

**THE IMPACT OF IMMIGRANT ENTREPRENEURSHIP ON REGIONAL
DEVELOPMENT IN WESTERN SWEDEN**

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Biographical Notes

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Abstract

This paper discusses how immigrant entrepreneurship impacts regional development. Three towns in Western Sweden are analysed, using unique data on company start-ups at a local level. The findings suggest that immigrant entrepreneurs are overrepresented in the start-ups of labour intensive and low productive businesses in the service sector. Such entrepreneurship does not promote regional development, but it may get the entrepreneur out of the reliance on welfare schemes and meet their bills. Resultantly, the region appears to be caught in a vicious circle of underdevelopment, wherein companies started by immigrant entrepreneurs experience a limited market expansion, and this leads to low savings, low consumption, reduced stock of capital in the economy, and low income.

This paper offers important insights on how theory and results that stem from an aggregate national level may differ when entrepreneurship is analysed at a local level. It concludes that what works well and promotes regional development in metropolitan areas may lead to completely different outcomes in smaller towns in decaying industrial regions.

Keywords: entrepreneurship, immigrants, unemployment, labour market, regional development

JEL Classification: J60, M13, R23, Z13

1. Introduction

According to economic theory, entrepreneurship promotes an effective mobilisation of capital and skill, reduces unemployment and provides employment, and promotes regional development. In theory, entrepreneurs help to remove regional disparities through setting up businesses in less developed and deprived areas. The growth of business in these areas results in a large number of public benefits like road transport, health, education, entertainment, etc. Setting up more businesses leads to a greater development of backward regions, and thereby promotes balanced regional development. The overall development of an area generates an increase in demand and the setting up of more and more enterprises. In this way, the entrepreneurs multiply their entrepreneurial activities, thus creating an environment of enthusiasm and conveying an impetus for the overall development of the area (Mohanty, 2005; Janakiram and Rizwana, 2011). However, this theoretical description of entrepreneurship and its impact on regional development does not always correspond to reality.

Immigrants are considered to be more entrepreneurial than natives (Ohlsson et al., 2012), although the opposite is true at a regional level in some parts of Sweden (Tillväxtverket, 2013). It is well surveyed that native and immigrant entrepreneurs have different motives and driving forces, and the literature points towards unemployment and discrimination as strong drivers for people with an immigrant background to become an entrepreneur (Contín-Pilar and Larraza-Kintana, 2015; Constant and Zimmermann, 2006; Abada et al., 2013; Ensign and Robinson, 2011; Zelekha, 2013, Tillväxtverket, 2013). The need for advice and support in order to start up a business also differs between native and immigrant entrepreneurs (Yazdanfar et al., 2015). Immigrants often start up businesses in the service sector, especially restaurant and catering (Katila and Wahlbeck, 2011; Baycan, 2013; Klinthäll and Urban, 2010). Immigrant entrepreneurs experience difficulties in attracting risk

capital for early investments (Tillväxtverket, 2013; Bruder et al., 2011). A path dependence in start-up activities is also observed (Andersson and Koster, 2011). The share of fast-growing *gazelle* companies that add value and create employment are however rare among immigrant entrepreneurs (Engelen, 2002). Evidence from Spain suggests a somewhat higher income for immigrant entrepreneurs than employed workers (Irastorza and Peña, 2014). In Sweden, the average immigrant entrepreneur has an income that is only marginally above the incomes of the unemployed (Hjerm, 2004), while in Israel, immigrant entrepreneurs have higher incomes than native entrepreneurs (Kushnirovich, 2015).

While the experiences of immigrant entrepreneurship in Europe point in a somewhat negative direction, experiences from the USA and Canada point in a more successful direction (Zhou, 2004; Wang, 2010; Qian, 2012). The social welfare state in European countries is larger than in USA and Canada, and the EU also targets certain groups and areas in which to increase salaried employment. Consequently, the context in which entrepreneurship takes place limits the replication of experiences with immigrant entrepreneurship (Lassmann and Busch, 2015). ‘The Swedish Model’ has for long had a very reluctant attitude to entrepreneurship, and Henreksson (2006) has argued that ‘the Swedish Model’ and entrepreneurship are in fact two incompatible entities.

Few studies have analysed the impact of entrepreneurship on regional development. One study in Canada suggests that non-agricultural entrepreneurship has a more pronounced and long-term stimulative effect on regional development (for the period of 1987–2007) compared to other growth drivers (Matejovski et al., 2014). Foreign investments in automotive-testing under extreme winter conditions in Northern Sweden has generated a service-based renewal of a region in decay, and this has had positive effects on the regional development of the *Norrbottnen* region (Arbuthnott and von Friedrich, 2013).

Previous research provides evidence for causality between entrepreneurship and regional development, as well as between immigration and entrepreneurship (although this may be an involuntary causality based on the reduced employment possibilities for immigrants). To what extent immigrant entrepreneurship leads to regional development needs further investigation, and such analysis must control for differences in immigrant entrepreneurship at national/regional/local levels as well as between urban and rural contexts.

This paper aims to discuss how immigrant entrepreneurship impacts regional development. Three towns in Western Sweden (Trollhättan, Uddevalla and Vänersborg) are analysed using unique data on company start-ups at a local level. Two questions are

answered: (1) What kind of companies do immigrant entrepreneurs start up in these three towns? and (2) How will the companies of immigrant entrepreneurs impact local economic development? The latter question relies upon the labour and capital intensity of the companies, as well as the prospects they have for market expansion.

2. Theoretical considerations

To be entrepreneurial means that a person is willing to take the risks and chance the economic uncertainty that goes with starting a company. This requires a high tolerance for stress and a high degree of self-confidence (Henreksson and Stenkula, 2007). For a long time, the theoretical literature characterizes entrepreneurs as having a desire for independence, result achievement and a high degree of creativity (Rauch and Frese, 2007). Three main reasons are usually given in the literature when it comes to the motives to start a company: independence, an unfulfilled market need, and unemployment (Henreksson and Stenkula, 2007). However, this is a simplification. Eriksson and Larsson (2001) cluster the main explanations for why people start a company into three main groups: (1) Causes related to economic structure and business cycles. The preconditions to start a company in a service economy are simpler than in an industrial economy. A start-up of an industrial activity requires higher levels of investment before any production can start. (2) Institutional causes; outsourcing, subcontracting etc. instead of producing the goods or service in-house impacts on the willingness to start a company. Similar impacts are caused by the tax system, retirement regulations, and rules concerning labour immigration. Finally, (3) Individual causes, for instance a desire for independence or experiencing dissatisfaction at work.

Aside from these causes, some people have a unique business idea and are driven to turn it into a reality (Henreksson and Stenkula, 2007). Recent research also indicates the importance of having professional skills and competence within an existing organisation before starting a company. It is likely that this kind of knowledge and experience makes the individual identify an unfulfilled need in a certain market, and also gives them the knowledge of how to meet this need (Rider et al., 2013).

Due to the variations in entrepreneurship between different cultural groups, personal traits do not suffice as an explanation for entrepreneurship (Lassmann and Busch, 2015). Both *independence* and the need to *meet an unfulfilled need* in a certain market are offered as main reasons for starting a company for a person of foreign origin, and starting a company demonstrates that he/she has managed to establish himself/herself in the labour market

(Beckers and Blumberg, 2013). However, research has continually pointed to unemployment as being the main driver for starting a company for persons of foreign origin in Sweden (Aronsson, 1991; Eriksson and Larsson, 2001; Andersson and Wadensjö, 2010).

In migration theory, the ‘New Economics of Migration’ theory offers some predictions on entrepreneurship among immigrants. With the exception of refugees, it is generally the low-skilled labour group which has the highest propensity to migrate, and in so doing, this labour force predominantly finds work in low-paid jobs and has a lower productivity than their native counterparts. Immigrant labour tends to display a higher rate of unemployment than natives, especially given that employers will have incomplete information on their potential productivity. The fact that immigrants are more willing to start-up companies than natives is not due to any higher level of entrepreneurial skill, but more to a desire to achieve a better position in the new country. Stark (1991) assumes that there is a self-selection among labour immigrants. Young immigrants can be seen as more willing to take risks, be more self-confident and aggressive, and tend to strive for success. Also, they may have specialist competence in a very narrow field. So, the companies they start up tend to be labour intensive and do not require much investment.

The major shortcoming of the ‘New Economics of Migration’ theory relates to the fact that it focuses on *labour immigrants*, but in many countries – such as Sweden for example – *refugees* constitute a far larger group of immigrants than labour immigrants. Stark (1991) may be right when he argues for a self-selection among labour immigrants, but he is silent on the considerations of refugees. There is a demand for the low-skilled and low-qualified labour supplied by labour immigrants (Stark, 1991), but the labour supplied by refugees does not have a matching demand. It can be assumed that their marginal position in the labour market forces them to take higher risks and to accept higher economic uncertainties. Unemployment will most likely be the main motivation behind company start-ups among refugees, and the companies they establish will likely be labour intensive and need little initial investment.

Economic development at a regional level needs investment and an increased stock of capital. Entrepreneurs can play an important role in mobilising their savings for investment and increasing capital stock at a regional level. If the market for goods or services produced in a region expands or if productivity increases, then the levels of income and consumption will also increase. Hence, the region will experience an increase in both supply and demand, stimulating its economy. The absence of entrepreneurs, low savings and a low capital stock

will have an opposite effect, and a vicious circle will form (Capello, 2016). Peripheral areas are disadvantaged by their distance to market. Although production costs may be significantly lower in a peripheral area, the higher transport costs can price the product out of the market. The demand for products is much higher in central areas with a higher population density. Low transport costs and economies of scale make it cheaper to produce products close to the market, hence the profitability of production will be higher (Krugman 1991, 1996). The reason why entrepreneurship tends to cluster around bigger cities is the closeness to other entrepreneurs and also to ‘the market’ (Whitford and Potter, 2007; Crockett, 2013; Andersson and Larsson, 2014; Kourtit and Nijkamp, 2012).

Not only *goods* can be produced, but also *services*. Some services aim at a world market (e.g. software development or music production), while other services aim at local or regional markets. Labour intensive services need to be produced close to the market, and short distances and being close to clients are even more important for this kind of service production (Krugman, 1991; 1996). A service like a hotel may require some start-up capital, but the demand for this service is rather local. In fact, many services require a certain population to form a market. The *Central Place Theory* defines the smallest market area necessary for goods and services to be economically viable, and the maximum distance that consumers will travel to purchase them (Breuer and Milbert, 2012). Services of low centrality and with daily or frequent need are important factors of citizens’ wellbeing and satisfaction with their living conditions, and examples may include hairdressers, supermarkets, kindergartens, cafés, pharmacies or schools. Where the population density is high, the provision of these services should meet certain capacity thresholds. Medium centrality services require a bigger market and higher population density, otherwise the demand for these services will be too low (Milbert et al., 2013), and these services may include taxis, restaurants, domestic cleaning or household services.

Some services can act as drivers for regional development, and automotive testing in the extreme climate conditions of northern Sweden offers a successful example (Arbuthnott and von Friedrichs, 2013). However, the services driving regional development are usually located in bigger cities, and in Sweden, these can be seen as the film, music, IT, and financial services located in Stockholm, the biomedicine services of Lund and Malmö, or the shipping services located in Gothenburg. One explanation for this central location may be the kind of services provided. Biomedicine and shipping target a world market, as do IT, financial services and most of the services related to film and music. Services such as hairdressers,

taxis, cafés, pizzerias, cleaning services etc. do not target such wide markets, and as a function of local demand, they cannot expand beyond its reach. A service is only produced if there is sufficient demand for it to be supplied at a profit (Capello, 2016). Hence, services do not drive regional development, but rather respond to it.

To sum up, we can assume that the impact of immigrant entrepreneurship on regional development will differ depending on the companies they start up. Labour intensive service jobs responding to a local demand will not boost regional development, but capital intensive services aiming at national or world markets may do so.

Some testable hypotheses can be derived from this theoretical framework. *Hypothesis 1*: People born abroad will be more entrepreneurial (i.e. start up more companies) than persons born in Sweden. *Hypothesis 2*: The further away from Sweden the immigrant comes from, the more entrepreneurial they will be. People born in the Nordic countries will be more entrepreneurial than natives; people born in Europe (excluding the Nordic countries) will be more entrepreneurial than persons of Nordic origin in Sweden and natives; People born outside Europe (including the Nordic countries) will be more entrepreneurial than people of Nordic and European origin in Sweden and natives. *Hypothesis 3*: The further away from Sweden the immigrant comes from, the more labour intensive form of company they will start up. People born in the Nordic countries will start up more labour intensive companies than natives; people born in Europe (excluding the Nordic countries) will start up more labour intensive companies than people of Nordic origin in Sweden and natives; people born outside Europe (including the Nordic countries) will start up more labour intensive companies than people of Nordic and European origin in Sweden and natives. *Hypothesis 4*: An increase in low productive and labour intensive companies with a small market and little investment will be a constraint to regional development, regardless of whether it is an immigrant entrepreneur or not.

3. Method and data

The three selected towns of Trollhättan, Uddevalla and Vänersborg are located in the Västra Götaland region of Western Sweden. The region has experienced rapid structural changes in its economic structure since the mid-1990s, reflecting a transition from goods manufacture to service production. Today, a large share of the manufactured goods are aimed at an international market, while service production is more closely targeted towards local and regional demand. Eðvarðsson et al. (2007) argue that the region has a negative branch

structure, but that faster branch changes occur in the region than seen at a national level, and this results in faster regional growth rates than are seen in the national economy. However, the process slowed down after the global financial crisis of 2008-2009 (Tillväxtanalys, 2013). Given the large share of immigrants present in the studied towns, and also that entrepreneurship is seen as a means to counteract (or at least mitigate) structural changes stemming from de-industrialisation, then these three towns make interesting case study subjects.

A ‘foreign born’ person in Sweden is a person who is born in a country other than Sweden, and also a person who is born in Sweden, but to two foreign born parents. The definition of a person who is ‘born abroad’ does not include persons who are born in Sweden to two foreign born parents (Tillväxtanalys, 2014b). The number of ‘foreign born’ persons who started a company in Sweden 2012 was 21.4 percent. When this number is compared with the share of persons ‘born abroad’ in Sweden 2012, 15.4 percent, a misleading conclusion can be drawn that ‘foreign born’ persons are more entrepreneurial than natives. Why a person who is born in Sweden to two foreign born parents is defined as ‘foreign born’, but a person who is born in Sweden to one foreign born and one native parent is considered as ‘native’ is not fully logical, in that both children grow up in a state of cultural diversity and go to a Swedish school. In order to avoid the bias of ‘second generation immigrants’, we consider persons who are born in Sweden as native.

The data is used to classify individuals into four groups: not born abroad, persons born in a Nordic country (excluding Sweden), persons born in a European country (excluding persons born in Sweden and a Nordic country), and persons born outside Europe (excluding persons born in the three previously mentioned groups). These broad regions of birth are necessary when we analyse e.g. the number of start-ups at a local level by branch, where the number of start-ups are so few that they are not displayed in the data tables in order to protect the integrity of the individual. At a two-digit level of SNI (the Swedish classification system of enterprises), the classification does not cause problems at a local level, but may limit the overall analysis. However, in some cases (when there are sufficient observations) it is possible to check the three-digit level SNI and include the information in the discussion.

The classification of branches is labelled as SNI 2007 (see Table 1), which is the Swedish equivalent of the EU classification of branches labelled as NACE rev 2. In the branch of ‘Business services’, advanced and capital intensive services (e.g. ICT and banking), human capital intensive services (e.g. law firms and economic consultants), and

labour intensive unqualified services (e.g. park maintenance and cleaning services) are grouped together. In some cases it is possible to mine down to the three-digit level to identify the regions of birth of the entrepreneur.

Table 1. An overview over the SNI2007 classification with main groups and sub-groups

Main group	SNI code	Sub-groups	Examples
Agriculture, forestry, fishing	01-03	..	Cultivation, breeding, forestry, animal husbandry, fish farming etc.
Manufacturing, construction, grounds	05-43	Extraction of minerals, manufacturing, supply of electricity, gas, water, sewage, sanitation, construction	Mines, steel mills, paper mills, manufacturing, sheet metal works, carpentry, plumbing, electrical installations, tile laying, sewerage etc.
Commerce, transport, hotel and restaurant	45-56	Trade, business, repairmen of motor vehicles, transport, storage, hotel, restaurants etc.	Wholesale, retail, auto repair, removal companies, taxi, cafés, pizzerias etc.
Business services	58-82	ICT, financial and insurance services, real estate, legal, economic, scientific and technical services, rental, real estate services, travel services, other services.	ICT services, banking, insurance companies, rental of dwellings and premises, law firms, car rental, cleaning services, park maintenance, security firms etc.
Personal services	85-99	Education and training, health care, social care, social services, culture, pleasure, leisure, household production, activities in international organisations and embassies.	Primary school, university, medical services, dentists, elderly care, child care, refugee centres, libraries, gyms, household services, beauty care, barber etc.
Unspecified branch	n/a

Source: Statistics Sweden SNI, 2007

The Swedish Agency for Growth Policy Analysis (Tillväxtanalys) provided register data on company start-ups. Register data on unemployment and persons in labour market schemes were collected from the Public Employment Service (Arbetsförmedlingen). The National Board of Health and Welfare (Socialstyrelsen) and the National Social Insurance Board (Försäkringskassan) provided register data on social assistance and health in the population. Register data on population, regional labour market statistics (RAMS) and data on education and income were collected from Statistics Sweden (SCB). Survey data from the Labour Market Survey (AKU) of Statistics Sweden has also been used in this study. Information on unemployment and employment rates by nationality and region of birth is displayed in the data at a national level. Local level information also exists, but is considered too sensitive to use because it would provide identifiable data and violate the personal data integrity of those concerned. As a result, we have chosen not to use such data.

4. Towns in a region with changing economic structure

The population structures in Trollhättan, Uddevalla and Vänersborg differ in some aspects from national averages. In all three towns, the share of population over 55 years is higher than the national average, and the share of population between 24-44 years is below the national average. The age-group 45-54 years is slightly higher in these three towns than in

Sweden as a whole. Hence, the share of population in working age is lower, and the share of the population who is retired is higher than the national averages (Statistics Sweden Population Data Base, 2015).

The share of population in Trollhättan, Uddevalla and Vänersborg with a post-graduate educational level is lower than the average for Sweden, both for men and women. A similar result is seen when looking at the share of population with a university degree. In Trollhättan, the share of population with secondary school exams (shorter than three years) is lower than the national average, but Uddevalla and Vänersborg display a higher share than the national average (Statistics Sweden Population Data Base, 2015).

The region of Västra Götaland has become more dependent on service production (for individuals and business), and both the private and public service sectors have expanded their shares of employment (SCB/RAMS). Labour born in Europe (excluding the Nordic countries) and outside Europe in the three towns generally works in labour intensive sectors with low skills: e.g. land transport (taxi, bus drivers etc.), restaurant, catering and pubs, elderly care, child care and industrial cleaning (Rauhut et al., 2014).

Table 2. Number of company start-ups in Trollhättan, Uddevalla, Vänersborg and Sweden per 1,000 inhabitants (16-64 years) 2007-2012.

	2007	2008	2009	2010*	2011**	2012**
Trollhättan	7.3	7.0	5.6	7.2	8.1	8.6
Uddevalla	8.7	8.3	9.1	10.5	11.4	10.3
Vänersborg	7.1	6.5	6.1	7.6	8.0	7.6
SWEDEN	9.9	9.7	10.0	11.6	12.3	11.5

* The definition of company start-up changed in 2010

** Based on a special examination of the Statistics Sweden Company Register. Older data is based on surveys

Source: Tillväxtanalys, 2014a

When the number of company start-ups in Trollhättan, Uddevalla, and Vänersborg per 1,000 inhabitants in the age-group of 16-64 years for 2007-2012 is compared with the national average, the number of company start-ups is below the average for Sweden (Tillväxtanalys, 2014a). One possible explanation for this may be that this is a region where the mental approach to wage labour in manufacturing is deeply rooted, and starting your own company is still a new concept and represents a step into the unknown.

In the three towns, income from work is lower for both men and women, compared with the national average (Statistics Sweden Population Data Base, 2015). This can be explained by differences in educational level and economic structure. Also, high unemployment rates tend to bring down income levels.

Table 3. Open unemployment and persons in labour market schemes as a share of the 16-64 year old population in Trollhättan, Uddevalla, Vänersborg and Sweden 2012.

	Total			Women			Men		
	Open unemployment	In labour market schemes	Total	Open unemployment	In labour market schemes	Total	Open unemployment	In labour market schemes	Total
Trollhättan	7.2	6.5	13.7	5.4	5.8	11.2	8.9	7.1	16.0
Uddevalla	3.6	4.1	7.7	3.0	3.6	6.6	4.2	4.5	8.7
Vänersborg	4.4	4.9	9.3	2.9	4.2	7.1	5.9	5.6	11.5
SWEDEN	3.5	3.0	6.5	3.3	2.9	6.2	3.8	3.0	6.8

Source: Public Employment Service, 2015

The share of unemployed and the share of persons in labour market schemes are higher in Trollhättan, Uddevalla and Vänersborg, compared with the national average. This is seen for both men and women (Table 3). This reflects differences in population structure, educational levels and economic structure. The observation that young adults and immigrants face difficulties in establishing themselves in the labour market is nothing new, and they can therefore be assumed to have a higher unemployment rate than the overall population. This is also the case for young adults in the three studied towns, for both men and women (Table 4).

Table 4. Open unemployment and persons in labour market schemes as a share of the 18-24 year old population in Trollhättan, Uddevalla, Vänersborg and Sweden 2012.

	Total			Women			Men		
	Open unemployment	In labour market schemes	Total	Open unemployment	In labour market schemes	Total	Open unemployment	In labour market schemes	Total
Trollhättan	5.8	13.5	19.4	5.1	11.8	16.9	6.5	15.2	21.7
Uddevalla	4.5	11.0	15.5	4.2	9.8	14.0	4.7	12.1	16.9
Vänersborg	5.2	13.3	18.5	4.9	11.2	16.1	5.5	15.2	20.7
SWEDEN	4.4	6.1	10.4	3.8	5.3	9.1	4.9	6.8	11.7

Source: Public Employment Service, 2015

A high share of persons born abroad can increase unemployment levels. The labour supply formed by refugees has seldom featured as a labour market issue, although there is a demand for labour immigrants. As mentioned earlier, the unemployment data at a local level by region of birth is considered too sensitive to be published, so only the national level data is available. In Table 5, persons born in Africa and Asia have significantly higher unemployment rates than persons from other regions, and the employment rates for persons born in Africa and Asia are significantly lower than the employment rates for persons from other birth regions.

Table 5. Relative unemployment and employment rates in Sweden after birth region 2012

	Relative unemployment %	Employment rate %
Born in Sweden	6.4	67.2
Born abroad after region of birth:		
Europe	10.4	60.3
South America	11.2	68.9
North America	11.5	71.3
Asia	22.8	51.7
Africa	28.8	48.1
Other countries	7.9	68.6
Nordic countries	6.1	56.5
EU27 excluding Nordic countries	8.9	63.6
Born abroad	15.9	57.3

Source: Supplement table 20, AKU 2012

The total share of persons of foreign origin (born abroad, born in Sweden to two foreign born persons, and a person born in Sweden with one foreign born and one native parent) is significantly lower in Uddevalla and Vänersborg than for Sweden as a whole. In Trollhättan, the share of population with a foreign origin is about 31 percent, which is about 10 percent higher than the national average (Statistics Sweden Population Data Base, 2015). The share of persons born in a Nordic country (excluding Sweden) is higher in the three studied towns than for Sweden as a whole. The share of population born outside Europe is lower than the national average in Vänersborg, but higher in Trollhättan and Uddevalla. For the group born in Europe (excluding the Nordic countries and Sweden), Vänersborg displays a share far above the national average, while Trollhättan and Uddevalla display shares close to the national average (Statistics Sweden Population Record, 2015).

According to the Statistics Sweden Population Record, about 14.9 percent of all immigrants to Sweden in 2012 were returning Swedish citizens. The corresponding numbers for Trollhättan, Uddevalla and Vänersborg are 16.2, 20.5 and 31.1 percent respectively. The share of labour immigrants to Sweden in 2012 was 10.8 percent, while 7.3 for Trollhättan, 8.3 for Uddevalla, and 4.4 percent for Vänersborg. While 13.5 percent of all immigrants to Sweden in 2012 were refugees, Trollhättan had a higher share of refugees among its immigrants (16.5 percent), Vänersborg had a significantly lower share of immigrants with refugee status (6.4 percent), and Uddevalla displayed a share in parity with the national average (13.2 percent). The share of tied movers (family reunion) among the immigrants to Sweden reached 31.1 percent in 2012. The corresponding shares for Trollhättan (37.5 percent), Uddevalla (33.9 percent) and Vänersborg (34.7 percent) are all above the national average. An overwhelming share of the tied movers was born outside Europe (Statistics Sweden Population Record). The studied towns have a lower labour immigration than the

national average. Trollhättan has a higher share of refugees among its immigrants compared to the national average, and the share of tied movers (of whom an overwhelming majority are born outside Europe) is higher in the three studied towns than in Sweden as a whole.

About 4 percent of the population in Uddevalla and Vänersborg received social assistance in 2012, which is in parity with the national average. In Trollhättan, about 8 percent of the population received social assistance (the National Board of Health and Welfare Data Base).

Table 6. Ill health frequency by sex in Trollhättan, Uddevalla, Vänersborg and Sweden 2012

	Women		Men		Total	
	2003	2012	2003	2012	2003	2012
Trollhättan	52.6	34.5	32.6	22.6	42.3	28.4
Uddevalla	56.8	26.8	39.5	25.4	48.0	31.1
Vänersborg	48.0	36.4	33.9	25.5	40.8	30.9
SWEDEN	52.0	32.0	34.8	22.1	43.2	27.0

Source: National Social Insurance Board

An indicator of the health status of the population is the frequency of ill health (Table 6). The number of days per person that are compensated due to sickness, work injury, rehabilitation or early retirement are seen as a share of the persons registered in the social insurance system. In the three studied towns, the frequency of ill health has declined 2003-2012 for both men and women, but not as much as for Sweden as a whole (the National Social Insurance Board Data Base).

5. Immigrant entrepreneurship

Before analysing the immigrant entrepreneurship in the selected towns, it is appropriate to say something about the overall situation in Sweden. Persons born outside Europe constitute 7.3 percent of the population, but their share of company start-ups is 8.4 percent (Table 7). This statistical overrepresentation¹ in company start-ups should, however, not be seen as evidence for any higher entrepreneurial skills. At an aggregated level, 15.6 percent of the population is born abroad, and 15.9 percent of all company start-ups are made by persons born abroad. Just over 2 percent of all company start-ups are made by persons whose birth region is unknown. Theoretically they could all be born in Sweden, and if so, the statistical overrepresentation among persons born outside Europe would disappear. Consequently,

¹ *Overrepresentation* is defined as having representatives in a proportion higher than the share of the group in the total population. *Underrepresentation* refers to having representatives in a proportion lower than the share of the group in the total population.

Hypothesis 1 (persons born abroad will be more entrepreneurial than persons born in Sweden) is not true, as we cannot reject the zero hypothesis (persons born abroad will not be more entrepreneurial than persons born in Sweden).

Table 7. The Swedish population by birth region, company start-ups by SNI2007, and birth region of the entrepreneur in 2012 (%).

	Population	Start-ups	SNI 01-03	SNI 05-43	SNI 45-56	SNI 58-82	SNI 85-99	Unspecified
Share born in Nordic countries	2.9	2.3	2.8	2.7	1.9	2.2	2.4	0.9
Share born in Europe (excl. Nordics)	5.4	5.2	2.0	6.4	7.5	4.8	3.4	3.2
Born outside Europe	7.3	8.4	2.5	7.8	16.8	5.8	5.7	11.5
Not born abroad	84.4	82.0	91.7	79.9	71.8	85.0	87.1	83.3
Unknown	..	2.1	1.5	3.1	2.0	2.2	1.4	1.3
N=	9,555,893	69,127	1,635	9,912	14,684	26,706	15,108	1,172

Source: Own estimations from Tillväxtanalys (2014a) and Statistics Sweden Population Record

Persons born abroad are statistically underrepresented in SNI-groups 01-03, 58-82 and 85-99. This result is partly misleading. When we mine down to the three-digit level of SNI-group 58-82 (Business services), when it comes to park maintenance and cleaning services, a majority of the start-ups are undertaken by foreign born persons, while start-ups in ICT, real estate and law firms are undertaken by persons born in Sweden (Tillväxtanalys, 2014a).

In SNI-groups 05-43 (manufacturing, construction and grounds) and 45-56 (commerce, transport, hotel and restaurant), persons born abroad dominate the start-ups of some sub-groups. For SNI-group 05-43, persons born abroad form an overwhelming majority in the sub-groups of carpentry, plumbing, tile laying or sheet metal work; in SNI-group 45-56 persons born abroad dominate the start-ups for e.g. taxi, restaurants, pubs, retail sale, and pizzerias. These undertakings are all labour intensive and require relatively limited capital and investments to be up and running.

Hypothesis 2 stated that the further away from Sweden the immigrant comes from, the more entrepreneurial they will be. The zero-hypothesis, i.e. the negation of the hypothesis, can be rejected, so Hypothesis 2 is true at a national level, with persons born in Europe (excl. Nordics) and persons born outside Europe statistically overrepresented among those who start companies. It is however worth noting that the overrepresentation for persons born outside Europe is higher for start-ups in SNI 05-43 (manufacturing, construction and grounds) is lower than for the total share of companies started by persons born outside Europe.

According to Hypothesis 3, the further away from Sweden the immigrant comes from, the more labour intensive type of company they will start up. The companies started by persons born in Europe (excl. Nordics) and also persons born outside Europe in SNI 05-43 and SNI 45-56 are all labour intensive and require relatively limited capital and investments to be up and running. Consequently, the zero-hypothesis is rejected and hypothesis 3 is shown as true at a national level.

Persons born outside Europe are also statistically overrepresented among the start-ups of companies classified as being in an ‘unspecified branch’. In 2012 about 1.7 percent of all companies started belonged to this category. As the trade or business of these companies is unknown, it is not possible to explain why persons born outside Europe are statistically overrepresented for these particular company start-ups.

5.1 Trollhättan

In general, persons born outside Sweden are statistically over-represented when it comes to company start-ups in Trollhättan in 2012; 112 out of 305 company start-ups (i.e. about 37 percent) were commenced by persons born outside Sweden, while their share of population in Trollhättan was only slightly more than 17 percent (see Table 8). It is worth noting that none of the population born in the Nordic countries (excl. Sweden) started companies. Persons born in Europe (Nordic excluded) constituted 6.2 percent of the population, but started 10.8 percent of the start-up companies. The companies started by persons born outside Europe reached almost 26 percent, while their share of the population was less than 8 percent. As the zero hypothesis (i.e. persons born abroad will not be more entrepreneurial than persons born in Sweden) is rejected, hypothesis 1 (persons born abroad will be more entrepreneurial than persons born in Sweden) is true. Persons born in the Nordic countries are actually less entrepreneurial than those born in Sweden, so hypothesis 1 is rejected for this particular group. It should however be remembered that the persons born in a Nordic country feature as slightly above 3 percent of the overall population in Trollhättan, and the relatively small size of this group may have had an influence on the result.

Hypothesis 2 stated that the further away from Sweden the immigrant comes from, the more entrepreneurial they will be. The zero-hypothesis can be rejected and consequently Hypothesis 2 is true for Trollhättan. Notably, it can be seen that persons born in Europe (excl. Nordics) and persons born outside Europe are statistically overrepresented among the persons who start companies.

Table 8. The population in Trollhättan by birth region, company start-ups by SNI2007, and the birth region of the entrepreneur in 2012 (%).

	Population	Start-ups	SNI 01-03	SNI 05-43	SNI 45-56	SNI 58-82	SNI 85-99	Unspecified
Share born in Nordic countries	3.4	0.0	0	0	0	0	0	0
Share born in Europe (excl. Nordics)	6.2	10.8	0	0	0	26.8	0	0
Born outside Europe	7.8	25.9	0	0	100	0	0	0
Not born abroad	82.6	63.3	100	100	0	73.2	100	100
N=	55,749	305	1	40	79	123	54	8

Source: Own estimations from Tillväxtanalys (2014a) and Statistics Sweden Population Record

According to Hypothesis 3, the further away from Sweden the immigrant comes from, the more labour intensive company they will start up. Both for the companies started by persons born in Europe (excl. Nordics), starting companies in SNI 58-82 (industrial cleaning, park maintenance etc.), and persons born outside Europe, starting companies in SNI 45-56 (cafés, restaurants, taxis, shops etc.), are all labour intensive and require relatively limited capital and investments to be up and running. Consequently, the zero-hypothesis is rejected and hence hypothesis 3 is true for Trollhättan.

5.2 Uddevalla

Persons born outside Sweden are statistically overrepresented when it comes to company start-ups in Uddevalla in 2012, relative to their share of population (Table 9). Hence, hypothesis 1 is true. However, the share of the population born outside Europe starting a company (2.4 percent) in Uddevalla is lower than its overall population share (5.7 percent), which is significant.

Table 9. The population in Uddevalla by birth region, company start-ups by SNI2007, and the birth region of the entrepreneur in 2012 (%).

	Population	Start-ups	SNI 01-03	SNI 05-43	SNI 45-56	SNI 58-82	SNI 85-99	Unspecified
Share born in Nordic countries	2.3	4.2	0	0	0	0	20.9	0
Share born in Europe (excl. Nordics)	4.3	13.2	0	0	33.8	20.2	0	0
Born outside Europe	5.7	2.4	0	11.8	0	0	0	0
Not born abroad	87.8	80.2	100	88.2	66.2	79.8	79.9	100
N=	52,530	333	10	68	80	84	67	7

Source: Own estimations from Tillväxtanalys (2014a) and Statistics Sweden Population Record

For the branch SNI 05-43, 8 of the 68 (i.e. 11.8 percent) companies started in Uddevalla doing sheet metal work, carpentry, plumbing, electrical installation and tile laying were started by persons born outside of Europe. This is a statistical overrepresentation as the share

of population born outside Europe in Uddevalla is 5.7 percent. However, it is not possible to draw any meaningful conclusions when only 8 companies contributed to the analysed data, and such statistical overrepresentation is indicative of the ‘tyranny of small numbers’. The same conclusion can be drawn for persons born in the Nordic countries (excl. Sweden) starting companies in branch SNI 85-99, and for persons born in Europe (excl. Nordics) starting companies in branch SNI 58-82.

Regarding companies started in branch SNI 45-56 (grocery stores, restaurants, taxi, cafés, pizzerias etc.): 27 out of 80 were started by persons born in Europe (excl. Nordics), i.e. 33.8 percent. Despite the data being based on relatively small numbers, it is not possible to ignore that although persons born in Europe (excl. Nordics) constitute 13.2 percent of the population of Uddevalla, they start more than one third of the companies in this branch.

The small numbers for SNI 05-43, SNI 58-82 and SNI 85-99 prevented any test of Hypotheses 2 and 3. For branch SNI 45-56 (grocery stores, restaurants, taxi, cafés, pizzerias etc.), hypothesis 2 appears to be true. Furthermore, the branch is labour intensive and requires relatively little capital to get businesses up and running. Therefore, Hypothesis 3 is also true.

5.3 Vänersborg

In 2012, a total of 170 companies were started in Vänersborg. Of these, 9 were started by persons born outside Sweden (see Table 10). The share of companies started by persons born outside Sweden equals the share of persons born outside Sweden in Vänersborg – 5.3 percent. Consequently, Hypothesis 1 is rejected in that persons born abroad are not seen to be more entrepreneurial than persons born in Sweden.

Table 10. The population in Vänersborg by birth region, company start-ups by SNI2007, and the birth region of the entrepreneur in 2012 (%).

	Population	Start-ups	SNI 01-03	SNI 05-43	SNI 45-56	SNI 58-82	SNI 85-99	Unspecified
Share born in Nordic countries	2.0	5.3	0	0	0	0	0	100
Share born in Europe (excl. Nordics)	4.5	0.0	0	0	0	0	0	0
Born outside Europe	3.2	0.0	0	0	0	0	0	0
Not born abroad	90.3	94.7	100	100	100	100	100	0
N=	36,968	170	7	34	41	49	30	9

Source: Own estimations from Tillväxtanalys (2014a) and Statistics Sweden Population Record

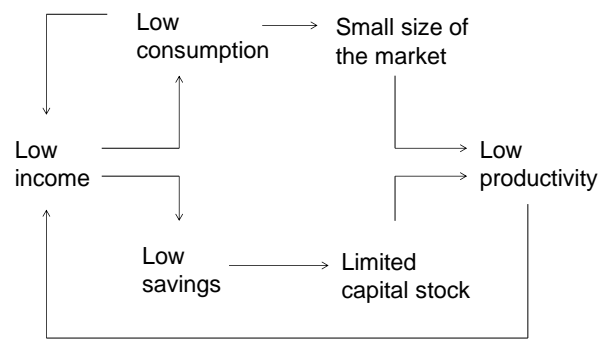
No persons born outside the Nordic countries and Sweden started companies in Vänersborg in 2012, and this leads to a rejection of Hypotheses 2 and 3.

6. Implications of immigrant entrepreneurship on regional development

An attractive location leads to new company start-ups, new job opportunities and a good quality of life. Such a location will see an inward migration of new residents, new business and new investment. Hence, real estate costs will rise and so will the social needs of the region's inhabitants. Resultantly, the infrastructure of the area will come under strain. A location becomes unattractive when the major industry makes significant cuts in staff, or ceases to function. Economic recession and unemployment are repelling factors for a location, as is an insufficient or old-fashioned infrastructure, local budget deficits, or local tax increases (Kotler et al., 1999). These problems are identified as common in many parts of the EU today, and especially in rural and peripheral areas (ESPON, 2013). Young women are the first to leave such a region when this downward spiral commences (ESPON, 2012a). On the other hand, economically expansive and dynamic regions and cities attract labour (ESPON 2010, 2005), as well as investments which lead to economic growth (ESPON, 2012b, 2012c, 2012d). Rural areas that find paths for restructuring (and thereby utilising their endogenous strengths) will break the vicious cycle of marginalisation (ESPON, 2011). The fact is that the emphasis of *local* involves the idea that all territorial assets and services of general interest are shaped by the place, as well as acting as place-shaping factors themselves.

The importance of maintaining basic welfare services and infrastructure is also mentioned in the scientific literature, as an important means to counteract regional marginalisation processes (Kotler et al., 1999). Utilising local social capital is also an important part of this process. Lastly (and as previously pointed out), it is important to explore the endogenous local elements that generate local competitiveness. Innovation and entrepreneurship play an important role here. If a local or regional economy does not have sufficient savings to invest in capital or infrastructure, or if its market is too small, then its productivity level will remain low and will fuel a vicious circle of underdevelopment. Limited market expansion, low savings and consumption, reduced stock of capital in the economy and low income are all influential factors, and both supply and demand will be too low to trigger any expansion of the local or regional economy (Capello, 2016). The result is a vicious circle of underdevelopment (figure 1).

Figure 1. The vicious circle of regional underdevelopment



Source: Modified after Capello, 2016, p.104

Service provision is heterogeneous in character, and a service is only produced if there is sufficient demand for it to be supplied at a profit (Capello, 2016). Low-productive and labour intensive services such as e.g. hairdressers, taxis, cafés, pizzerias or cleaning services, do not drive regional development, but in fact respond to it. In cases where the produced services are highly productive and capital intensive, then they are able to stimulate regional economic growth and development. The analysis of the studied towns clearly displayed the dominance of low-productive and labour intensive entrepreneurship among the immigrant entrepreneurs. Moreover, contextual aspects (e.g. the high rates of unemployment and incomes that are lower than the national average) serve to lower the demand for low-productive and labour intensive personal services.

Hypothesis 4 claimed an increase in low productive and labour intensive companies with a small market and little investment will be a constraint to regional development, regardless of whether it is an immigrant entrepreneur or not. From the reflections on regional development by start-ups of low productive and labour intensive companies in the three analysed towns, the zero hypothesis (that start-ups of low productive and labour intensive companies will not be a constraint to regional development) can be rejected, and hence Hypothesis 4 is true. It is important to emphasise that this would be the case for either native or immigrant entrepreneurs. The low productive and labour intensive character of company start-ups puts constraints on regional development, and in this regard, the origin of the entrepreneur is irrelevant. Starting a pizzeria, a cleaning service or providing elderly care in the home may get the entrepreneur out of welfare schemes and provide food for the table, but it will not serve to boost regional development.

7. Concluding remarks

This paper discusses how immigrant entrepreneurship impacts regional development. Three towns in Western Sweden (Trollhättan, Uddevalla and Vänersborg) have been analysed using unique data on company start-ups at a local level. This data contained information on the Swedish equivalent of the EU Nace rev 2 classification of branches, as well as on the origin of the entrepreneur. The findings from the three analysed towns point in different directions compared to data at the national level. Hypothesis 1 proposed that persons born abroad are more entrepreneurial than natives. While this hypothesis is true for Trollhättan and Uddevalla, it is false for Vänersborg and for Sweden as a whole. Hypothesis 2 suggested that the further away from Sweden the person has their origin, the more entrepreneurial they will be. This hypothesis is true for Sweden as a whole and for Trollhättan, but false for Vänersborg. Due to a very limited number of observations, this hypothesis could not be tested for Uddevalla. An identical result was obtained for hypothesis 3: the further away from Sweden the immigrant comes, the more labour intensive the company they will start up. However, there are significant local variations relative to the national average, regarding immigrant entrepreneurship.

At a national level, the companies started in SNI 45-56 (cafés, restaurants, taxis, shops etc.) display a statistical overrepresentation for persons born in Europe (excl. Nordics) and for persons born outside Europe. In Trollhättan, a different pattern emerges, whereby persons born in Europe (excl. Nordics) start companies in SNI 58-82 (industrial cleaning, park maintenance etc.), and persons born outside Europe start companies in SNI 45-56 (cafés, restaurants, taxis, shops etc.). The companies started in SNI 45-56 and SNI 58-82 are all labour intensive and require relatively limited capital and investment to get up and running. In Vänersborg no non-Nordic person had started a company, and in Uddevalla, persons born in Europe (excl. Nordics) are statistically overrepresented and persons born outside Europe are statistically underrepresented in both the SNI 45-56 and SNI 58-82 branches.

All three towns have an unemployment rate that is significantly higher than the national level, and in the case of Trollhättan it is almost twice the national average (Tables 3 and 4). Although the data for unemployment and employment rates by area of origin is not available at a local level, the national numbers display a very high unemployment rate, and a very low employment rate for persons originating from Asia and Africa (Table 5). The share of immigrants in Trollhättan with refugee status is significantly higher than the national average and also the two other studied towns (Rauhut et al., 2014). In Trollhättan, it can be

assumed that persons originating from Asia and Africa who have obtained a refugee status offer a supply of labour for which there is no matching demand. Hence, starting a low productive and labour intensive company in the SNI 45-56 branch (cafés, restaurants, taxis, shops etc.) is their only way out of unemployment.

The increase in low productive and labour intensive companies will have an impact on local economic development. *Hypothesis 4* claimed that such increase would be a constraint on regional development. Low productive and labour intensive companies require a limited stock of capital investment, and require relatively low qualification skills. Starting a café or pizzeria, a cleaning service or a taxi company, or providing personal services (e.g. a hairdresser or manicurist) does not require a huge stock of investment or human capital, but while it is possible to make a living from starting such companies, but they tend not to be fast growing ‘gazelle’ companies that create new jobs and profit. These kinds of start-ups provide a specific service for a local market, and should be close and easily accessible for customers. In bigger cities the number of potential customers is higher than in small and medium sized rural and peripheral towns, and this has an impact on the company’s profitability. Again, although it is possible to make a living from a low productive and labour intensive company in the service sector, these companies will not boost economic growth.

The risk of a starting vicious circle of regional underdevelopment is imminent. Low income means low savings, which in turn leads to a limited capital stock and low productivity. A low income also leads to low consumption (and to other low incomes), which leads to a small market and low levels of productivity. Low productivity leads to low income (Capello, 2016), and so the circle begins once more. If a region or town gets caught in this vicious circle, it will be difficult for them to attract investment, businesses or people from outside, and this has been seen as the starting point for a regional marginalisation process (Kotler et al. 1999).

This paper offers important insights on how theory and results derived from an aggregate national level may differ when entrepreneurship is analysed at a local level. Entrepreneurship may be something good and should generally be promoted, but if immigrant entrepreneurship is concentrated in low productive and labour intensive companies, and also related to unemployment and labour market exclusion, then negative effects on regional development may occur. Ultimately, what works well and promotes regional development in metropolitan areas, may lead to completely different outcomes in smaller towns in decaying industrial regions.

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