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Local Small Business Development in two Swedish Northern Rural Areas – A Matter of Synergy, Social Capital and Trust?

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Abstract

This exploratory paper examines the synergy between small businesses and the municipality in rural areas in northern Sweden, by exploring whether the degree of social capital and trust influences local small business development. Previous research shows that municipal policy tools, initiatives, and state-society synergy are crucial for local small business development in rural areas. This study challenges popular assumptions about how state-society synergy is imperative for local small business development by saying that a lack of vertical trust has in fact encouraged the entrepreneurial force and increased small business development in the rural areas studied. A qualitative case-study method was used including interviews, observations and studying of documents. Results show, by using the indicator ‘extent of trust in the municipality’ as measurement, that when there is strong horizontal social capital, it may in fact inhibit the possibility of creating strong vertical social capital, and the extent of trust towards the municipality is insignificant in promoting small business development in a rural area if the horizontal social capital is strong.

Keywords: small business development; rural; synergy; social capital; trust

1.0 Introduction

Taking a state-society synergy (SSS) perspective, this exploratory research examines the synergy between small businesses (SB) and the municipality in rural areas in northern Sweden, by exploring whether the degree of social capital and trust influences local small business development (SBD).

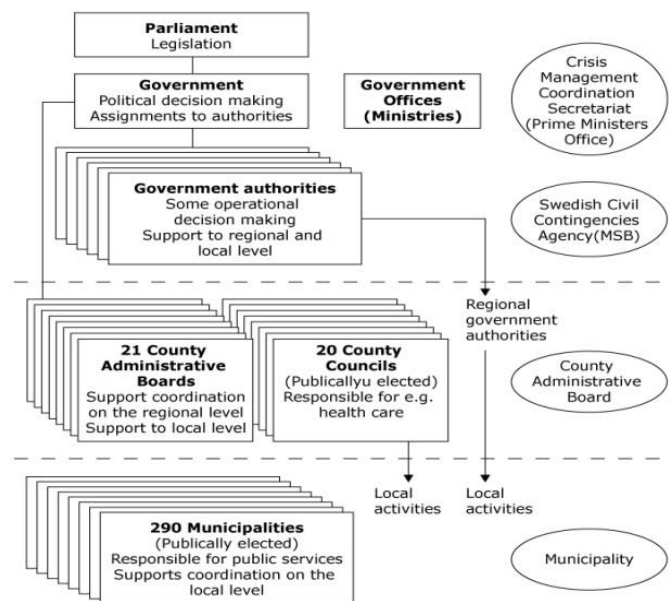
The establishment of SBs influences local rural development, as this creates new jobs, encourages migration and engenders social and economic value for an area (e.g., Lane, 1994; Marsden & Sonnino, 2008; Irwin, Isserman, Kilkenny, & Partridge, 2010). Municipalities in rural areas often use synergetic relationships with small business owners (SBOs) to achieve a multitude of objectives, such as reducing municipal infrastructure costs, creating economic growth, and improving natural resource management (Nicol & Nicol, 2015). Synergy is when two or more influences together form a stronger influence. However, people often leave these areas in search of job opportunities, better education, improved infrastructure, and better public services, due to the fact that rural municipalities often “suffer blows to their social cohesion: depopulation and ageing, increasing unemployment and underemployment, shortfalls in local budgets for basic

services like schools and healthcare” (Brouder, 2012, p. 384).

One major issue in the pursuit of SBD in rural communities is the need to secure a measure of resilience (Rennie & Billing, 2015) towards factors that might inhibit SBD and thereby local rural development. Thus, many municipalities in Sweden strive to create a favorable business climate (Svenskt Näringsliv, n.d.) and thereby encourage SBD through collaboration with local SBOs. Their methods include creating useful platforms to facilitate the establishment of SBs, offering useful tools, providing business support through seminars and workshops, providing a business mentor, establishing contact with local business associations, and having regular meetings with local representatives, politicians and officials in the business council (Svenskt Näringsliv, n.d.). Successful policy initiatives can be seen in the more developed countries in northern Europe, such as Sweden, as they have a longer history of public intervention to support business development, and experience of employing alternative policy tools and effective ways of delivering them (North & Smallbone, 2006).

For these policy initiatives to achieve their goals, some kind of synergy between the municipality and the SBOs is necessary (Scott, 2004), or in other words SSS. In Figure 1, the political organization of Sweden is presented. When discussing SSS, one often refers to the “state” being the parliament, governmental authorities and offices, county boards and councils, and the municipalities. In these instances, policies are created and then implemented on national, regional and local levels. The “society” is then the civil society where policies are implemented and where SBs are active.

Figure 1. The Political Organization in Sweden.



Source: European Commission, 2017.

However, to clarify, it should be noted that in this article the “state” is represented by the municipality only and the “society” is represented by the SBs and their owners in the rural areas studied. SSS is often described as ties that connect citizens (in this case the SBOs) and public officials (in this case the municipal officials and politicians) across the public-private divide (Evans,

1996). Synergy of this type occurs when there are functioning personal connections, social capital, trust, networks and social structures that can determine economic performance and development at a local level (Polanyi, 1944; Granovetter, 1985). Synergy can also be about complementarity, which means complementary actions taken by the municipality and/or SBOs to enhance local development, such as creating a favorable business climate. Evans (1996) says that “state-society synergy can be a catalyst for development, and norms of cooperation and networks of civic engagement among ordinary citizens can be promoted by public agencies and used for developmental ends” (p. 1196). It is, however, a challenging task to adapt and develop policies that work well in a specific local context, such as a rural one (Borch, Förde, Rønning, Vestrum, & Alsos, 2008). A further problem is that the impacts of local development policies are largely unknown and must, therefore, be monitored to ensure that the benefits outweigh the costs (Henderson, 2002). This can be monitored by examining the degree of social capital and trust, where trust is a component of social capital, in synergetic relationships between municipalities and SBs.

Previous research shows that such municipal policy tools, initiatives, and SSS are imperative for local SBD. For example, Johannisson and Nilsson (1989, p.5) argue that “business owners in rural areas are very much dependent upon the various support programs provided by the public sector in order to be successful.” Ostrom (1996, p. 1074) claims that “no market can survive without extensive public goods and no government can be efficient and equitable without considerable input from citizens.” Lam (1996, p. 1039) says that “the provision and production of many public goods and services involve the joint effort of government officials and citizens.” Kilkenny, Nalbarte, & Besser (1999) also say that a lack of vertical trust (trust in authorities/politics), can decrease the entrepreneurial force in a community. The findings in this study challenge popular assumptions about how SSS is imperative for local SBD by saying that a lack of vertical trust has in fact encouraged the entrepreneurial force and increased SBD in the rural areas studied.

It was noticed that there is a gap in research concerning how a lack of vertical trust can encourage entrepreneurial forces and increase SBD in rural areas. Prior research further provides inconsistent findings about the effect of the degree of relational social capital (Li, Wang, Huang, & Bai, 2013; Casson & Giusta, 2007), as well as limited detailed explanations of the relations between the state and SBOs, and of what this kind of synergy actually involves (Jack, 2010).

In order to fill this research gap, a qualitative case study was conducted in two northern rural municipalities in Sweden, with the purpose of exploring the synergy between SBs and the municipalities, and finding out whether the degree of social capital and trust influences local SBD. As theory building in the field benefits from this kind of approach according to Jack (2010). The method of analyses was done by using the indicator “extent of trust” in the municipality (Gootaert & van Bastelaer, 2002). When using this indicator, the following factors are studied: attitudes and expectations; reported, recorded and observed actions and activities; and by comparing people’s interpretations of how things have been or are expected to be (Grootaert & van Bastelaer, 2002, Cox & Caldwell, 2000). This method of analyses will be further explained in the “data analysis” section.

In order to fulfill the purpose of this study, the following research question has been formulated:

How does the synergy between small business owners and municipality depend on the degree of social capital and trust, and how does this influence local small business development in rural areas in northern Sweden?

Two rural municipalities in northern Sweden—Berg and Sorsele—are the cases since they have undergone a population decrease but are still experiencing a strong entrepreneurial force, which makes them interesting to study. The study will contribute to the theoretical areas of SBD in rural areas and state-society synergy, and weave in the concepts of social capital and trust. This study will also enable policymakers on all political levels in Sweden, especially politicians and officials on municipal levels in rural areas, to get a better understanding of how the degree of trust between SBOs and municipality influences local development when creating and implementing SBD-policies for the purpose of influencing local development.

2.0 Local Small Business Development in Rural Areas and the Connection to State-Society Synergy

Initiatives concerning change and development in rural areas often have a bottom-up focus (Lundqvist & Williams Middleton, 2010) as opposed to top-down initiatives, in which decisions are taken at a public/state level and are implemented through policies or regulations at the local level. The bottom-up pattern is known as community-based entrepreneurship (CBE), involving individual entrepreneurs in combination with collective mobilization (Lundqvist & Williams Middleton, 2010). Locals might identify a certain need which is necessary to keep the community vibrant or hinder people from moving away, such as establishing businesses to keep the economy going. For CBE to be successful, networks composed of groups, organizations, and individuals are important. Likewise, CBE can be an aid in bringing people together, increasing their knowledge, creating business partners, expanding markets, and strengthening communities (see Hildreth & Kimble, 2004; Bridger & Luloff, 2001; Rainey, Robinson, Allen, & Christy, 2003).

In local development, there is often a mutual dependence between various people and organizations that encourage a synergetic relationship, which leads to local communities involved in the SBD process acting as a socially embedded network that shares a common goal (Ratten & Welpé, 2011). These common goals may influence rural policy makers to shift their traditional focus on recruiting and expanding existing businesses to developing new ones (Henderson, 2002). Wang (1999, p. 233) further discusses that there is hence a possibility to create empowering relations between state (municipality) and society (SBOs), both as “a helpful conceptual device and as a political opportunity.” However, Wang also asks what the limits are of this mutually empowering interaction between state and society. It is noticed that not much previous research has addressed that such a limit might be the influence of the degree of social capital and trust in SBD on local rural levels.

This idea that the state (municipality) can work together with civil society (SBOs) as the facilitator, provider, or enabler of policy that results in social capital has been coined SSS (Varda, 2010). Alternatively, as Evans (1996) puts it, mutual empowerment. This synergy provides mutually supportive relations

between the sectors, possibly leading to outcomes associated with increased levels of social capital (Evans, 1996). SSS has become a major focus of development theory, which has resulted in several insightful analyses of human and economic development that describe the positive-sum relations that can exist between society and state, in this case, municipality and SBOs (see Evans, 1995, 1996; Wang, 1999; Tandler & Freedheim, 1994). According to previous research, there are three factors that need to be present for positive-sum relations to occur. First, effective states are necessary because they provide direction and resources to local actors (Rueschemeyer & Evans, 1985). Second, dense and horizontal ties within society are needed to harness the participation and knowledge of local actors (Putnam, 2001). Third, the actual structure of relations between state and local actors affects state-society synergy (Evans, 1995). This suggests as Lange (2003, p. 374) argues that:

State and local actors must engage one another in collaborative relationships in order to pursue common goals. In particular, network relations must exist for the transfer of information and resources among actors, both of which are necessary for large-scale coordinated action.

What are many times missing in these discussions is how these network relations are affected by a certain degree of social capital and trust. However, it is argued by Varda (2010, p. 896) that “SSS has the potential to increase bridging social capital in communities and that trust plays a crucial role in development of social capital.”

The idea of SSS is fairly new, but previous research shows that synergistic strategies are positive for development (Varda, 2010). One advantage is that the municipality (state) and the business sector (society) have much to learn from one another, and a synergy between these actors might encourage this type of exchange (Vaillancourt Rosenau, 1999). As Scott (2004) discusses, SSS adds value through building shared knowledge and understanding, generating opportunities for creativity, and developing the capacity of SBOs and the municipality to work together locally.

Hence, a change seems to be taking place in which SSS appears to be shifting the nature of the municipality’s role away from that of simply providing services. Instead, municipalities are moving to partnering for the provision of services and the monitoring of SBs (Scott, 2004). One can then assume that the premise behind the formation of synergetic relationships is that they can enhance the capacity for successful SBD (Codecasa & Ponzini, 2011). Enhancing SBOs capacity and encouraging them on a local level could lead to more businesses being established in the municipality. One can find evidence of this in several studies, such as Henderson (2002) who says that business owners add great value to local economies and are a vital resource in rural areas, as they create economic growth in their local communities by establishing new businesses and developing them. Borch et al. (2008, p. 100) argue further that “local business owners create local arenas and thereby facilitate cooperative action, through bridging synergetic relations.” Programs and policies are being created in order to support SBOs in the establishment process, as well as in the development process (Borch et al., 2008). Local business owners play a crucial role in developing the collective capacity of, e.g., a municipality, and in sharing interests in one or several community issues (Selsky & Smith, 1994).

Theorists concerned with developmental issues have found many cases in which active governments and mobilized communities enhanced each other's

developmental efforts (see Wang, 1999). Wang (1999, p. 233) further discusses that there is hence a possibility to create empowering relations between state (municipality) and society (SBO), both as “a helpful conceptual device and as a political opportunity.” However, Wang also asks what the limits are of this mutually empowering interaction between state and society. This leads the discussion towards social capital, a major part of state-society synergy, and one of its components; trust. Could it be that social capital and trust can be either a limit or possibility in SBD in rural areas depending on their degree?

3.0 The Coming About of Small Business Development in Rural Areas Through Social Capital and Trust

Previous research states that social capital, also referred to as social networks, and trust have been prominent in trying to explain how local development processes come about in rural contexts (see Varda, 2010; Warner, 2001). Warner (2001, p. 387) further says that “local government, directly or through support to participatory community-based intermediaries, can promote the development of community social capital.” For example, the patterns of correlation in studies of social capital suggest that it is based on immediate and personal connections between people and events rather than distant and formal relationships with the municipality and policy (Grootaert, 1998; Olsson & Westlund, 2014). Social capital is the aggregate of actual and potential resources embedded in social relationships (Li et al., 2013). It is suggested in previous research that social capital, which encompasses networking and trust, can make other forms of capital more efficient, through increasing the productivity of individuals and groups, thus facilitating local SBD (see Putnam, 1993; Woodhouse, 2006). Social capital is significant because it affects people’s attitudes towards development and their own capacity to organize for development in e.g. rural areas (Kobayashi, Westlund, & Matsushima, 2014). Social capital is a resource that may be used to achieve a variety of ends and is embedded in social networks in the social context (see Nahapiet & Ghoshal, 1998; Woodhouse, 2006). In one form or another, the role of social interaction, trust, and reciprocity are important elements of social capital, in producing collective outcomes, both beneficial and harmful (Grootaert & van Bastelaer, 2002). A broad definition, commonly used by researchers is as follows: social capital is the institutions, relationships, attitudes, and values that govern interactions among people and contribute to economic and social development (Grootaert & van Bastelaer, 2002, p. 2).

There are, however, some concerns associated with social capital, for instance, that social capital can justify contradictory public policy measures (Woolcock, 1998). Many advocates on the political spectrum can seize upon social capital and use it as a “mending tool” for state (municipal) problems (Boeck, Fleming, & Kemshall, 2006). The notion of social capital must, therefore, be understood and used correctly if friction with those conservatives who regard state-society relations as an inherently zero-sum game is to be avoided (Boeck et al., 2006). As Putnam (2001) says, the central idea of social capital is that networks and the associated norms of reciprocity and trust are of value. They have value for the people involved, and they have, at least in some instances, demonstrable indicators. Thus social capital has both public and private aspects (Putnam, 2001). Putnam (1993) categorizes social networks into ‘vertical’ hierarchical relationships and ‘horizontal’ egalitarian relationships. Horizontal networks are considered to improve the efficacy of society by facilitating coordinated actions (Putnam, 1993).

Local rural SBD outcomes are often influenced by social structures. According to Granovetter (2005), there are three main reasons for this. First, social networks

affect the flow and the quality of information. Second, social networks are an important source of reward and punishment, since these are often magnified in their impact when coming from personal contacts. Third, trust, by which it is meant that the confidence that others will do the “right” thing, despite a clear balance of incentives to the contrary, emerges in the context of a social network.

When discussing trust, Granovetter (1985) refers to the widespread preference for transacting with individuals who are familiar, in a relationship of trust, which implies that few people are content to rely on security provided by municipal interventions. Rousseau, Sitkin, Burt, & Camerer (1998, p. 395) state that trust is “a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behaviors of another person”. In other words, when people trust, it is always at the risk of an economic, social or emotional cost (Svendsen & Svendsen, 2016). Furthermore, business development as a tool for creating or destroying business opportunities and developmental efforts affects the way the role of trust in economic life is viewed, and it also has important implications for the way that the efficiency of municipal regulation is perceived (Knudsen & Swedberg, 2009). Aldridge, David, & Sarah (2002) discuss that the trust part of social capital can at times cause negative indicators, such as fostering behavior that inhibits rather than improves economic development and divides rather than unites local societies. Fukuyama (1995, p. 26) defines trust this way:

Trust is the expectation that arises within a community of regular, honest and cooperative behavior, based on commonly shared norms, on the part of other members of that community. Those norms can be about deep “value” questions like the nature of God or justice, but they also encompass secular norms like professional standards and codes of behavior.

According to Kilkenny et al. (1999), high-trust societies enjoy higher rates of growth. This appears logical, and so policymakers should assimilate the central tenets of social capital in their design of policy tools to promote SBD (Fountain, 1998). In most cases this logical statement is true, but it is also based on the fact that trust is the belief that the other person holds about them (Hardin, 1993). This belief may or may not be correct depending on the circumstances and context. How come then the results of this study indicate the opposite?

An example of such a contextual issue is what country is being spoken about. Fukuyama (1995) discusses that some countries are family centered societies, where the trust ends at the family border, such as Italy, France, and China. On the contrary, institution centered societies, such as Sweden, Germany, and the USA, have customs to extend the trust beyond the family. These institution centered countries also have extensive civil society and strong bounds between group members. Trust in individuals and institutions expresses the beliefs about the predictability of actions, such as economic, social and leadership efficiency, and especially how efficient the institution is in handling growth issues (Fukuyama, 1995). Maybe the answer to the research question can be found here. Those societies that can build efficient economic and social organizations are those who have wide and efficient trust networks between the state and the society. Such a network can be governance, which involves some form of purposive arrangements between public and private actors and are usually entered into because of the need to exchange resources like money, information, expertise, and political legitimacy to achieve objectives, to influence outcomes,

and to avoid becoming dependent on others (Rhoades, 1996). This is quite common in the setting of this study, the rural north, where municipal, civil society and business actors have cooperated to improve local infrastructure, employment, and even direct financial support schemes for small-scale businesses (see Peters & Pierre, 1998; Bukve, 1994). Governance networks are forms of 'horizontal' governance where actors cooperate and pool resources to reach an agreed-upon objective, but without strict formalization (Forester, 2008). Even though the context of this study is the rural north, the findings indicate something else, which will be elaborated on in the "discussion" section.

4.0 The Two Rural Municipalities in the Swedish North – Berg and Sorsele

To answer the research question and fulfill the purpose of this study, the researcher chose to study two rural municipalities in the Swedish north: Berg in the county of Jämtland and Sorsele in the county of Västerbotten. The reason why Berg was chosen is that the researcher lives there, which enabled her to conduct participatory action research (see Booth et al., 2008; Whyte, 1991). Sorsele was chosen for its demographic and small business attributes, which are similar to those of Berg. There are many such areas throughout Europe, but these are two of the most sparsely populated ones (Eurostat, 2016). The population in Sweden is 9,906,331 inhabitants with an average population density of 22.1 inhabitants/square kilometer, and a total area of 447,445 square kilometers, 8.97 % of which is water. The business density in Sweden is 11% (total businesses/total inhabitants). This can be compared to the case-study areas in the below table (Eurostat, 2016). (see Table 1 and Figure 2).

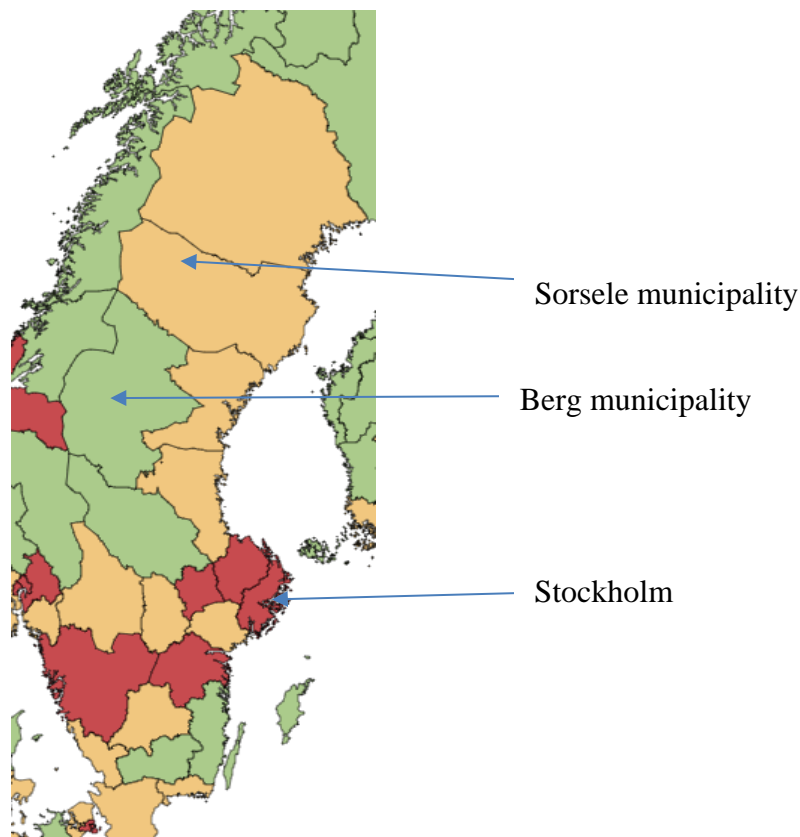
Table 1: *Summary of Demographic Criteria of the Case Study Areas*

Demographic Criteria	Municipality of Berg	Municipality of Sorsele
Population	7062	2551
Area	6145,46 km ²	7957,69 km ²
Population Density	1.24 Inhabitants/km ²	0,35 Inhabitants/km ²
Population Development 1970-2015	9406-7105	4313-2516
Number of Businesses 2015	1200	688
County	Jämtland	Västerbotten
Business Density (National Level: 11%)	17 %	27 %

Sorsele is located 823 kilometers and Berg 514 kilometers from Sweden's capital, Stockholm, and both are situated in the inland of the country.

In the municipality of Berg, there are 1200 private companies. According to the municipality, the following sectors are the most represented: agriculture, tourism, restaurants and retail/crafts. According to the Central Bureau of Statistics, the industries with the most workplaces are agriculture/forestry/fishing, construction, and repair of motor vehicles. The industries employing the most people are manufacturing, repair of motor vehicles and construction (see Table 2). They are predominantly micro-companies (1-9 employees). The municipality is mainly comprised of agricultural land and mountain areas that include ski resorts and hiking trails. One Sámi village, Tåssåsen, is located in the municipality. Tåssåsen is inhabited by Indigenous Sámi people whose main sources of income are reindeer herding, tourism, and crafts (Berg municipality, 2016).

Figure 2. Urban, Rural Typology of Sweden.



Red - Predominantly urban regions (rural population is less than 20% of the total population)

Orange - Intermediate regions (rural population is between 20% and 50% of the total population)

Green - Predominantly rural population (rural population is 50% or more of the total population)

Source: Eurostat, 2016.

In the municipality of Sorsele the private business community is small—688 companies—but is comprised of a wide range of businesses from tourism to high technology, according to the municipality itself. According to the Central Bureau of Statistics, the industries with the most workplaces are agriculture/forestry/fishing, construction, and repair of motor vehicles. The industries employing the most people are manufacturing, repair of motor vehicles and transport /warehousing (see Table 2). The ongoing establishment of an automotive testing industry and the mining industry have both created optimism and had positive effects in other municipal sectors (Sorsele municipality, 2016). Tourism has a great potential, and several businesses have been established in the two Sámi villages, Ran and Gran, where food processing

has become an important source of income.

Table 2: Industries, Workplaces, and Employees in Berg and Sorsele

Industry	Number of Work Places, Berg	Number of Employees, Berg	Number of Work Places, Sorsele	Number of Employees, Sorsele
Agriculture, forestry and fishing	1028	133	424	36
Mineral extraction	5	11	0	0
Manufacturing	78	232	30	89
Supply of electricity, gas, heat and cooling	7	47	4	-
Water supply; sewage treatment, waste management and remediation	8	8	1	-
Construction	195	148	42	58
Trade; repair of motor vehicles and motorcycles	117	189	34	78
Transport and warehousing	55	143	23	68
Hotel and restaurant	55	119	25	23
Information and communication	14	0	6	8
Financial and insurance activities	10	8	4	3
Property activities	68	36	14	27
Business in law, economics, science and technology	87	54	26	18
Rental, real estate services, travel services and other support services	46	32	25	13
Public administration and defense; compulsory social insurance (public)	9	134	6	49
Education (public)	27	352	11	93
Health and social care; Social services (public)	35	520	17	186
Culture, fun and leisure	65	14	24	14
Other service activity	59	36	24	13
Total	1976	2216	741	779

Source: scb.se

5.0 Data Collection

This study has a qualitative case-study approach, and by triangulating data sources using interviews, observations and the studying of documents, the trustworthiness was established, as is commonly done to ensure validity and reliability in qualitative studies (see Patton, 2002). To adequately answer the research question, a flexible research design with a cyclical approach to sampling was applied by using a judgment sampling strategy (see Marshall, 1996). The questions were constructed from themes generated partly from previous research in the field, i.e. trust between societal and state actors, business support, establishing and running a business, financing, business climate, municipal engagement and development (business, local and municipal), and standard demographical questions. In addition to standard questions such as company size, industry, etc., the interviews were structured around questions as seen in the table below.

Table 3: Interview Questions to SBOs and Municipal Politicians and Officials

Questions to Small Business Owners	Questions to Municipal Officials and Politicians
Is there a collaboration with the municipality today?	Is there a collaboration with SBOs today in order to enhance SBD and local development?
What does this possible collaboration look like?	What does a possible collaboration between SBOs and the municipality look like today?
What problems in this possible collaboration are encountered?	What problems in this possible collaboration are encountered?
How have these problems been solved?	What do these possible problems depend on?
Do you trust the municipality in their policy performance and implementation?	How have these possible problems been solved?
	Do you think the SBOs trust the municipality in its policy performance and implementation?

The data collection took place out in the field during the spring of 2012, winter of 2013, and spring of 2016. The samples were chosen from business owners that are part of the business associations in the municipalities and from the respective websites of the two municipalities. Municipal politicians and officials were contacted directly through the respective municipal websites. Additional samples were chosen through snowball sampling, getting new contacts from each person interviewed (see Yin, 2014; Patton, 2002). The businesses included in the study have between 1-40 employees; however, the majority were micro-companies (1-9 employees).

A total of 24 interviews were conducted with the following distribution: In Berg, 12 standardized open-ended interviews were made: three with municipal politicians/officials and nine with business owners. In Sorsele, 12 standardized open-ended interviews were made: three with municipal politicians/officials and nine with business owners. The interviews lasted 1-2 hours each. After the 24 interviews had been conducted, saturation was reached. Hence it was decided not to increase the sample (see Patton 2002). The reason why few municipal

politicians and officials were interviewed was that no one else wanted to participate. The question was asked to other municipal politicians and officials, but because of integrity and not wanting to reveal any information, they declined to participate. Keep in mind that these municipalities are small in size, which makes the range of possible interviewees in the public sector limited.

Table 4: *Summary of Respondents and their Industry/Sector Affiliation*

Participants		Type of business
<i>Berg</i>	<i>Sorsele</i>	
A1-A3	A4-A5	Tourism (camping, skiing, adventure, hiking, etc.)
A6	A7-A8	Restaurant
A9-A10	A11-A12	Retail/crafts
A13-A15	A16-A18	Farming
B1	B2	Municipal politician
B3-B4	B5-B6	Municipal official

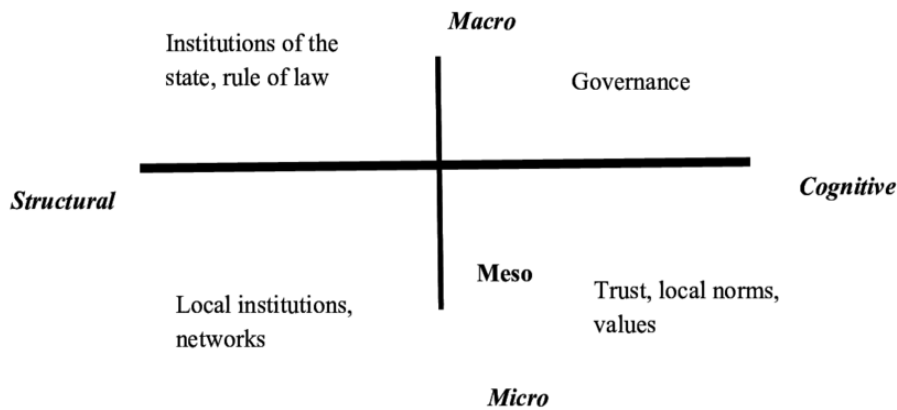
6.0 Data Analysis and the Indicator “Extent of Trust in Municipality”

For the qualitative analysis, the recorded interviews were transcribed into text. When the transcribing process was completed, the texts were examined and divided into appropriate categories, according to factors pertaining to local small business development, synergy and trust and whether the respondent was a business owner or a municipal politician/official. Observational notes that were taken out in the field were read and analyzed and similarly categorized.

The instrument used to analyze the data, the indicator “extent of trust in municipality” coined by Grootaert and van Bastelaer (2002), studies the following factors: attitudes and expectations of SBOs and municipal officials/politicians; reported, recorded and observed actions and activities; and by comparing people’s (SBOs and municipal officials/politicians) interpretations of how things have been or are expected to be.

As can be seen in Figure 2 below, social capital can be studied at different levels: macro, meso, and micro. These various levels of social capital can complement each other, as when a local institution such as a municipality provides an enabling environment in which local businesses can develop. The level of analysis in this article is at the micro level (local SBOs) and macro level (the municipality). On these levels, the structural and cognitive aspects are taken into an analytical consideration when attempting to fulfill the purpose.

Figure 3. The Forms and Scope of Social Capital.



Source: Grootaert and van Bastelaer (2002).

With the purpose of exploring the synergy between SBs and the municipalities, and finding out whether the degree of social capital and trust influences local SBD, this study has the analytical approach of focusing on the relationships between and the municipality and SBOs, or in other words, the synergy between them. In the following section, synergy, social capital, and trust are considered in connection to local SBD.

6.1 A Matter of Synergy, Social Capital, and Trust in Rural Small Business Development

This study reveals that it is useful to consider the synergy aspect between SBOs and the municipality when talking about local SBD in rural areas—especially how social capital and trust influence this development. As Korsgaard and Anderson (2011, p.141) also point out in their research, “in spite of the taken-for-granted assumptions of the literature, we should not be surprised to find diversity in objectives.” In this section, some of the comments, which arose during the interviews are presented. These comments summarize the opinions that were revealed from all the interviewees and were hence carefully selected to present the whole picture.

Lundqvist and Williams Middleton (2010) discuss that initiatives need to come from both parties if synergy is to appear and local rural SBD is to occur. This is also felt by a SBO in Berg:

When we first started our business (1981) we had very intense communication with the tourism manager, which worked well for us as a private company. He was a very good sounding board. When I was upset, I could call him, when I was happy I could call him. He knew a lot and did even more. Now I have the knowledge myself, so I don't need a sounding board anymore. Today everything has to go through the municipality... with long processes... and nobody knows anything. I feel that the municipality listens, but I feel that if they listened more and tried harder, they could achieve more. I have a feeling that we, the business owners, are not always the best at collaborating. Mainly because we are stuck in our businesses and it

costs money to take time off, and it costs to hire somebody temporarily (A1).

Others saw different aspects of the appearance of synergy, as one SBO in Sorsele expressed it:

We have good relations with politicians and officials, but we are definitely not dependent on them, and we have no collaboration. The only regular contact I have with them is that I am part of the business council. Possibly the municipality is active in improving the business climate here, but I really do not know” (A7).

So it can be seen that SBOs have significant opinions on how they view this synergy. In local development, there is often, but not always, a mutual dependence between different people and organizations, which encourages a synergetic relationship as Ratten and Welpé (2011) discuss. But the potential view on local rural development was also seen and presented in different ways, by one politician in Berg for example:

One wonders what they [community citizens] have been complaining about. Nothing happens at the municipality, they say. Actions should come from grassroots level. One of the biggest problems for human beings is not having to act or think for themselves. What does that indicate? That the people have been able to live comfortably without having to think. Then they complain about feedback from the municipality when issues get prolonged. I would say it depends a lot on the individual’s behavior, how straightforward one is. I would like to create unique products, to put this municipality on the map (B1).

Municipal politicians and officials often feel that they are doing an important job in creating trust and thereby a good business climate, as Granovetter (2005) also hints at in his research. This is confirmed by one municipal official in Sorsele who says:

Things need to be correctly handled, but I still feel that we are trying to create good relations with our SBOs. During the past year, we have carried out a target image project together with officials and business owners. This work has been based on the need to participate actively, to help each other and to be positive. We are working successfully with getting better contact with the business sector, creating trust and increasing entrepreneurship (B5).

However, some SBOs do not always agree on this. It can in the long run be exhausting for SBOs to initiate developmental efforts without the synergetic effect of the municipality, as Putnam (1993) and Woodhouse (2006) also argue. This kind of exhaustion is explained by a SBO in Berg:

I have invested MSEK 3-4 out of my own pocket in different community projects, and nobody has patted me on the back. I feel that it is important that a certain relationship and openness exist. I used to show people what I have built up over the past two years, my network that I have created here in the region. Sure, you can run your own race, but I believe that it is very costly and energy-consuming. You need a sounding board, information and a network. Maybe you can get such information and resources from the municipality, I don't know (A12).

There does not seem to be much awareness of the municipal work taking place with regards to improving the business climate, and when there is some kind of contact it is not positive. Scott (2004) talks about this lack of synergy and this problem is also expressed by a SBO in Berg:

The problems I have experienced in contact with the municipality are when my company has applied for a building permit and the administrative officer has not understood our problems correctly. I feel that when we apply for a permit it should be given the highest priority, and the administrator should not go on vacation without appointing a stand-by. That is the kind of problem we have encountered (A3).

When clear municipal leadership is missing, it may be difficult to implement policies successfully as Weiss, Anderson Miller, & Lasker (2002) argue in their study. One farm owner in Sorsele points this out by saying:

Both of us are academics and our ideas about a business started when I took over the family farm. We went on courses and read a lot to get new knowledge, but we had to find all the information on our own (A18).

However, as Codecasa and Ponzini (2011) discuss, supporting and encouraging the development of entrepreneurial skills by the municipality through policies and educational programs could lead to SBD. A politician in Berg agrees with this by saying:

I am convinced that we are better today at avoiding treating entrepreneurs badly, but one hears stories now and then. Business owners do not have much extra time to set aside for taking contact with the municipality and that can be a problem. Some SBOs never

have any contact with us. They feel no need to contact us. Thus, we have no financial muscles to help them. But of course, we can help them with other issues such as improving entrepreneurial skills. They need to come to us (B1).

On the other hand, Borch et al. (2008) say that local business owners create local arenas and thereby facilitate cooperative action. This is also discussed by a restaurant owner in Sorsele who says:

This municipality is so small, that they [municipal officials/politicians] should understand that SBD is good for the area. We have a local business network that meets and tries to come up with things to do locally; markets, backyard sales, events etc. This network has tried to involve the municipality but without success. The only collaboration we have with the municipality is through a business council that meets regularly, where representatives from various branches are involved (A8).

Good relations do exist between SBOs and the municipality, but they could always be better, according to one SBO in Sorsele:

We have always had good relations with politicians and officials, but sometimes the work is unnecessarily bureaucratic. One should meet, discuss and reason about issues instead (A13).

By discussing relationships with the interviewees, the aspect of social capital arose. Li et al. (2013) discuss that social capital is the aggregate of actual and potential resources embedded in social relationships and it emerged that this also has to do with competence on the municipal level. A SBO in Sorsele expressed this by saying:

When a company contacts the municipality, it is often because we need to know about laws and regulations and they must be able to communicate this knowledge. The municipality should serve its citizens; it is everyone's concern. The level of competence within the municipality is very important (A5).

When further discussing social capital one politician said:

Firstly (in the development of communities), I think the best thing to do is to mentally erase municipal boundaries. It is important when trying to solve community and SBD issues to have a dialogue with other municipalities without feeling jealous and without feeling that there will be some kind of injustice. But at the same time some kind of boundaries are needed; otherwise things might get out of hand (B3).

Another municipal politician agrees by saying:

One should have a dialogue between the private, public and nonprofit sectors about how to develop certain issues. The municipality should provide support where needed and when the private actor lacks the necessary knowledge. This results in successful collaboration and creation of social capital. The municipality must take a clear role and engage in dialogue otherwise it becomes like a chicken run (B2).

The other side of social capital is discussed by Aldridge et al. (2002) where they say that the trust part of social capital can at times cause negative indicators and divide rather than unite local communities. One SBO in Berg expressed his feelings about this by saying:

When it comes to reindeer herding, there are so many areas in our villages that are being exploited for tourism and for renewable energy. Our land is fragile, and when we go to meetings, it is to stop these things from taking over. I don't feel that the municipality listens to us and we need to unite in our villages to stay strong (A10).

Old habits and events can create an abstract feeling of a lack of trust; it can be difficult to let go of things that happened in the past as Kobayashi et al. (2014) argue. When such feelings are present it can inhibit SBD. One SBO in Sorsele confirms this by saying:

Sometimes it feels like business owners persist in their old habits. Maybe some treatment they received long ago still bothers them. (A17)

Fukuyama (1995) says that trust is the expectation of regular, honest and cooperative behavior that arises within a community. Two SBOs in Sorsele and Berg stress the importance of this:

To succeed in business and in collaboration with people and authorities, one has to play with open cards. Isn't it better to be honest from the start? (A11)

The municipality is increasingly noticing that they can take an active part in the community. The municipality needs to learn how to see the needs in the community in a different manner than today. Today situations often become prolonged, and they need to be more offensive, trustworthy and self-critical. They lack essential leadership and a plan of action (A15).

Trust in economic life has important implications for the way that the efficiency of municipal regulation is perceived as Knudsen and Swedberg (2009) argue. As one SBO in Berg said:

In rural areas, people are afraid to speak their minds in larger groups. We are not used to officials and politicians showing interest in the whole municipality. It would work better if issues could be discussed on a local level and then presented to the municipality. Our company can act as a middle man between the locals and the municipality, and then it would be clear that the enthusiasm of the SB owners was being used. The municipality would still be a helping part, and success would come faster. One needs to show that we (SBOs) do things well, and trust can be built up in that way (A9).

With regard to municipal attempts to create a favorable business climate, the SBOs display indifference, while officials and politicians say that they do a good job in creating trust and developing SBs. However, a few SBOs were positive and felt that the whole responsibility cannot be taken by the municipality, but that they too should be active in creating trust. According to municipal politicians and officials in this study, the most important factor for SSS is a functioning dialogue and agreement between SBOs and the municipality. However, they also stated that the greatest challenge is to create an environment that encourages dialogue and agreement. The interesting point of this study is that horizontal social capital seems to be strong, despite the fact that the link to the municipality (vertical social capital) is weak. In exploring the aspects of synergy, social capital and trust and how these influence local rural SBD, some interesting findings emerged. These findings will be discussed in the next section.

7.0 Discussion

The results on this study reveal that the opinions in the two rural municipalities, Berg and Sorsele, do not vary much. The attitude towards the municipality by the SBOs is overall negative with a sense of indifference from some. Especially when it comes to supporting and time of certain processes such as applying for permits. It should be noted that a few SBOs do have a positive attitude towards the municipality, but what this is based on is difficult to determine. It could be a sense of security as an entrepreneur, good knowledge about running a business or industry affiliation. However, it is not apparent from the results. The contact that is made by the SBOs with the municipality is often about needing information about laws and regulations. Many SBOs have “given up” on the opportunity to get other support such as entrepreneurial development programs or network opportunities. This indifference has led to distrust towards the municipality in their policy creation and implementation in creating a positive business climate. This, in turn, has led to a strong entrepreneurial force among SBOs, where they feel that they can start and develop their businesses on their own hence the lack of synergy with the municipality.

On the other hand, the municipal officials and politicians feel that the job they are doing towards creating a positive business climate in the two rural municipalities, is positive and well received by the SBOs. Some feel that they should be more active in contacting SBOs and creating relationships and networks, while some feel that it is the responsibility of the SBOs to contact the municipality if they feel a need for help. This creates a divided path towards the vision and goal of these municipalities. Hence, this could, in turn, be the reason

for the lack of trust towards the municipality when a feeling of incoherence is sensed by the SBOs. An interesting observation to point out is the perception of the municipalities on what industries encompass the most workplaces and what the statistics at the Central Bureau of Statistics actually show (see Table 2). There is a somewhat skewed perception of reality from the municipalities' side, which could have indirect effects on how SBOs perceive the work of the municipalities.

Theoretically, the results indicate that when there is strong horizontal social capital (trust and networks among locals), it may in fact inhibit the possibility of creating strong vertical social capital (trust and networks between the municipality and the local community). The reason for this could be that the resources needed to build strong vertical social capital are embedded so much in the community that it makes it hard for public officials to reach and utilize them.

8.0 Conclusion

Three major points can be concluded from this study, which explores the degree of importance of social capital in state-society synergy and local small business development in rural areas, by using the indicator 'extent of trust in the municipality' as measurement (Grootaert & van Bastelaer 2002).

- Weak vertical social capital (lack of trust towards municipal officials and leaders) can open up for and enhance horizontal social capital.
- Not all links in a rural municipality need to be strong to enable SBD, but it can be enough that links on community level, so called horizontal social capital are strong.
- The extent of trust towards the municipality is insignificant in promoting SBD in a rural area if the horizontal social capital is strong.

Despite theoretical and empirical evidence that SSS matters in local development (see Johannisson & Nilsson, 1989; Ostrom, 1996; Lam, 1996; Kilkenny et al., 1999, and Li et al., 2013), this study shows that this is not always the case. Findings in this study indicate that the two rural municipalities of Berg and Sorsele experience high SBD, since they are above the national average of business density (see Table 1), even though there is a lack of state-society synergy and vertical trust. The SBOs interviewed do not seem dependent on the municipality to establish, expand and maintain their businesses. An overall feeling of distrust and disappointment lies in the air when talking to some SBOs about how they feel towards municipal attempts to implement policy initiatives to meet the needs of local SBs. The study also shows that when there is a lack of trust in the municipality and state-society synergy is absent, local social capital among SBOs in rural municipalities plays a crucial role. It seems that the main reason for this is a high level of horizontal social capital, which encompasses networking, trust and embeddedness and a strong entrepreneurial drive from SBOs. Kobayashi et al. (2014) argue that: "In cases in which local actors (e.g., the municipality, individuals, and businesses) have few and/or weak links between themselves, local social capital will also be weak, which can lead to negative development" (p.25). Putnam (1993) suggests that horizontal networks improve the efficacy of society by facilitating coordinated actions. Li et al. (2013) argue that through trust between "equals", shared cognition influences new business development positively.

To answer the research questions: (1) how does the synergy between small business owners and municipality depend on the degree of social capital and trust, and (2) how does this influence local small business development in rural areas in northern Sweden? As Grootaert (1998) says, the patterns of correlation suggest that social capital and trust are based on immediate and personal connections between people and events rather than distant and formal relationships with the municipality and policy. This study indicates that this plays a large role in SBD in rural areas. Previous research indicates that SSS and a component of trust and strong vertical social capital, in combination with the efforts of the municipality to create a positive business climate and support business owners, is imperative for SBD in rural areas. On the contrary, this study shows that if vertical social capital, state-society synergy and trust in the municipality are lacking, SBD can still flourish in rural areas if there is strong horizontal social capital.

9.0 Implications and Future Research

The theoretical implications of this research give new insight into a research area that has in the past stated that synergy between public and private sectors is imperative for SBD in rural areas. In this case, it is believed that the context and the individuals matter more and, as Wigren (2003) implies, the local authorities should perhaps adapt their way of working to the way the small businesses work to increase SBD even more in the area. Shields (2005, p.50) argues that “more complete knowledge of the effects of rurality can be important to small business owners and entrepreneurs”, so that they focus their efforts appropriately and can play a role in rural development efforts in Sweden (Bjørnå & Aarsæther, 2010).

It is, however, difficult to generalize this study to other rural areas, or even comparing to urban areas, and find out if this is characteristic of remote rural areas. It would hence be interesting to make a comparative study with an urban area and other remote rural areas in Sweden that have similar structural problems when it comes to vertical social capital to see if it is the context that matters most, or if there are other underlying factors causing the structural problems regarding vertical social capital and SBD.

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