dimensions, namely *Industry* (the degree of maturity of existing industries and markets and the number and nature of competitors), *Social networks* (in this case families/households as well as their composition and roles, the structure of networks within and between islands, and the nature of network relations), *Spatial geographical environments* (in this case islands, communities, and neighborhoods, industrial districts and clusters, the characteristics of physical business locations, the business support infrastructure, and the characteristics of local communities), and *Institutional culture and society* (political and economic systems, societal attitudes and norms, legal and regulatory aspects, and policy and support measures).<sup>37</sup> But while Welter's contribution can be useful for categorizing and maybe even organizing a study, each category needs to be problematized and given a conceptual content.

It can be beneficial to dig deeper into the social, institutional, and cultural aspects of local communities. A discussion that can be fruitful for this purpose deals with social capital, e.g. a theoretical strand that highlights how social interactions, social ties and relations, the existence of trust or distrust, and value systems influences the actions of individuals or groups of people within a social context. As such, social capital is considered to be the underlying force behind positive and successful social interaction and the engine behind positive networks.<sup>38</sup> Social capital is described as “both the glue that binds to create a network and also the lubricant that eases and energizes network interaction”.<sup>39</sup>

Institutions also influence the possibility of exploiting entrepreneurial opportunities.<sup>40</sup> While formal institutions (e.g. laws, rules, and formal restrictions) are easy to identify, the role of informal institutions (e.g. business culture, deeply rooted habits, traditions, well established and dominating ways of thinking, etc.) can be perceived as more diffuse. However, institutions have the power to channel entrepreneurial actions in a productive direction<sup>41</sup> by offering tools to understand “the bigger picture” and to connect it to the micro context in which the firm operates. Institutions are often described as “history condensed into our actions”<sup>42</sup> or as a “measurement of the degree of economic freedom in society”.<sup>43</sup> In this study, context is used as a starting point for creating a general analytical framework, but we also test concepts that can help us to dig deeper into the different dimensions of context. This study therefore aims to con-

tribute theoretically by problematizing context and by borrowing some concepts from institutional theory and social capital and the interaction between them.

## Entrepreneurial responses on the three islands

### Island 1

I1 has since the 19th century been a popular tourist destination in the Archipelago. During the summer the island receives over 100,000 visitors who arrive with the public commuter boat or by private boats that stop by to take on fuel and/or water, eat at the local restaurants and bars, or participate in other activities. There are also 2,500 summer cabins. The local economy is highly dependent on the summer season, but lately some efforts have been made to increase the number of visitors during the Christmas season.<sup>44</sup> In addition, in recent years a large number of new houses have been built on the island and new people have moved in. The island also has a long history of hosting some smaller state agencies. One of the advantages of I1 is that the business activities on the island, and most of the housing, are concentrated and located close to the guest harbor and the public jetty, and thus there are also large areas of unexploited nature for recreation.<sup>45</sup> I1 has a permanent year-round public transportation line, and the regional authorities have appointed I1 as one of its transport hubs for the surrounding islands.<sup>46</sup> In addition, private ferry lines use the island as a destination. With the exception of the hotels, many local businesses are characterized as small or solo businesses with diversification strategies and with

a portfolio of activities and services during different parts of the season (interview, chairman of the business association, 2018). It is notable that despite the very large number of visitors, especially in the summer season, the island has a small number of businesses compared to other islands. Moreover, the internal competition between business activities is low, with often just one or few busi-

ness actors in each niche or sector.

Lately, businesses on I1 have been exposed to several challenges. First, a large annual event that used to take place on the island was relocated to the urban city center in Stockholm because the city offers “more recreational opportunities, better and wider food offerings, and a more exciting environment”.<sup>47</sup> Second, the largest employer and hotel/conference venue has failed financially. Since 2017 it has only been open when it was booked for conferences, and it is now for sale. Third, a prohibition against refilling freshwater in private boats was recently adopted by the regional authorities. These three challenges constitute a future risk for all local businesses. The financial problems of the large hotel/conference venue led to a decrease in income for several firms, and two small firms were forced to close down for the winter. The attitude from Stockholm is just one of many examples of how outsiders exploit the Archipelago landscapes

**“WE ARGUE THAT THERE IS A NEED TO DEVELOP NEW THEORETICAL CONCEPTS FOR STUDYING ISLANDS.”**

(where the actual competition will take place) without giving anything back to the local community.

Business responses to upcoming challenges have been quite different. Some business owners claim that the island has a sufficiently strong trademark and therefore there is no need to act or react to recent challenges with the argument that “people will come anyway”,<sup>48</sup> and during the warm summer of 2018 they estimate that they had a record number of visitors.

There have been some former unsuccessful initiatives “to prolong the summer season”. A major problem with these initiatives is that the climate and weather in the early or late summer season do not fulfill the expectation from the visitors as a “summer destination”.

There is growing awareness from some of the entrepreneurs of the necessities to instead develop “new seasons” to attract visitors also during autumn, winter, and spring. One problem is that the I1 trademark is very positioned as a summer destination, but also that the local business community has not been able to mobilize collective action to develop new attractions and activities for new seasons. Another shortcoming on the island is the lack of affordable housing solutions for employees, especially during the summer season.

### **Social capital and institutions**

On I1 there is a long tradition of handling common problems by establishing associations. There are eleven associations on I1, some of which are the business association and some important landowner and road associations. In contrast to the rest of the Archipelago where most of the land is owned by public entities, most land on I1 is privately owned<sup>49</sup> and some key locations are owned cooperatively through associations. An advantage on I1 is that they have succeeded in making some recent investments in new houses, and old buildings have been renovated. There is a long tradition of local autonomy, and locals prefer to find local solutions to problems without the involvement of authorities from the mainland or other islands. Lately the Swedish state has located some smaller government agencies on the island. During the individual interviews, the entrepreneurs expressed an awareness of the need to cooperate locally to solve local problems, and during the group interview the entrepreneurs expressed a collective frustration about a communication gap between themselves and the public authorities. The islanders claim that the authorities do not take into consideration the specific contextual circumstances of running a business on an island. This gap can be confirmed by comparing the interviews with the entrepreneurs to those with the municipality officers. On I1, several entrepreneurs are trying to find support for the development of “new seasons”, while officials in the municipality (M1) and the support systems are oriented towards “prolonging the summer season”. Thus, the entrepreneurial perspective is not always present in the minds and policies of local authorities. One of the public documents referred to by public officials shows that the mainland is the priority of the municipality and the county council. M1 has no specialized officers for Archipelago businesses<sup>50</sup>, and the archipelago is officially considered to be

a tourism and recreation destination to serve the needs of the urban population.

The business association on I1 is characterized by having a vague mandate. The association has mostly focused on common issues related to infrastructure on the island, e.g. waste disposal problems and freshwater issues. The business association was involved in a publically financed project to further develop I1 as a tourism destination, but when the money for the project was used up the engagement dropped.<sup>51</sup> In addition, when a larger hotel on the island started to have financial problems, no one else stepped in to take the lead in the destination project. During the individual interviews, it was expressed that there are rather few businesses on the island and that these simultaneously run several different types of business activities. In that sense, most of the entrepreneurs are highly intertwined in complex social networks and associations in which they play several different roles depending on the purpose and mandate of the specific context. The entrepreneurs confirmed that the initial enthusiasm to solve common problems or to act on common opportunities only lasts a few years if the proposed solutions meet resistance. The entrepreneurs also expressed how it is quite exhausting to contribute and invest unpaid time in making changes for the better of the greater business community while at the same time running several of their own businesses.<sup>52</sup> The business association needs to internally balance the interests of different sectors on the island. If the focus is too heavy on tourism, businesses within construction or other sectors will lose their commitment.

In general, business owners seem to trust each other, although the entrepreneurs have different agendas and some are more progressive and future oriented, while others want things to remain as they have always been. There are two main causes behind the lack of collective, proactive entrepreneurial responses to emerging challenges. First, the differences between companies looking at future industries (in addition to tourism) and those who want to preserve their economic activities as they always have been are quite large. An example is the quality of accommodations offered to visitors. Some entrepreneurs claim that there is a need to offer modern or at least updated quality (i.e. single bedrooms with an in-suite bathroom) to attract visitors all year around and especially business conferences. Such a development is important to all entrepreneurs because even the ones with the smallest businesses are dependent on the success of others. At the same time, other entrepreneurs claim that visitors are spoiled and therefore they offer their services only to customers who “understand that the standard in the Archipelago is simpler than elsewhere”. Therefore, investments in the modernization of accommodation simply do not take place. Second, the fixation on having a strong trademark tends to eliminate incentives for investing in marketing the island, which probably prevents potential visitors from knowing about ongoing or future events and activities.

In terms of social capital, numerous interactions, social ties, and relations emerge between business owners, not the least because there are few entrepreneurs and because local businesses depend on each other’s success, especially that of the larger ac-

tors. In addition, all of them operate in close proximity to each other, but they have different values and interpretations about the future, and this paralyzes the business collective and prevents it from reacting to emerging challenges. Moreover, local rules and established practices, such as the distrust towards the power structures in the mainland, have become institutionalized and play against the possibility of getting additional support to overcome the challenges that businesses currently face. Thus, the tension between local and regional and national institutions seems to be one of the main challenges on I1, and the interviews clearly show that entrepreneurs have no answers for how to handle this.

## Island 2

I2 is one of the largest islands in the Archipelago. Business activities and houses are spread all over the island, although the major businesses related to tourism are located in relation to the public jetty and the guest harbor. I2 receives some 100,000 visitors every year, mostly during the summer, but the largest hotel also arranges conferences for businesses from the mainland and a number of activities are offered all year around, thus guests are present during the entire year. In addition, during the Christmas season (which starts in November) a large number of firms arrange their Christmas parties with customers and staff on I2. Local business owners and inhabitants have been skillful at attracting investments in infrastructure, which are promoted and financially supported by the municipality. One example is a recent investment in new and updated walking/biking paths, including an outdoor gym, which helps the island to profile itself as a destination for an active vacation. Efforts to get financing from official funding are channeled through the business association. I2 has also managed to attract a new and large sports activity that takes place during the off-season. It has also become a base that attracts visitors who come to train for different sporting events during the off season. In addition, I2 profiles itself through cultural activities, and several museums and historical places have been updated and made available.<sup>53</sup> Also, because the largest hotel is open all year around, I2 also profiles itself as a place to relax and eat good food. I2 can be reached through public ferries all year around, but public transports to the island are seen as a major problem by entrepreneurs because changes in timetables are unpredictable and because of poor coordination between different public transportation systems from Stockholm.<sup>54</sup>

I2 faces several challenges. First, the armed forces have traditionally engaged in intensive activities on the waters that surround the island. Business owners agree that rules set by the armed forces restrict their investments because considerations for security issues often lead to prohibitions against business activities (for example, establishing a brewery). Second, major parts of the land and properties are owned by the Archipelago

Foundation. Leases are relatively short term, and the Foundation demands that investments made by tenants are passed on to the Foundation no later than 10 years after the investment has been made. Thus, because most of the land and buildings in the Archipelago are in the hands of the Foundation (due to a decision reached by the state), the ownership structure eliminates investment incentives and negatively affects the possibility of updating many facilities or establishing new businesses. Third, it is difficult to recruit staff with the needed experience, and if a person is recruited there is no affordable housing available (either to rent or to buy). Thus, the property market constitutes a constraint towards businesses. Fourth, the population is getting older and thus there is a need to increase public services, but the possibility of establishing a nursing home, for example, is restricted by the lack of agglomeration and problems related to access to properties (see above). Fifth, Wi-Fi capacity is a

challenge because passengers on boats passing by or day visitors might take up all the available Wi-Fi, which disables payment terminals for credit cards, etc.<sup>55</sup>

Local responses to various challenges have in a sense been quite dynamic, although this approach does not apply to all

business owners. The local business association is the forum in which solutions to problems are found collectively. For example, the night staff working at the local pub are responsible for attending emergency calls from the elderly during evenings and nights, and this enables some older inhabitants to remain on the island.

One of the most important strategic decisions has been to organize a publically funded project to develop the island as a tourism destination with an elaborated focus on creating new tourism seasons rather than focusing on extending the summer season. Although entrepreneurs claim that they still have a long way to go, they seem to have a plan and they are managing to implement it step by step. A key factor behind this positive trend is that business associations quite early on decided to engage in digital marketing and the implementation of a business development strategy that embraces the principles of the digital economy. One important reason behind this attitude is that the leading businesses have worked in a pro-active fashion, especially by increasing the number of visitors by developing new attractions that helped to create new tourism seasons. The largest business on I2 has also gradually diversified without crowding out other businesses. The positive effects spill over from larger to smaller businesses as the new visitors walk around, make purchases in the local shops, rent boat taxi services, and also visit and buy various things from other local businesses. Not all the businesses agree with the chosen strategy, but they accept the actions of the stronger firms because they benefit from the actions of stronger and more active partners. One example is that there was an initial resistance against digitalization of the island's value offer and the new orientation toward tourism, but since these changes

**“THE TENSION BETWEEN LOCAL AND REGIONAL AND NATIONAL INSTITUTIONS SEEMS TO BE ONE OF THE MAIN CHALLENGES.”**

were adopted all businesses have profited from them. The tension caused by the different approaches illustrates a generational gap and possible differences in access to capital (not everybody has the necessary capital to develop their businesses). Moreover, employing qualified staff to narrow the gap with other businesses is difficult, not only because of the problems mentioned above, but also because employers with outdated businesses and lack of capital cannot compete with businesses that can offer both a good salary and development possibilities<sup>56</sup>.

### **Social capital and institutions**

It seems that the business association on I2 works decisively to solve problems, often in collaboration with public authorities. The business association and the entrepreneurs on I2 seem to take advantage of the opportunities and support offered by the municipality or the state by upgrading or developing infrastructure and other projects with financial support from local/central government. The business association is furthermore characterized by a rather hierarchical structure with a few influential individuals at the top who are closely linked to a publically funded destination project and to the strongest businesses. The interviews show trust in the business association and a strong mandate from the entrepreneurs to represent them and to work for their common interest. The work of the leading group within the association has been decisive for the economic upturn on the island. The business association shows a collective learning ability, and their comprehensive analysis of the role of social media in a business model has led to a new and deeper understanding by most entrepreneurs of the demands from potential new visitors. Interviews with entrepreneurs and the municipality also showed that the more hierarchical structure of the local business association has enabled communication with different public authorities to take place in a positive and efficient manner. The attitude is reciprocal, and the municipality (M2) has facilitated the communication by appointing an officer with a specific responsibility for Archipelago businesses.

The negative side of the hierarchical structure of the business association and the focus on developing the island as a year-round destination is that entrepreneurs in other sectors, for example, IT-consultants and builders, feel neglected by the narrow focus on tourism. There are also indications that some firms in other industries have left the island or reduced their activities. In addition, the interviews indicate that the high level of trust in the leading persons in the business association is used as an excuse by some entrepreneurs not to get involved in activities to increase the specific skills and business competences that could have been crucial to developing their own businesses.

### **Island 3**

I3 is a large island with more than 200 permanent residents. In contrast to the other two islands, only around 25,000 tourists visit I3 every year, mainly during the summer season. Transports to I3 are run by the regionally owned Waxholm Ferries and by a private car ferry line that transports people, cars, and goods several times per day every day, all year round. There is also

a permanent bus connection within the island.<sup>57</sup> The car ferry enables people to commute to work on a daily basis and was initiated in the 1970s. At that time residents had difficulties taking care of their daily affairs on the mainland because there were no regular transports, thus a simple visit to the doctor required planning and staying overnight on the mainland. The government decided that establishing a regular public ferry to I3 would be too expensive, therefore a private initiative managed to find a solution to this problem by finding a way (with the support of government experts) to subsidize a private ferry. The solution was a re-interpretation of the implementation of the rural road subsidy regulations. This new interpretation allowed the private ferry company to start this business because the rural road subsidy made it possible to charge affordable prices to commuters.<sup>58</sup>

The number of businesses is limited, but their orientation is quite varied. There are large unexploited areas and some protected natural areas with interesting flora and a rich bird life. The population is scattered between two main locations. There are roads and trails for walking and biking,<sup>59</sup> but the roads are not built to carry heavy loads, therefore local transport of heavy goods is a challenge. Most walking paths are privately owned and sometimes covered by old easement arrangements that are difficult to follow and/or combine with modern ownership rights.<sup>60</sup>

The community is active in a large number of local associations working for various purposes, but there is no business association, which was highlighted as a shortcoming by some entrepreneurs, while others expressed that they did not want additional associations. The central meeting point is a community center that holds a smaller library and the hub for the high-speed IT cable.<sup>61</sup> Until recently there was also a restaurant and a small shop, but the lack of visitors and new online-based food delivery services drove them out of business. On I3, tourism is still a marginal activity, but various stakeholders agree that there is a large potential for increasing tourism and attracting visitors, not the least because a modern hotel and a B&B were opened during 2017/2018.<sup>62</sup>

Businesses on the island face several challenges. First, the land ownership structure has historically been very unevenly distributed, and this has conditioned social and economic relations for generations. Second, zoning plans are not updated for the island, and businesses have not been able to reach a consensus on how new zoning plans should be outlined and what businesses would be appropriate to establish on the available land. Third, the island does not have a port to load and unload goods, and the jetty used by the car ferry is too small and inadequate, especially for heavy transports. Fourth, the private car ferry line is threatened by the state's plans to withdraw subsidies to rural roads, which would decrease the possibility to commute to work on a daily basis. Fifth, the community (and especially the second home owners) in the place where the car ferry docks on the mainland work against the possibility of using the jetty in the future because they feel that their summer paradise is destroyed by the traffic passing to and from the ferry.<sup>63</sup>

Traditionally, businesses have emerged and acted individually on some issues that are of common interest. In general, the municipality grasps some of the more problematic issues, but

some entrepreneurs have especially good relations with regional and national authorities and through these relations they have been able to influence the development of the island in a positive way, for example, by enabling the company that runs the private car ferry to keep the ferry running through public support from state funds for rural roads. In addition, a few entrepreneurs have managed to become assigned on behalf of the regional authorities to conduct some investigations regarding issues that are important for I3.

### **Social capital and institutions**

With the absence of a formal business association, there is no clear forum to discuss, represent, or work on common local business questions. The interviews revealed a high degree of fragmentation. The absence of a representative business forum on the island also means problems with the communication between the municipality and the local business community on I3. When discussing social capital and institutions on I3, it seems inevitable to depart from history because the interviews showed that a historically rooted way to solve problems has been to form associations in order to gather forces and to cope with the power imbalances caused by the uneven distribution of land (with one large private landowner on the island). The practice of forming or running specialized associations has continued until today, and while some stakeholders are positive towards this practice, others resent it for preventing local stakeholders from being able to leave past relationship dynamics behind them. On I3 there are two nodes of development, one revolves around several relatively new small-scale businesses who show enthusiasm for investing in the future. One of these investments is the recent installation of a high-speed IT connection to all of the households and firms. It was possible to achieve consensus on this because one of the new firms has the necessary knowledge and can afford to do the installation for a fraction of the cost and because this is of general interest for all inhabitants and summer guests. However, to achieve broader business development and to attract new firms to the island, it is necessary that entrepreneurs from the second development node, composed by the larger landowners, are willing to sell land or to make it available through other arrangements. No consensus has yet been reached between entrepreneurs in the two nodes about this issue.

The members of the second node are also quite active and creative. One example is the way in which one family circumvented the ban on building close to the water, the so-called Beach Protection Act<sup>64</sup>. The family purchased old buildings located just by the water (which were built long before the Beach Protection Act was adopted), some of which were actual ruins. Thereafter, permission to renovate them was applied for from the municipality. Because the buildings were already in place by the water (even though it was a long time ago that they were last used), it was possible to get the renovation permit and build a hotel with modern standards. The lack of a modern hotel that could offer venues for meetings and serving lunch was recognized as a shortcoming by all of the entrepreneurs during the

first group interview. The establishment of the new hotel was an important step forward in the future development of I3.<sup>65</sup>

An unfortunate consequence of the lack of unity between business owners on I3 is that the business association located in the mainland port from which the car ferry arrives and departs is trying to move in and satisfy its own needs by annexing the island's entrepreneurs. This contributes to fomenting a business environment in which collective action within the entrepreneurial community becomes more and more difficult.<sup>66</sup>

Thus, on I3 old structures and institutional arrangements and old practices clearly work against building social capital because actions by individuals and groups are influenced in such a way that general entrepreneurial development is inhibited. Fragmentation also contributes to limiting the possibility of getting as much as possible from public funds, and although the municipality (M2) shows an understanding of the challenges of entrepreneurship on the islands (see I2), the lack of coordination from the local businesses on I3 helps to create a more passive attitude from M2 vis á vis I3.

### **Social capital, institutions, and entrepreneurial responses**

In the sections above, results from the individual islands have been presented. In the table on next page, the results are further elaborated by comparing different groups.

An important result of the comparison above is that none of the explanatory factors behind successful entrepreneurship put forward in previous research, e.g. local ownership, small firms, an export-oriented industry that produces commodities rather than services, and technologies adapted to local conditions, were found to be important on these islands. At the individual/firm level, conflicting formal institutions at different levels (nation, region) are quite relevant obstacles, but other aspects such as the possibility of investing in a property were also found to be important.

The differences illustrated by the table above highlight that entrepreneurial dynamics and outcomes are clearly influenced by local contextual and institutional factors, which in turn condition the businesses' space for action and the development of (collective) social capital. There is a clear interaction between the creation of a dynamic entrepreneurial environment and formal and informal institutions and collective action. What, then, are the local factors that influence entrepreneurial responses, i.e. how do they act when faced with opportunities and challenges?

First of all, the building of social capital and, in particular, collective social capital, seems to be fundamental in order for a positive development spiral to gain momentum. In the illustrated cases, this does not mean that everybody needs to agree on everything all the time; instead, it seems sufficient to have a basic understanding of and trust in the stronger businesses and their actions. The lack of collective social capital, in terms of a lack of an arena for collective action or an inability to agree on how to act and who can lead possible actions, clearly seems to be an obstacle to acting on upcoming threats and locks businesses into

**Table 3.** Differences and similarities between I1, I2, and I3

	<b>I1 – Island 1</b>	<b>I2 – Island 2</b>	<b>I3 – Island 3</b>
<b>Social capital in the business community</b>	Close and intertwined roles and high internal trust, but with restricted mandates and resources for the leading representatives to realize change	A hierarchical organization with representatives who have the trust, mandate, and resources to create a partial interest in change	No formal organization. Fragmented groups and individuals with different interests.
<b>Land ownership structure</b>	Dispersed private ownership by individuals or collectives.	One major large landowner through a foundation. Local businesses rent properties from the foundation.	One major large private landowner.
<b>Local collective representation as an island</b>	High collective representation but low implementation capability means poor outcomes of collective action.	High collective representation, actions by stronger businesses create positive spin-offs for less active firms.	No collective representation and thereby limited possibility of internal and external collective action.
<b>The structure and characteristics of the business demography</b>	Low degree of internal competition. Mostly small business with a portfolio of activities, and the larger business actors are financially weak. Businesses are mostly in tourism, retail, transport, shipyards, consulting, construction, and state agencies.	Low degree of internal competition. Mostly small businesses, including some that are more focused and some with diversification strategies. One large and dominant business actor. Businesses are mostly in tourism, transport, construction, agriculture, fishing, IT-consulting, and state agencies.	Low degree of internal competition, but also a low degree of cooperation. Mostly small firms with a varying range of orientation. Tourism infrastructure is scarce. Two firms that are owned by the same family dominate.
<b>Relation with authorities on mainland</b>	Arms-length distance and problems with communication with an inexplicit counterparts.	Close relation and direct communication with an explicit counterpart	Some individuals have good and close contacts and cooperation with authorities, while most others lack this and are therefore poorly represented in front of the authorities.
<b>Type of entrepreneurship</b>	A few firms show innovating thinking, while the majority show clear signs of passive entrepreneurship and do not respond to threats or opportunities.	Dynamic environment in which unexploited opportunities are discovered and acted upon. Actions of larger businesses benefit most local businesses.	Individually many firms do well, but the social context and old structures and institutions promote inaction and a poor entrepreneurial climate.

Sources: Authors' elaborations based on group interviews and individual interviews on I1, I2, and I3.

old tracks thereby preventing creative destruction to take place. On the other hand, social capital and individual agency can lead to institutional change, which is clearly the case when building permits were obtained for renovating old buildings by the water.

Land ownership structure can have both positive and negative influences. Land on I1 and I3 is privately owned, and even though the land ownership structures are different (scattered owners on I1 and one dominating owner on I3) they have both led to the creation of action patterns and traditions that served a purpose in the past but that currently constitute a problem for the building of collective social capital and thus act as an obstacle to local development. In the case of I2, land is not privately owned and the conditions to create a safe investment environment are questionable, but while some business owners are reluctant to invest, others find ways around the problems and manage to distribute their risks through diversification and

collaboration with other local firms. It is also clear that in these cases the actions and attitudes of larger businesses are decisive for development on the island.

An additional aspect is the relationship with authorities and entities outside the island. In the case where islanders have worked collectively to gain benefits from public finance and to establish relations with outsiders as a collective unit (I1), businesses have benefited, while in the other two cases (I2 and I3) distrust towards outsiders and a lack of collective action have prevented the efficient exploitation of opportunities, for example, the capture of public funding or influencing emerging regulations, and have even led to actions from outsiders that can work against the island. On I3 the positive effects are limited by the lack of collective action because public resources are distributed unevenly within the island, and thus a positive spin-off effect is prevented.

## Conclusions

In this study we have chosen to deepen the analysis of the role of context on entrepreneurial responses to opportunities and challenges by looking especially at institutions, social capital, and the interactions between the two. Our results indicate that while some dimensions might affect businesses in the Archipelago relatively equally, institutions, traditions, and habits as well as the possibility of building social capital are all crucial factors to enabling or disabling entrepreneurial responses. The entrepreneurs who managed to create a more dynamic business environment to overcome the contextual challenges posed by islandness were able to do so because they could overcome old practices and traditions and could build collective capital, strong networks, and the capability to learn from and respond/adapt to a changing environment. The opposite is seen in cases where outcomes are either passive or far below their potential.

However, entrepreneurial responses were not enough. Path-dependency in the formulation of development policies, support systems, and attitudes from the municipality (M1) clearly worked against more dynamic development on I1. Entrepreneurs conduct their businesses within the framework of many different types of interactions, and while they might be able to influence their business relations with customers and suppliers, everything that is dependent on public decisions and public policies (for example infrastructure, waste management, etc.) requires an entrepreneurial-friendly institutional setting and the necessary types of social capital in the authorities that are set to develop or guarantee institutions that live up to their expectations. Thus, institutional change and the construction of the right type of social capital are equally important to develop within public authorities in order to influence/promote growth.

Is social capital only dependent on institutional change? At this point we believe that social capital is not enough to break old structures and to leave old ways of thinking behind, and there is always a personal dimension involved. However, we cannot answer what these dimensions are based on our current results. An additional result from this study is that policies and the competitive attitude of regional authorities (the city of Stockholm, the municipalities, and the Stockholm County Council) act in a way that makes the subordination of the Archipelago a permanent feature. However, this question needs further scrutiny.

This article argues that using a comparative approach might raise the internal validity of the study, and this approach has proven to be helpful in our search for a new understanding of why regional policies and/or opportunities are exploited and why outcomes in a seemingly homogenous population might be very different. Indeed, studying archipelagos is useful for understanding the complexity of island entrepreneurship because it forces the scholar to look beyond just one case.

In addition, departing from previous studies, this article argues that there is a need to develop new concepts that will allow for a more accurate analysis of entrepreneurship on islands and archipelagos. This article has shown that there is a mutual influence between social capital and institutions, as the latter might condition the first, but it has also been shown that social capital

might also influence and change institutional settings at the national, regional, or local level.

Context as a whole, as well as its individual dimensions, deserves to be further conceptualized. In this article, the use of institutional theory allowed for a better understanding of the interplay of institutions at various levels of abstraction (nation, region, island) by analyzing the underlying causes behind entrepreneurial challenges, opportunities, and responses beyond the micro/local level. Highlighting the role of agency both in relation to social capital (see the example of I3) but also in relation to institutions and institutional change might be a fruitful strategy for future studies. A next step in this direction is to dig deeper into the experiences of island entrepreneurs and to focus on entrepreneurs' decision-making principles in order to better understand entrepreneurial success as well as passive or negative entrepreneurship. ✖

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- 63 “Project Ö för Ö” (Island by Island), accessed January 3, 2018, [www.oforo.se](http://www.oforo.se); Group Interview with local entrepreneurs.
- 64 BFS 2011:6. Boverket’s building regulations – mandatory provisions and general recommendations, BBR BFS 2011:6 with amendments up to BFS 2016:6.
- 65 Individual interview on I3.
- 66 Group interview and individual interviews with entrepreneurs on I3.

## The Archipelago Business Development project gave new insights

Lappo has been inhabited since the 13<sup>th</sup> or 14<sup>th</sup> centuries. Today the number of year-round inhabitants is around 30, but in the summer you will see more people as the tourists arrive. In 2004, there were 58 inhabitants on Lappo, so like for many other islands in the archipelago the trend has been decreasing. Consequently, the local school closed down in 2010 and now the children attend school on Brändö. Once on Lappo, you do not really need a car because you can walk or cycle around the island, which covers 8 square kilometers and measures 4.3 kilometers from north to south. You can also arrive by boat, and there is a well-equipped guest harbor that is open between mid-May and mid-September. In addition to the harbor, you can find a post office, library, museum, shop, and summer restaurants on the island.

For accommodation, there is Tiina Thörnroos, who can host up to 50+ people in her different lodging alternatives. Tiina Thörnroos was one of the participators of the project Arcipelago Business Development.

“This is a full-time job for me, and during the summer months we also hire a cleaner. My husband, parents, and in-laws provide a helping hand when needed. My husband works in mainland Åland during the winter, so I am very grateful that he is around during the busiest summer period. Our children are growing up, so it is not a problem that I work full-time, and they always know where to find me if they need me. When autumn comes, I have sometimes worked 90 days in a row without a break, so I am quite tired and it can take up to a few months to recover. By that time, it is time to start again. Falling ill would be a disaster, so you do not fall ill – you take a pill and go to work.”

### How do you market your services?

“I have many guests who return every year. In addition, I market through my website, on Facebook, at fairs, and

### With an aim to develop new business models

**ARCHIPELAGO** Business Development is a project financed by the Central Baltic Programme 2014–2020. The total budget for the project is 1,638,511 euro, of which ERDF is providing 1,228,883 euro. The project aims at developing new business models in the archipelago by forming partnerships between entrepreneurs and start-up companies in Finland (including Åland Islands) and Swe-